UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/x/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	**36-3871531** (I.R.S. Employer Identification No.)
2775 Sanders Road **Northbrook, Illinois** (Address of principal executive offices)	**60062** (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 847/402-5000

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS, AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

Yes /x/ No / /

AS OF OCTOBER 31, 2001, THE REGISTRANT HAD 713,025,925 COMMON SHARES, $.01 PAR VALUE, OUTSTANDING.

THE ALLSTATE CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2001

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
	(Unaudited)		(Unaudited)	
Revenues				
Property-liability insurance premiums earned	$ 5,597	$ 5,467	$ 16,553	$ 16,419
Life and annuity premiums and contract charges	580	571	1,665	1,623
Net investment income	1,200	1,183	3,615	3,402
Realized capital gains and losses	(204)	224	(326)	470
	7,173	7,445	21,507	21,914
Costs and expenses				
Property-liability insurance claims and claims expense	4,474	4,076	13,093	12,412
Life and annuity contract benefits	886	825	2,562	2,312
Amortization of deferred policy acquisition costs	863	892	2,566	2,642
Operating costs and expenses	641	652	1,985	1,958
Amortization of goodwill	14	12	40	38
Restructuring and related charges	10	18	22	51
Interest expense	63	61	186	166
	6,951	6,536	20,454	19,579
Loss on disposition of operations	(53)	—	(63)	—
Income from operations before income tax (benefit) expense, dividends on preferred securities and cumulative effect of change in accounting principle	169	909	990	2,335
Income tax (benefit) expense	(67)	255	58	639
Income before dividends on preferred securities and cumulative effect of change in accounting principle	236	654	932	1,696
Dividends on preferred securities of subsidiary trusts	(10)	(10)	(29)	(32)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments, after-tax	—	—	(9)	—
Net income	$ 226	$ 644	$ 894	$ 1,664
Earnings per share:				
Net income per share—basic	$ 0.32	$ 0.87	$ 1.24	$ 2.22
Weighted average shares—basic	717.3	735.8	722.8	748.6
Net income per share—diluted	$ 0.32	$ 0.87	$ 1.23	$ 2.21
Weighted average shares—diluted	719.7	740.6	726.2	753.4

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions, except per share data)	September 30, 2001 (Unaudited)	December 31, 2000
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $61,710 and $58,525)	$ 65,067	$ 60,758
Equity securities, at fair value (cost $4,778 and $4,854)	5,215	6,086
Mortgage loans	5,477	4,599
Short-term	3,213	1,831
Other	1,299	1,209
Total investments	80,271	74,483
Cash	219	222
Premium installment receivables, net	4,087	3,802
Deferred policy acquisition costs	4,279	4,309
Reinsurance recoverables, net	2,706	2,352
Accrued investment income	957	942
Property and equipment, net	969	1,000
Goodwill	1,296	1,247
Other assets	1,391	1,153
Separate Accounts	12,431	15,298
Total assets	$ 108,606	$ 104,808
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 16,610	$ 16,859
Reserve for life-contingent contract benefits	9,261	8,468
Contractholder funds	32,653	28,870
Unearned premiums	8,033	7,607
Claim payments outstanding	818	908
Other liabilities and accrued expenses	6,976	4,918
Deferred income taxes	299	348
Short-term debt	359	219
Long-term debt	3,123	3,112
Separate Accounts	12,431	15,298
Total liabilities	90,563	86,607
Commitments and Contingent Liabilities (Notes 4 and 6)		
Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	750	750
Shareholders' equity		
Preferred stock, $1 par value, 25 million shares authorized, none issued	—	—
Common stock, $.01 par value, 2 billion shares authorized and 900 million issued, 713 million and 728 million shares outstanding	9	9
Additional capital paid-in	2,599	2,604
Retained income	18,916	18,433
Deferred compensation expense	(206)	(207)
Treasury stock, at cost (187 million and 172 million shares)	(5,893)	(5,314)
Accumulated other comprehensive income:		
Unrealized net capital gains and net gains on derivative financial instruments	1,905	1,980
Unrealized foreign currency translation adjustments	(37)	(54)
Total accumulated other comprehensive income	1,868	1,926
Total shareholders' equity	17,293	17,451
Total liabilities and shareholders' equity	$ 108,606	$ 104,808

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended
September 30,

(in millions)	2001	2000
	(Unaudited)	
Cash flows from operating activities		
Net income	$ 894	$ 1,664
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	(86)	(21)
Realized capital gains and losses	326	(470)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	9	—
Interest credited to contractholder funds	1,292	1,095
Changes in:		
Policy benefit and other insurance reserves	(217)	(839)
Unearned premiums	447	138
Deferred policy acquisition costs	(267)	(260)
Premium installment receivables, net	(285)	(16)
Reinsurance recoverables, net	(102)	12
Income taxes payable	(328)	559
Other operating assets and liabilities	32	(225)
Net cash provided by operating activities	1,715	1,637
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	18,192	20,835
Equity securities	3,306	7,216
Real estate	12	—
Investment collections		
Fixed income securities	3,227	2,299
Mortgage loans	289	299
Investment purchases		
Fixed income securities	(23,538)	(26,222)
Equity securities	(3,460)	(6,716)
Mortgage loans	(1,141)	(707)
Change in short-term investments, net	(92)	412
Change in other investments, net	(125)	(71)
Purchases of property and equipment, net	(120)	(229)
Net cash used in investing activities	(3,450)	(2,884)
Cash flows from financing activities		
Change in short-term debt, net	134	(449)
Proceeds from issuance of long-term debt	—	912
Contractholder fund deposits	6,167	6,693
Contractholder fund withdrawals	(3,563)	(4,158)
Dividends paid	(400)	(376)
Treasury stock purchases	(684)	(1,469)
Other	78	71
Net cash provided by financing activities	1,732	1,224
Net decrease in cash	(3)	(23)
Cash at beginning of period	222	254
Cash at end of period	$ 219	$ 231

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company, a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life

Insurance Company (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of September 30, 2001, and for the three month and nine month periods ended September 30, 2001 and 2000 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Appendix D of the Notice of Annual Meeting and Proxy Statement dated March 26, 2001. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

New accounting standards

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", as of January 1, 2001. The impact of SFAS No. 133 and SFAS No. 138 (the "statements") to the Company was a loss of $9 million, after-tax, and is reflected as a cumulative effect of a change in accounting principle on the Condensed Consolidated Statements of Operations. The Company also recorded a cumulative after-tax increase of $5 million in Accumulated other comprehensive income.

The statements require that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through Net income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through Net income or recognized in Accumulated other comprehensive income until the hedged item is recognized in Net income. The Company elected to adopt the provisions of the statements with respect to embedded derivative financial instruments to all such instruments held at January 1, 2001.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Under SFAS No. 142, goodwill and separately identified intangible assets with indefinite lives will no longer be amortized but reviewed annually (or more frequently if impairment indicators arise) for impairment. Separately identified intangible assets not deemed to have indefinite lives will continue to be amortized over their useful lives. SFAS No. 142 applies to all goodwill and intangible assets acquired after June 30, 2001. For goodwill and intangible assets acquired prior to July 1, 2001, Allstate is required to adopt SFAS No. 142 effective January 1, 2002.

As of September 30, 2001 and December 31, 2000, unamortized goodwill amounted to $1,296 million and $1,247 million, respectively. For the nine months ended September 30, 2001 and 2000, the Company recognized goodwill amortization of $40 million and $38 million, respectively. Pursuant to the requirements of SFAS No. 142, upon implementation the Company will cease amortization of the unamortized goodwill balance. The Company is currently evaluating the effect of the impairment testing requirements of SFAS No. 142, however, the impact is not anticipated to be material to the results of operations or financial position.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for financial statements issued for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business. The Statement also amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale and retains the measurement and recognition requirements of SFAS No. 121. The Company's adoption of SFAS No. 144 is not expected to have a material effect on the results of operations or financial position.

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2. Acquisition and Dispositions

On May 8, 2001, the Company completed the acquisition of Sterling Collision Centers Inc. ("Sterling"). Sterling operates a network of 40 collision repair stores in seven states and nine metropolitan areas. The transaction was accounted for as a purchase and the excess of the acquisition cost over the fair value of Sterling's net assets acquired of $90 million was recorded as goodwill.

On June 29, 2001, the Company disposed of its operations in Indonesia and the Philippines through a sale and purchase agreement with The Prudential Assurance Company Limited ("Prudential"), where Prudential acquired Allstate's holdings in Pt Asuransi Jiwa Allstate, Indonesia and Allstate Life Insurance Company of the Philippines. Allstate recognized a loss of $10 million ($6 million after-tax) on the sale.

On September 28, 2001, the Company completed the disposition of its direct auto insurance business in Germany and Italy to Direct Line, the London based insurance subsidiary of The Royal Bank of Scotland. As a result, the Company recognized a $53 million ($34 million after-tax) loss on the disposition and a $50 million tax benefit attributable to the inception—to—
date losses of the subsidiaries, not previously recognized. The tax benefit was reported as a reduction to the Company's income tax expense on the statements of operations.

The disposition of the Company's operations in the Philippines, Indonesia, Germany and Italy are consistent with the Company's strategy to focus its resources on business in North America.

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3. Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of outstanding stock options and, in 2000, shares issuable under its mandatorily redeemable preferred securities.

The computations of basic and diluted earnings per share are presented in the following table.

(in millions, except per share data)	Three months ended September 30, 2001	Three months ended September 30, 2000	Nine months ended September 30, 2001	Nine months ended September 30, 2000
Numerator (applicable to common shareholders):				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	$ 236	$ 654	$ 932	$ 1,696
Dividends on preferred securities of subsidiary trusts	(10)	(10)	(29)	(32)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(9)	—
Net income applicable to common stockholders	$ 226	$ 644	$ 894	$ 1,664
Denominator:				
Weighted average common shares outstanding	717.3	735.8	722.8	748.6
Effect of potential dilutive securities:				
Stock options	2.4	2.9	3.4	2.3
Shares issuable under FELINE PRIDES contract	—	1.9	—	2.5
	2.4	4.8	3.4	4.8
Weighted average common and dilutive potential common shares outstanding	719.7	740.6	726.2	753.4
Earnings per share—Basic:				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	$ .33	$ .88	$ 1.29	$ 2.26
Dividends on preferred securities of subsidiary trusts	(.01)	(.01)	(.04)	(.04)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(.01)	—
Net income applicable to common shareholders	$ .32	$ .87	$ 1.24	$ 2.22
Earnings per share—Diluted:				
Income before dividends on preferred securities and cumulative effect of change in accounting principle	$ .33	$ .88	$ 1.28	$ 2.25
Dividends on preferred securities of subsidiary trusts	(.01)	(.01)	(.04)	(.04)
Cumulative effect of change in accounting for derivative and embedded derivative financial instruments	—	—	(.01)	—
Net income applicable to common shareholders	$ .32	$ .87	$ 1.23	$ 2.21

Options to purchase 11.4 million and 10.6 million Allstate common shares, with exercise prices ranging from $35.84 to $50.72 and $28.69 to $50.72, were outstanding at September 30, 2001 and September 30, 2000, respectively, but were not included in the computation of diluted earnings per share for the three month periods ended September 30, 2001 and 2000 since inclusion of these options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares in the three month periods. Options to purchase 8.9 million and 15.8 million Allstate common shares, with exercise prices ranging from $39.50 to $50.72 and $25.88 to $50.72, were outstanding at September 30, 2001 and 2000, respectively, but were not included in the nine month period computations of diluted earnings per share due to anti-dilutive effects.

4. Reserve for Property-Liability Insurance Claims and Claims Expense

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances, internal factors including the Company's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss control programs and product mix. In addition, the reserve estimates are influenced by external factors including court decisions, economic conditions and public attitudes. The Company, in the normal course of business, may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe claims. The effects of inflation are implicitly considered in the reserving process.

The establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain process. Allstate regularly updates its reserve estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. Changes in prior year reserve estimates, which may be material, are reflected in the results of operations in the period such changes are determinable.

Catastrophic events and weather-related losses (wind, hail, lightning, freeze and flood events not meeting the Company's criteria to be declared a catastrophe) are an inherent risk of the property-liability insurance business that have contributed to, and will continue to contribute to, material period-to-period fluctuations in the Company's results of operations and financial position. The level of catastrophic events and weather-related losses experienced in any period cannot be predicted and could be material to the results of operations and financial position.

Management believes that the reserve for claims and claims expense, net of reinsurance recoverables, at September 30, 2001, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date.

Allstate's exposure to environmental, asbestos and other mass tort claims stems principally from excess and surplus business written from 1972 through 1985, including substantial excess and surplus general liability coverages on Fortune 500 companies, and reinsurance coverage written during the 1960s through the 1980s, including reinsurance on primary insurance written on large United States companies. Additional, although less material, exposure stems from direct commercial insurance written for small to medium-size companies. Other mass tort exposures primarily relate to general liability and product liability claims, such as those for medical devices and other products.

In 1986, the general liability policy form used by Allstate and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims and added an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage, and policies issued after 1986 also have an annual aggregate limit on all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks assumed.

Establishing net loss reserves for environmental, asbestos and other mass tort claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered, are complex. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insurer obligation to defend; how policy limits are determined; how policy exclusions and conditions are applied and interpreted; and whether clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

Allstate's reserve for environmental and asbestos claims were $1,049 million and $1,071 million, net of reinsurance recoverables of $368 million and $359 million at September 30, 2001 and December 31, 2000, respectively. Approximately 59% and 58% of the total net environmental and asbestos reserve at September 30, 2001 and December 31, 2000, respectively, are for incurred but not reported ("IBNR") estimated losses.

Management believes its net loss reserve for environmental, asbestos and other mass tort claims are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in major litigation and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in the loss reserve. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable losses. Due to the uncertainties and factors described above, management believes it is not practicable to develop a meaningful range for any such additional net loss reserve that may be required.

5. Reinsurance

Property-liability insurance premiums and life and annuity premiums and contract charges are net of the following reinsurance ceded:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2001**	**2000**	**2001**	**2000**
Property-liability premiums earned	$ 68	$ 68	$ 207	$ 203
Life and annuity premiums and contract charges	106	98	290	272

Property-liability insurance claims and claims expense and life and annuity contract benefits are net of the following reinsurance recoveries:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2001**	**2000**	**2001**	**2000**
Property-liability insurance claims and claims expense	$ 195	$ 66	$ 421	$ 207
Life and annuity contract benefits	109	71	263	185

6. Regulation and Legal Proceedings

Regulation

The Company's insurance businesses are subject to the effects of a changing social, economic and regulatory environment. Public and regulatory initiatives have varied and have included efforts to adversely influence and restrict premium rates, restrict the Company's ability to cancel policies, impose underwriting standards and expand overall regulation. The ultimate changes and eventual effects, if any, of these initiatives are uncertain.

Legal Proceedings

Allstate and plaintiffs' representatives have settled certain civil suits related to the 1994 Northridge, California earthquake, including a class action. An appeal of the judgment approving the settlement of the class action was dismissed by the California Court of Appeal but objectors have recently filed a Petition for Review with the California Supreme Court. The plaintiffs in this action challenged licensing and engineering practices of certain firms that Allstate retained and alleged that Allstate systematically and improperly pressured engineering firms to alter their reports to reduce the loss amounts paid to some insureds with earthquake claims. The settlement agreement calls for a review of the claims of qualifying class members by independent structural/geotechnical engineers and independent claims adjusters. Of the approximately 11,500 class members, less than a third indicated an interest in participating in the independent review process and, after a detailed review of the claims files, only about 20% of the class has been cleared for participation. The review process is underway and has resulted in the closing of some claims for an immaterial amount. In June 2001 an accelerated resolution option for claims in the independent review process received court approval. Under that option, any eligible insureds who elected to participate will be paid $22,000 in full satisfaction of their claims, in lieu of further participation in the independent review process. On the basis of the court approval of the accelerated resolution option, the Company strengthened its reserves in the second quarter of 2001. In mid-August, the parties agreed to an extension of the deadline for receipt of acceptances of the offer to September 10, 2001. Over 80% of the eligible insureds accepted the accelerated resolution option and Allstate chose to proceed with the option. The mailing of release forms began on September 20, 2001. Of the insureds who accepted the offer, a majority have executed releases, and checks have been sent to them. The settlement is now complete as to those insureds. It is expected that most of the class members who accepted the accelerated resolution option will receive payment by year-end, and their claims will then be closed. The independent review process will continue for those eligible insureds who chose not to accept the accelerated resolution offer. In the opinion of management, the ultimate financial exposure in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

For the past several years, the Company has been distributing to certain Personal Property and Casualty ("PP&C") claimants documents regarding the claims process and the role that attorneys may play in that process. Suits challenging the use of these documents have been filed against the Company, including purported class action suits. In addition to these suits, the Company has received inquires from states' attorneys general, bar associations and departments of insurance. The Company has continued to use these documents after agreeing to make certain modifications in some states. The Company is vigorously defending its rights to use these documents. The outcome of these disputes is currently uncertain.

There are currently a number of state and nationwide putative class action lawsuits pending in various state and federal courts seeking actual and punitive damages from Allstate alleging breach of contract and fraud because of its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs in these suits allege that after-market parts are not "of like kind and quality" as required by the insurance policies. The lawsuits are in various stages of development. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

The Company has pending several state and nationwide class action lawsuits in various state and federal courts seeking actual and punitive damages from Allstate alleging breach of contract and fraud for failing to pay inherent diminished value to insureds under a collision, comprehensive, or uninsured motorist property damage provision of an auto policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Inherent diminished value is defined by plaintiffs as the difference between the market value of the insured automobile before an accident and the market value after repair. Plaintiffs allege that they are entitled to the payment of inherent diminished value under the terms of the contract. These lawsuits are in various stages of development. A class has been certified in only one case, a multi-state class action. The Company is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

There are a number of state and nationwide class action lawsuits pending in various state courts challenging the legal propriety of Allstate's medical bill review processes on a number of grounds, including, among other things, the manner in which Allstate determines reasonableness and necessity. One nationwide and three statewide class actions have been certified. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes result in a breach of the insurance policy as well as fraud. The Company denies those allegations and is vigorously defending both its processes and these lawsuits. The outcome of these disputes is currently uncertain.

Four nationwide and two statewide putative class actions are pending against Allstate which challenge Allstate's use of certain automated database vendors in valuing total loss automobiles. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. Plaintiffs allege that flaws in these databases result in valuations to the detriment of insureds. The plaintiffs are seeking actual and punitive damages. The lawsuits are in various stages of development and Allstate is vigorously defending them, but the outcome of these disputes is currently uncertain.

Allstate is or has been defending various lawsuits involving worker classification issues. Examples of these lawsuits include a class action, filed after Allstate's reorganization of its California agent programs in 1996, whereby among other things, the plaintiffs sought a determination that they had been treated as employees notwithstanding agent contracts that specify that they are independent contractors for all purposes. The court determined in this case that the agents are independent contractors, which led to the dismissal of the suit. That dismissal is currently on appeal. Other examples are two putative class actions challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. These class actions mirror similar lawsuits filed recently against other employers. Another example involves the worker classification of staff working in agencies. In this putative class action, plaintiffs seek damages under the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act alleging that 10,000 agency secretaries were terminated as employees by Allstate and rehired by agencies through outside staffing vendors for the purpose of avoiding the payment of employee benefits. Allstate has been vigorously defending these and various other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is also defending certain matters relating to the Company's agency reorganization program announced in 1999. These matters include investigations by the U.S. Department of Labor and the U.S. Equal Employment Opportunity Commission with respect to allegations of ERISA violations, age discrimination and retaliation. A putative class action has also been filed alleging various violations of ERISA, breach of contract and age discrimination. Allstate is cooperating fully with these agency investigations and will continue to vigorously defend these and other claims related to its agency reorganization program. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve Allstate and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial and/or indeterminate amounts (including punitive and treble damages) and the outcomes of which are unpredictable. This litigation is based on a variety of issues including insurance, claim settlement and worker classification practices. However, at this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

Shared markets

As a condition of its license to do business in various states, the Company is required to participate in mandatory property-liability shared market mechanisms or pooling arrangements including reinsurance, which provide various insurance coverages to individuals or other entities that otherwise are unable to purchase such coverage voluntarily provided by private insurers. Underwriting results related to these organizations, which tend to be adverse to the Company, have been immaterial to the results of operations.

7. Business Segments

Summarized financial performance data for each of the Company's reportable segments for the three months and nine months ended September 30, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2001**	**2000**	**2001**	**2000**
Income from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle				
Property-Liability				
Underwriting (loss) income				
PP&C	$ (161)	$ 83	$ (386)	$ 56
Discontinued Lines and Coverages	(5)	(9)	(13)	(17)
Total underwriting (loss) income	(166)	74	(399)	39
Net investment income	432	463	1,334	1,326
Realized capital gains and losses	(134)	186	(128)	512
Loss on disposition of operations	(53)	—	(63)	—
Property-Liability income from operations before income taxes and cumulative effect of change in accounting principle	79	723	744	1,877
Allstate Financial				
Premiums and contract charges	580	571	1,665	1,623
Net investment income	747	694	2,218	1,996
Realized capital gains and losses	(70)	39	(199)	(5)
Contract benefits	886	825	2,562	2,312
Operating costs and expenses	235	259	742	734
Restructuring charges	2	(2)	6	(13)
Allstate Financial income from operations before income taxes and cumulative effect of change in accounting principle	134	222	374	581
Corporate and Other				
Service Fees (1)	14	2	30	6
Net investment income	21	26	63	80
Realized capital gains and losses	—	(1)	1	(37)
Operating costs and expenses	79	63	222	172
Corporate and Other loss from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle	(44)	(36)	(128)	(123)
Consolidated income from operations before income taxes, dividends on preferred securities and cumulative effect of change in accounting principle	$ 169	$ 909	$ 990	$ 2,335

(1) For presentation in the Condensed Consolidated Statement of Operations, service fees of the Corporate and Other segment are reclassified to Operating costs and expenses.

Summarized revenue data for each of the Company's business segments for the three months and nine months ended September 30, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2001**	**2000**	**2001**	**2000**
Revenues				

Property-Liability				
Premiums earned				
PP&C	$ 5,595	$ 5,467	$ 16,542	$ 16,416
Discontinued Lines and Coverages	2	—	11	3
Total premiums earned	5,597	5,467	16,553	16,419
Net investment income	432	463	1,334	1,326
Realized capital gains and losses	(134)	186	(128)	512
Total Property-Liability	5,895	6,116	17,759	18,257
Allstate Financial				
Premiums and contract charges	580	571	1,665	1,623
Net investment income	747	694	2,218	1,996
Realized capital gains and losses	(70)	39	(199)	(5)
Total Allstate Financial	1,257	1,304	3,684	3,614
Corporate and Other				
Service Fees	14	2	30	6
Net investment income	21	26	63	80
Realized capital gains and losses	—	(1)	1	(37)
Total Corporate and Other before reclassification of service fees	35	27	94	49
Reclassification of service fees (1)	(14)	(2)	(30)	(6)
Total Corporate and Other	21	25	64	43
Consolidated Revenues	$ 7,173	$ 7,445	$ 21,507	$ 21,914

(1) For presentation in the Condensed Consolidated Statement of Operations, service fees of the Corporate and Other segment are reclassified to Operating costs and expenses.

8. Comprehensive Income

The components of other comprehensive income on a pretax and after-tax basis for the three months and nine months ended September 30, are as follows:

	Three months ended September 30,					
	2001			2000		
(in millions)	**Pretax**	**Tax**	**After-tax**	**Pretax**	**Tax**	**After-tax**
Unrealized net capital gains and net losses on derivative financial instruments						
Unrealized holding (losses) gains arising during the period	$ (212)	$ 74	$ (138)	$ 472	$ (165)	$ 307
Less: reclassification adjustments	(226)	79	(147)	220	(77)	143
Unrealized net capital gains	14	(5)	9	252	(88)	164
Net losses on derivative financial instruments arising during the period	(35)	13	(22)	—	—	—
Less: reclassification adjustments	(1)	—	(1)	—	—	—
Net losses on derivative financial instruments	(34)	13	(21)	—	—	—
Unrealized net capital gains and net losses on derivative financial instruments	(20)	8	(12)	252	(88)	164
Unrealized foreign currency translation adjustments	23	(8)	15	(13)	5	(8)
Other comprehensive income	$ 3	$ —	3	$ 239	$ (83)	156
Net income			226			644
Comprehensive income			$ 229			$ 800

(in millions)	Nine months ended September 30, 2001 Pretax	Tax	After-tax	2000 Pretax	Tax	After-tax
Unrealized net capital gains and losses and net gains on derivative financial instruments						
Unrealized holding (losses) gains arising during the period	$ (351)	$ 123	$ (228)	$ 558	$ (195)	$ 363
Less: reclassification adjustments	(214)	75	(139)	441	(154)	287
Unrealized net capital (losses) gains	(137)	48	(89)	117	(41)	76
Cumulative effect of change in accounting for derivative financial instruments	8	(3)	5	—	—	—
Net gains on derivative financial instruments arising during the period	7	(2)	5	—	—	—
Less: reclassification adjustments	(6)	2	(4)	—	—	—
Net gains on derivative financial instruments	21	(7)	14	—	—	—
Unrealized net capital (losses) gains and net gains on derivative financial instruments	(116)	41	(75)	117	(41)	76
Unrealized foreign currency translation adjustments	26	(9)	17	(28)	10	(18)
Other comprehensive (loss) income	$ (90)	$ 32	(58)	$ 89	$ (31)	58
Net income			894			1,664
Comprehensive income			$ 836			$ 1,722

9. Company Restructuring

On November 10, 1999, the Company announced a series of strategic initiatives to aggressively expand its selling and service capabilities. The Company also announced a program to reduce current annual expenses by approximately $600 million. The reduction in expenses comes from field realignment, the reorganization of employee agents to a single exclusive agency independent contractor program, the closing of a field support center and four regional offices, and reduced employee related expenses and professional services as a result of reductions in force, attrition and consolidations. The reduction in employees was estimated as approximately 4,000 non-agent positions, exclusive of selected hires to staff new initiatives, across all employment grades and categories by the end of 2000, or approximately 10% of the Company's non-agent work force. In addition, the Company continues to pursue other expense reduction actions.

As a result of the cost reduction program, Allstate established a $69 million restructuring liability during the fourth quarter of 1999 for certain employee termination costs and qualified exit costs. The employee termination costs accrued as part of the restructuring reserve primarily reflected severance and the incremental cost of enhanced post-retirement benefits. The exit costs accrued primarily related to lease termination and post-exit rent expenses. As a result of additional actions, the Company has experienced similar costs since that date.

The following table illustrates the inception to date change in the restructuring liability at September 30, 2001:

(in millions)	Employee costs	Exit costs	Total
Balance at December 31, 1999	$ 59	$ 10	$ 69
Net adjustments to the liability	1	24	25
Payments applied against the liability	(53)	(18)	(71)
Incremental post-retirement benefits classified with OPEB liability	(6)	—	(6)
Balance at September 30, 2001	$ 1	$ 16	$ 17

The payments applied against the restructuring liability for employee costs primarily reflect severance. Payments applied for exit costs generally have consisted of post-exit rent expenses and contract termination penalties. Increases in the liability incurred during the year are due to estimates of additional severance and other exit costs.

As of September 30, 2001, approximately 2,350 non-agent employees have been involuntarily terminated and approximately 1,640 non-agent positions have been eliminated through net attrition pursuant to the restructuring plan. As of September 30, 2001, approximately 2,400 agents have terminated their agency relationship with the Company at their election pursuant to the plan to reorganize exclusive agents to a single independent contractor program.

An additional $59 million of pretax restructuring related costs ($38 million after-tax), net of related non-cash settlement and curtailment accounting gains as required under SFAS No. 88 and SFAS No. 106 on Allstate's retirement plans in the amount of $168 million, were expensed as incurred during 2000. The gross expenses recognized primarily consisted of agent separation and reorganization costs, retention bonuses and termination costs not qualifying for accrual at the time of the restructuring plan adoption.

The non-cash retirement plans' settlement and curtailment gains, as required in conformity with generally accepted accounting principles, were recorded in 2000 in connection with the reorganization of agents to a single independent contractor program, and the termination of non-agent employees. The $168 million accounting gain includes a settlement gain of $7 million resulting from the accelerated recognition of deferred net actuarial gains that arose due to the favorable investment experience and demographic changes in the retirement plans and a curtailment gain of $161 million due to the accelerated recognition of unrecognized prior service cost and the reduction in the projected benefit obligation as a result of agents separating from the Company.

As a result of agent separations relating to the agent reorganization plan, the pension plan made benefit payments of approximately $480 million to terminating agents.

The Company does not anticipate that further charges related to the restructuring program will be material to Allstate's results of operations.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Shareholders of
The Allstate Corporation:

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries as of September 30, 2001, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2001 and 2000, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the year then ended, not presented herein. In our report dated February 23, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

Deloitte & Touche LLP

Chicago, Illinois
November 9, 2001

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000

The following discussion highlights significant factors influencing results of operations and changes in financial position of The Allstate Corporation (the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1. contained herein and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1. and Part II. Item 7. and Item 8. of The Allstate Corporation Annual Report on Form 10-K for 2000 and in Appendix D of the Notice of Annual Meeting and Proxy Statement dated March 26, 2001.

CONSOLIDATED REVENUES

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions except per share data)	**2001**	**2000**	**2001**	**2000**
Property-liability insurance premiums	$ 5,597	$ 5,467	$ 16,553	$ 16,419
Life and annuity premiums and contract charges	580	571	1,665	1,623
Net investment income	1,200	1,183	3,615	3,402
Realized capital gains and losses	(204)	224	(326)	470
Total revenues	$ 7,173	$ 7,445	$ 21,507	$ 21,914

Consolidated revenues for the third quarter of 2001 decreased 3.7% compared to the same period of 2000 due to realized capital losses in the current year quarter, compared to realized capital gains in the prior year third quarter, partially offset by increased Property-liability insurance premiums, Net investment income and Life and annuity premiums and contract charges. Consolidated revenues decreased 1.9% for the nine months ended September 30, 2001 from the first nine months of 2000, due to realized capital losses in the first nine months of the current year, compared to realized capital gains in the prior year period, partially offset by increases in Net investment income, Property-liability insurance premiums and Life and annuity premiums and contract charges. Increased Property-liability insurance premiums during both periods were due to increased premiums from the Allstate brand products, partially offset by the effects of actions taken to improve the profitability of the Ivantage business, which includes the Encompass^{sm} Insurance and Deerbrook^{sm} Insurance brand names.

CONSOLIDATED NET INCOME

($ in millions except per share data)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net income	$ 226	$ 644	$ 894	$ 1,664
Net income per share (Basic)	.32	.87	1.24	2.22
Net income per share (Diluted)	.32	.87	1.23	2.21
Realized capital gains and losses, after-tax	(131)	129	(211)	276
Restructuring and related charges, after-tax	6	12	14	33

Net income for the third quarter of 2001 decreased 64.9% compared to the same period of 2000 and decreased 46.3% for the nine months ended September 30, 2001 from the first nine months of 2000. Decreases in both periods reflect decreased operating income and realized capital losses, compared to realized capital gains in the prior year periods. Net income per diluted share in the third quarter of 2001 decreased 63.2% compared to the same period of 2000, and 44.3% for the nine months ended September 30, 2001 compared to the first nine months of 2000. Fluctuations in both periods reflect lower net income, partially offset by the accretive effect of share repurchase programs.

PROPERTY-LIABILITY OPERATIONS

Overview

The Company's Property-Liability operations consist of two business segments: Personal Property and Casualty ("PP&C") and Discontinued Lines and Coverages. PP&C is principally engaged in the sale of property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages represents business no longer written by Allstate and includes the results from environmental, asbestos and other mass tort exposures, and certain commercial and other businesses in run-off. Such groupings of financial information are consistent with those used internally for evaluating segment performance and determining the allocation of resources.

Summarized financial data and key operating ratios for the Property-Liability operations are presented in the following table.

($ in millions, except ratios)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Premiums written	$ 5,846	$ 5,644	$ 17,014	$ 16,604
Premiums earned	$ 5,597	$ 5,467	$ 16,553	$ 16,419
Claims and claims expense ("losses")	4,474	4,076	13,093	12,412
Operating costs and expenses	1,275	1,292	3,827	3,887
Amortization of goodwill	6	5	16	17
Restructuring and related charges	8	20	16	64
Underwriting (loss) income	(166)	74	(399)	39
Net investment income	432	463	1,334	1,326
Income tax (benefit) expense on operations	(24)	129	66	313
Realized capital gains and losses, after-tax	(85)	119	(79)	329
Loss on disposition of operations, after-tax	(34)	—	(40)	—
Cumulative effect of change in accounting principle, after-tax	—	—	(3)	—
Net income	$ 171	$ 527	$ 747	$ 1,381
Catastrophe losses	$ 142	$ 95	$ 761	$ 844
Operating ratios				
Claims and claims expense ("loss") ratio	80.0	74.5	79.1	75.6
Expense ratio	23.0	24.1	23.3	24.2
Combined ratio	103.0	98.6	102.4	99.8
Effect of catastrophe losses on combined ratio	2.5	1.7	4.6	5.1
Effect of restructuring and related charges on combined ratio	0.1	0.4	0.1	0.4

Underwriting Results

PP&C The Company continues to execute a series of strategic initiatives, which were initiated in 1999, to aggressively expand customer selling and service capabilities. These initiatives include rolling out The Good Hands^{sm} Network, implementing Strategic Risk Management ("SRM"), installing new agency and claim technology, and introducing enhanced marketing and advertising. The Company believes successful execution of these initiatives will result in customer selling and service advantages and improved profitability in an increasingly competitive marketplace.

Summarized underwriting results and key operating ratios for the PP&C segment are presented in the following table.

($ in millions, except ratios)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Premiums written	$ 5,845	$ 5,644	$ 17,006	$ 16,603
Premiums earned	$ 5,595	$ 5,467	$ 16,542	$ 16,416
Claims and claims expense ("losses")	4,469	4,069	13,076	12,399
Other costs and expenses	1,273	1,290	3,820	3,880
Amortization of goodwill	6	5	16	17
Restructuring and related charges	8	20	16	64
Underwriting (loss) income	$ (161)	$ 83	$ (386)	$ 56
Premiums earned				
Allstate-brand:				
Standard auto	$ 3,013	$ 2,811	$ 8,808	$ 8,388
Non-standard auto	669	766	2,049	2,362
Homeowners	965	894	2,821	2,643
Ivantage:				
Standard auto	297	317	910	983
Non-standard auto	11	46	42	169
Homeowners	116	115	345	355
Other	524	518	1,567	1,516
Total premiums earned	$ 5,595	$ 5,467	$ 16,542	$ 16,416
Catastrophe losses	$ 142	$ 95	$ 761	$ 844
Operating ratios				
Claims and claims expense ("loss") ratio				
Allstate-brand:				
Standard auto	73.6	73.4	73.9	70.1
Non-standard auto	85.9	86.4	83.4	87.8
Homeowners	94.5	62.9	92.0	74.1
Ivantage:				
Standard auto	89.6	74.8	82.0	80.8
Non-standard auto	27.3	134.8	76.2	133.1
Homeowners	79.3	81.7	81.7	72.1
Other	76.9	74.9	77.2	80.0
Total loss ratio	79.9	74.4	79.0	75.6
Expense ratio	23.0	24.1	23.3	24.1
Combined ratio	102.9	98.5	102.3	99.7

($ in millions, except ratios)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Effect of catastrophe losses on combined ratio				
Allstate-brand:				
Standard auto	(0.6)	(0.5)	1.5	1.6
Non-standard auto	1.4	(0.5)	1.0	1.2
Homeowners	9.1	9.4	16.4	20.2
Ivantage:				
Standard auto	(0.3)	1.0	1.2	1.7

Non-standard auto	—	2.2	—	0.6
Homeowners	9.5	13.9	16.2	18.6
Other	9.7	1.3	5.3	4.1
Total	2.5	1.7	4.6	5.1
Effect of restructuring and related charges on combined ratio	0.1	0.4	0.1	0.4

PP&C sells primarily private passenger auto and homeowners insurance to individuals through exclusive Allstate agencies and independent agencies. The PP&C strategy for Allstate brand products is to provide sales and service to new and existing customers in the distribution channels of their choice. A major part of this strategy is The Good Hands Network, a multi-access platform that integrates the Internet, Customer Information Centers ("CICs") and local exclusive Allstate agencies. As the Company proceeds with its state-by-state rollout of The Good Hands Network, it has observed that customers continue to rely primarily on Allstate's agents to complete their Allstate brand insurance purchases, while the Internet and CICs have been accessed primarily for quotes, information and service. To align with customer preferences, the Company is adjusting the services offered on the network, the pace for introducing the network and its advertising. Allstate will continue to monitor customer expectations and behaviors and will adjust its plans accordingly.

The Ivantage business sells private passenger auto and homeowners insurance to individuals through independent agencies. Ivantage includes standard auto and homeowners products with the Encompass brand name and non-standard auto products with the Deerbrook brand name. Since the acquisition of Encompass in the fourth quarter of 1999, the PP&C strategy for Ivantage has focused on profit improvement actions for both Encompass and Deerbrook.

The Company generally separates the voluntary personal auto insurance business into two categories for underwriting and pricing purposes: the standard market and the non-standard market. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers.

PP&C continues the implementation of SRM, which is a tier-based pricing, underwriting and marketing program that enhances the Company's competitiveness with those customers who, based on the Company's determination, will potentially provide the best profitability over the course of their relationship with the Company, characterized as "high lifetime value." The factors SRM uses to place each auto customer into a risk category include, for example, the number of years of continuous coverage with a prior insurer, prior bodily injury liability limits and financial stability. Management intends to continue to refine and implement SRM as the regulatory review process is completed, additional analysis is performed and new factors are introduced. The number of new applications for insurance per agent and the number of customers with multiple policies have increased in the majority of markets where the Company has implemented SRM.

The Company's strategy for homeowners is to target customers whose risk of loss provides the best opportunity for profitable growth. Under SRM, the factors used to place each homeowners customer into a risk category include, for example, prior claim activity and financial stability. The homeowners strategy also includes managing exposure on policies in areas where the potential loss from catastrophes exceeds acceptable levels.

Homeowners premiums are earned on a pro-rata basis over the policy period, typically twelve months. Losses, including losses from catastrophic events and weather-related losses (such as wind, hail, lightning and freeze events not meeting the Company's criteria to be declared a catastrophe), are also accrued on an occurrence basis within the policy period. However, homeowners product pricing is

typically intended to establish acceptable long-term returns, as determined by management, over a period of years. Therefore in any reporting period, loss experience from catastrophic events and weather-related losses may contribute to earnings performance negatively or positively, relative to the expectations incorporated into the product pricing. Accordingly, the homeowners line of business is more capital intensive than other personal lines of business.

The Company is currently executing a range of actions to mitigate adverse homeowners trends, such as market or state-specific product design, underwriting and rating changes, discontinuation of specific coverages and loss management initiatives, which are intended to improve the profitability of this business. The effect of these actions on profits is currently not estimable, and it is expected to be some time before the full effect of these initiatives is apparent in the financial results, because these actions take time to implement and because homeowners policies typically renew on an annual basis.

Premiums written by line for the PP&C segment are presented in the following table.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2001**	**2000**	**2001**	**2000**
Allstate-brand:				
Standard auto	$ 3,062	$ 2,878	$ 8,974	$ 8,515
Non-standard auto	692	749	2,104	2,323
Homeowners	1,095	1,025	2,942	2,759
Ivantage:				
Standard auto	306	325	918	974
Non-standard auto	11	24	34	130
Homeowners	123	121	348	335
Other	556	522	1,686	1,567
Total premiums written	$ 5,845	$ 5,644	$ 17,006	$ 16,603

Standard auto premiums written increased 5.2% for PP&C to $3.37 billion in the third quarter of 2001, from $3.20 billion for the same three month period in 2000, and during the first nine months of 2001, standard auto premiums increased 4.2% as compared to the first nine months of last year. The Allstate-brand standard auto premiums increased 6.4% in the third quarter of 2001 compared to the same three month period in 2000, and 5.4% in the first nine months of 2001 over the first nine months of last year. These increases were due to a 3.6% increase in the number of new and renewal policies in force. Average premium per policy also added to these increases with 3.1% growth in the third quarter over the third quarter of last year, and 2.2% growth in the first nine months of 2001 over the same period last year, with increases coming primarily from higher average renewal premiums. Ivantage premiums decreased 5.8% in the third quarter of 2001 and 5.7% in the first nine months of 2001 when compared to the same periods of 2000. These decreases were the result of profit improvement actions, and were attributable to fewer new and renewal policies in force, partially offset by increased average premium per policy.

Increases in standard auto average premium per policy were due to rate actions taken in both the Allstate-brand and Ivantage during 2000 and 2001, and due to a shift to newer and more expensive autos by Allstate-brand policyholders. The Allstate-brand received approval for standard auto rate changes, some in connection with the implementation of SRM, in 34 states and Washington D.C. during the first nine months of 2001 with a projected increase in net average premium written in those jurisdictions of 4.7% on an annual basis. Ivantage received approval for standard auto rate changes in 30 states during the first nine months of 2001 with a projected increase in net average premium written in those states of 2.0% on an annual basis.

Non-standard auto premiums written decreased 9.1% to $703 million in the third quarter of 2001, from $773 million for the same period in 2000, and 12.8% during the first nine months of 2001 as compared to the first nine months of 2000. The Allstate-brand non-standard auto premiums decreased 7.6% in the third quarter of 2001 compared to the same three month period in 2000, and 9.4% in the first nine months of 2001, over the first nine months of last year. These decreases were due to a 19.5% decrease in the number of new and renewal policies in force. Partially offsetting fewer policies in force was a 7.2% increase in average premium per policy in the third quarter of 2001 over the third quarter of last year and a 6.2% increase in the first nine months of 2001 over the first nine months of last year, with increases coming primarily from higher average renewal premiums. Ivantage premiums decreased 54.2% in the third quarter of 2001 and 73.8% in the first nine months of 2001 when compared to the same periods of 2000. These decreases were attributable to a

75.5% decrease in policies in force. A 27.4% increase in average premium per policy in the third quarter over the third quarter of last year and a 13.8% increase in the first nine months of 2001 over the first nine months of last year partially offset fewer policies in force.

Decreases in non-standard auto premiums during the first nine months of 2001 were primarily due to the implementation of programs to address adverse profitability trends for both the Allstate-brand and Ivantage. These programs vary by state and include changes such as additional premium down payment requirements, tightening underwriting requirements, rate increases, policy non-renewal where permitted and certain other administrative changes. As a result of the actions taken in this line, the frequency of losses has decreased. The Company will continue to implement SRM for non-standard auto policies, subject to the regulatory review process, and continue to monitor the performance and profitability associated with the utilization of the SRM factors. The involuntary business written by shared markets generally increases when the underwriting standards used by the Company and other participants in the non-standard auto industry lead them to write less non-standard auto insurance business.

Increases in non-standard auto average premium per policy were due to rate actions taken for both the Allstate-brand and Ivantage during 2000 and 2001. The Allstate-brand received approval for non-standard auto rate changes, some in connection with the implementation of SRM, in 37 states and Washington D.C. during the first nine months of 2001 with a projected increase in net average premium written in those jurisdictions of 11.3% on an annual basis. Ivantage received approval for non-standard auto rate changes, some in connection with the implementation of SRM, in 9 states during the first nine months of 2001 with a projected increase in net average premium written in those states of 13.8% on an annual basis.

Homeowners premiums written increased 6.3% to $1.22 billion in the third quarter of 2001, from $1.15 billion for the same three month period in 2000. During the first nine months of 2001, homeowners premiums increased 6.3% as compared to the first nine months of last year. In the third quarter of 2001, the Allstate-brand homeowners premiums increased 6.8% compared to the same three month period in 2000, and 6.6% in the first nine months of 2001, over the first nine months of last year. These increases were due to a 2.1% increase in the number of new and renewal policies in force. Average premium per policy also added to these increases with 5.3% growth in the third quarter of 2001 over the third quarter of last year, and 4.6% growth in the first nine months of 2001 over the same period last year. Increases in Allstate-brand average premium resulted primarily from higher average renewal premiums. Ivantage premiums increased 1.7% in the third quarter of 2001 and 3.9% in the first nine months of 2001 when compared to the same periods of 2000. These increases were attributable to increased average premium per policy and partially offset by fewer policies in force.

Increases in homeowners average premium per policy were due to rate actions taken for both the Allstate-brand and Ivantage during 2000 and 2001. The Allstate-brand received approval for homeowners rate changes, some in connection with the implementation of SRM, in 27 states and Washington D.C. during the first nine months of 2001 with a projected increase in net average premium written in those jurisdictions of 12.1% on an annual basis. Ivantage received approval for homeowners rate changes in 27 states during the first nine months of 2001 with a projected increase in net average premium written in those states of 3.8% on an annual basis.

For the third quarter of 2001, PP&C experienced an underwriting loss of $161 million compared to underwriting income of $83 million in the third quarter of 2000. The underwriting loss in the quarter was due to increases in premiums earned being more than offset by higher loss costs, including a reserve increase in the quarter totaling $80 million after-tax. Increased loss costs were primarily due to increased homeowners claim severity and higher catastrophe losses. Catastrophe losses in the quarter included losses of $22 million after-tax due to the September 11 attack on the World Trade Center in New York City and the Pentagon in Washington D.C., and the plane crash in Pennsylvania. For the nine month period ended September 30, 2001, PP&C experienced an underwriting loss of $386 million compared to underwriting income of $56 million for the first nine months of last year. Underwriting losses in the first nine months of 2001 were driven primarily by increased loss costs, partly offset by lower year-to-date catastrophe losses. Loss costs in the first nine months of 2001, were impacted by higher homeowners claim frequency and increased claim severity. Increased severity in both the third quarter of 2001 and the first nine months of the year, as compared to the prior year periods, stems from inflationary pressures in medical and repair costs. These trends were partially offset by lower non-standard auto claim frequency as a result of the Company's profitability actions in this line. The Company is currently executing a range of actions to mitigate the adverse auto and homeowners trends, such as product, claim, underwriting and rating changes, which are intended to improve profitability.

Catastrophe Losses and Catastrophe Management Catastrophe losses for the third quarter of 2001 were $142 million compared with $95 million for the same period in 2000. For the first nine months of 2001, catastrophe losses were $761 million compared to $844 million for the same period last year. The level of catastrophe losses experienced in any period cannot be predicted and can be material to results of operations and financial position.

Allstate has limited, over time, its aggregate insurance exposures in certain regions prone to catastrophes. These limits include restrictions on the amount and location of new business production, limitations on the availability of certain policy coverages, policy brokering and increased participation in catastrophe pools. Allstate has also requested and received rate increases and has expanded its use of increased hurricane and earthquake deductibles in certain regions prone to catastrophes. However, the initiatives are somewhat mitigated by requirements of state insurance laws and regulations, as well as by competitive considerations.

For Allstate, areas of potential catastrophe losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate Floridian Insurance Company ("Floridian") and Allstate Floridian Indemnity Company ("AFI") sell and service Allstate's Florida residential property policies, and have access to reimbursements on certain qualifying Florida hurricanes and exposure to assessments from the Florida Hurricane Catastrophe Fund. In addition, Floridian and AFI are subject to assessments from the Florida Windstorm Underwriting Association and the Florida Property and Casualty Joint Underwriting Association, organizations created to provide coverage for catastrophic losses to property owners unable to obtain coverage in the private insurance market. The Company has also mitigated its ultimate exposure to hurricanes through policy brokering; an example includes the Company's brokering of insurance coverage for hurricanes in Hawaii to a non-affiliated company.

Exposure to certain potential losses from earthquakes in California is limited by the Company's participation in the California Earthquake Authority ("CEA"), which provides insurance for California earthquake losses. Other areas in the United States where Allstate faces exposure to potential earthquake losses include areas surrounding the New Madrid fault system in the Midwest and faults in and surrounding Seattle, Washington and Charleston, South Carolina.

While management believes the Company's catastrophe management initiatives have reduced the potential magnitude of possible future losses, the Company continues to be contingently responsible for assessments by the CEA and various Florida facilities, and to be exposed to catastrophes that may materially impact results of operations and financial position. For example, the Company's historical catastrophe experience includes losses relating to Hurricane Andrew in 1992 totaling $2.26 billion and the Northridge earthquake of 1994 totaling $1.99 billion ($90 million of which was recorded in the second quarter of 2001). The next largest hurricane experienced by the Company was Hurricane Hugo in 1989 with losses totaling 11.2% of Hurricane Andrew's losses, and the next largest earthquake experienced by the Company was the San Francisco earthquake of 1989 with losses totaling 7.6% of the Northridge earthquake's losses.

Since 1991, the aggregate impact of catastrophes on the Company's total loss ratio was 6.1 pts. Excluding losses from Hurricane Andrew, California earthquakes and Hawaii hurricanes during that period, since the exposure for these catastrophes is now covered by an industry reinsurance or insurance mechanism (i.e. CEA and various Florida facilities), the aggregate impact of all other catastrophes on the Company's total loss ratio was 3.9 pts. Comparatively, the aggregate impact of catastrophes on the homeowners loss ratio over the last ten years, excluding losses from Hurricane Andrew, California earthquakes and Hawaii hurricanes during that period, was 16.7 pts. The catastrophe impact on the homeowners loss ratio in jurisdictions deemed to have hurricane exposure (those jurisdictions bordering the eastern and gulf coasts) was 17.5 pts, and in all other states the impact was 15.7 pts over this ten year period. Comparatively, during the first nine months of 2001, catastrophes in the states deemed to have hurricane exposure had an impact of 10.3 pts on the homeowners loss ratio, while in all other states catastrophes had an impact of 18.3 pts. The total catastrophe impact on the homeowners loss ratio was 13.8 pts during the first nine months of the year.

Allstate continues to evaluate alternative business strategies to more effectively manage its exposure to catastrophe losses, including rate increases. In the first nine months of 2001, Allstate received approval for rate increases in 11 states deemed to have hurricane exposure and Washington D.C. with a projected increase in net average premium written in those jurisdictions of 12.5%. In addition, Allstate received approval for rate increases in 25 other states for a projected increase in net average premium written of 8.2%.

The establishment of appropriate reserves for losses incurred from catastrophes, as for all outstanding property-liability claims, is an inherently uncertain process. Catastrophe reserve estimates are regularly reviewed and updated, using the most current information and estimation techniques. Any resulting adjustments, which may be material, are reflected in current operations.

In the normal course of business, the Company may supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Discontinued Lines and Coverages Summarized underwriting results for the Discontinued Lines and Coverages segment are presented in the following table.

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	**2001**	**2000**	**2001**	**2000**
Underwriting loss	$ 5	$ 9	$ 13	$ 17

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other mass tort exposures, and certain commercial and other businesses in run-off.

During the third quarter of 2001, the Company completed an annual review of reserves for environmental, asbestos and other mass tort exposures. As a result of this review, the Company increased its reserves for asbestos exposures by $61 million after-tax, but that increase was offset by reserve releases for environmental exposures of $30 million after-tax and other mass tort exposures of $25 million after-tax.

Net Investment Income and After-tax Realized Capital Gains and Losses

Net Investment Income Property-Liability net investment income was $432 million in the third quarter of 2001, compared to $463 million in the third quarter of last year. For the first nine months of 2001, net investment income was $1.33 billion, consistent with $1.33 billion in the same period last year. Net investment income in both the 2001 third quarter and year to date periods reflected reduced investment balances and lower portfolio yields partially offset by increased income from partnership interests, when compared to the same periods in the prior year. The decrease in investment balances is due to lower cash flow from operations, a result of underwriting losses, and dividends paid by Allstate Insurance Company ("AIC") to The Allstate Corporation.

After-tax Realized Capital Gains and Losses Property-Liability after-tax realized capital losses for the third quarter of 2001 were $85 million compared to after-tax realized capital gains of $119 million for the same period in 2000. After-tax realized capital losses in the third quarter of 2001 were comprised of a $60 million after-tax loss related to portfolio trading in the normal course of business, a $16 million after-tax loss from the valuation of certain derivative instruments and a $9 million after-tax loss from investment write-downs.

During the first nine months of 2001, after-tax realized capital losses were $79 million compared to after-tax realized capital gains of $329 million in the first nine months of last year. After-tax realized capital losses for the first nine months of 2001 were comprised of a $51 million after-tax loss from investment write-downs and a $34 million after-tax loss from the valuation of certain derivative instruments, partly offset by a $6 million after-tax gain from portfolio trading in the normal course of business.

Realized capital gains and losses from the valuation of certain derivative instruments during both periods reflected the impact of new accounting policies adopted in the first quarter of 2001 related to the Statements of Financial Accounting Standards Nos. 133 and 138. Changes in realized capital gains and losses are also the result of the timing of sales reflecting management decisions on the positioning of the investment portfolio, as well as assessments of individual securities and overall market conditions.

ALLSTATE FINANCIAL OPERATIONS

Overview

Allstate Financial markets life insurance and investment or retirement products. Life insurance products consist of interest-sensitive life, traditional term and whole life, immediate annuities with life contingencies, variable life, indexed life, credit life and accident and health insurance. Investment products include deferred annuities, immediate annuities without life contingencies, structured settlements and institutional products, including guaranteed investment contracts and funding agreements.

The segment uses several brand identities. Generally, Allstate brand products are sold through Allstate agencies, specialized brokers, Putnam distributors, workplace marketing and direct marketing. Other brands such as Glenbrook Life, Northbrook Life and Lincoln Benefit Life sell products through both Allstate and independent agencies, financial institutions such as securities firms and banks and direct response marketing.

Summarized financial data for the Allstate Financial segment is presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2001**	**2000**	**2001**	**2000**
Statutory premiums and deposits	$ 2,491	$ 3,338	$ 8,294	$ 9,580
Investments	$ 46,224	$ 39,310	$ 46,224	$ 39,310
Separate Accounts assets	12,431	15,880	12,431	15,880
Investments, including Separate Accounts assets	$ 58,655	$ 55,190	$ 58,655	$ 55,190
GAAP Premiums	$ 359	$ 351	$ 1,010	$ 979
Contract charges	221	220	655	644
Net investment income	747	694	2,218	1,996
Contract benefits	451	405	1,269	1,170
Credited interest	435	420	1,293	1,142
Operating costs and expenses	225	231	712	675
Amortization of goodwill	7	7	22	21
Restructuring and related charges	2	(2)	6	(13)
Operating income before tax	207	204	581	624
Income tax expense on operations	73	71	201	219
Operating income(1)	134	133	380	405
Realized capital gains and losses, after-tax (2)	(46)	11	(133)	(29)
Cumulative effect of change in accounting principle, after-tax	—	—	(6)	—
Net income	$ 88	$ 144	$ 241	$ 376

(1) The supplemental operating information presented above allows for a more complete analysis of results of operations. The net effects of realized capital gains and losses have been excluded due to the volatility between periods and because such data is often excluded when evaluating the overall financial performance of insurers. Operating income should not be considered as a substitute for any generally accepted accounting principles ("GAAP") measure of performance. The method of calculating operating income may be different from the method used by other companies and therefore comparability may be limited.

(2) After-tax realized capital gains and losses are presented net of the effects of Allstate Finanical's deferred policy acquisition cost amortization to the extent that such effects resulted from the recognition of realized capital gains and losses.

Operating Results

Statutory Premiums and Deposits Allstate Financial statutory premiums and deposits, which include premiums and deposits for all products, are used to analyze sales trends. The following table summarizes statutory premiums and deposits by product line.

($ in millions)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Life products				
Interest-sensitive	$ 221	$ 231	$ 662	$ 727
Traditional	109	101	322	302
Other	150	145	448	421
Total life products	480	477	1,432	1,450
Investment products				
Fixed	857	995	2,441	3,044
Variable	625	1,059	2,189	3,157
Institutional	529	807	2,232	1,929
Total investment products	2,011	2,861	6,862	8,130
Total	$ 2,491	$ 3,338	$ 8,294	$ 9,580

Allstate Financial total statutory premiums and deposits decreased 25.4% in the third quarter of 2001, compared to the third quarter of 2000, due to declines in sales of investment products, primarily variable annuities and institutional products. In the first nine months of 2001, statutory premiums and deposits declined 13.4% compared to the same period in the prior year, due to declines in sales of variable and fixed annuities, partially offset by increased sales of institutional products. Sales of investment products decreased 29.7% in the third quarter of 2001, and 15.6% in the first nine months of 2001 compared to the same periods in the prior year. These decreases reflect the difficult economic market conditions facing individual investors. Increased sales of institutional products during the first nine months of 2001 were primarily due to the sale of funding agreements to entities issuing medium-term notes. Period to period fluctuations in sales of institutional products, including funding agreements, are largely due to management's assessment of market opportunities.

GAAP Premiums and Contract Charges Under GAAP, premiums represent revenue generated from traditional life products with significant mortality or morbidity risk. Revenues for interest-sensitive life insurance and other products that are largely investment-related, for which deposits are treated as liabilities, are reflected as contract charges. However, mortality risk is a significant factor in immediate annuities with a life contingency, therefore revenues generated on these contracts are recognized as GAAP premiums.

The following table summarizes GAAP premiums and contract charges.

($ in millions)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Premiums				
Traditional life	$ 116	$ 98	$ 322	$ 289
Immediate annuities with life contingencies	98	117	261	284
Other	145	136	427	406
Total premiums	359	351	1,010	979
Contract Charges				
Interest-sensitive life	151	143	433	427
Variable annuities	54	60	167	170
Other	16	17	55	47
Total contract charges	221	220	655	644
Total Premiums and Contract Charges	$ 580	$ 571	$ 1,665	$ 1,623

For the third quarter of 2001, Allstate Financial total premiums increased 2.3% to $359 million, and for the first nine months of 2001, total premiums increased 3.2% to $1.01 billion, compared to the same periods last year. The increases in both periods were due to increased sales of traditional life policies, offset to varying extents by decreased sales of immediate annuities with life contingencies. Depending on market conditions, from period to period there may be fluctuations in the overall level of sales of immediate annuities and in the mix of immediate annuities sold with or without life contingencies. Due to the GAAP reporting treatment of annuities with life contingencies, these fluctuations will cause GAAP premium to fluctuate accordingly.

Total contract charges for Allstate Financial during the third quarter of 2001 were comparable to prior year as declines in account balances due to market conditions more than offset increases from new sales. During the first nine months of 2001, total contract charges increased 1.7% as compared to the same period of 2000. Contract charges on variable annuity products are generally calculated as a percentage of each account value and therefore are impacted by market valuation fluctuations. Variable annuity contract charge fluctuations in both the third quarter of 2001 and first nine months of 2001, as compared to the prior year period, were due to the impacts of market declines over the period partially offset by the effect of new sales in the prior twelve months.

Operating Measures Key operating measures for the Allstate Financial segment are summarized in the following table.

($ in millions)	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Investment margin	$ 189	$ 177	$ 561	$ 505
Mortality margin	162	174	487	528
Maintenance charges	72	69	217	211
Surrender charges	18	20	56	63
Operating costs and expenses	225	231	712	675
Amortization of goodwill	7	7	22	21
Restructuring and related charges	2	(2)	6	(13)
Income tax expense on operations	73	71	201	219
Operating income	$ 134	$ 133	$ 380	$ 405

Operating income in the third quarter of 2001 was comparable to the prior year, as increases in investment margin were offset by unfavorable mortality. In the first nine months of 2001, operating income decreased 6.2% to $380 million as compared to the first nine months of 2000. This decrease was due to higher operating expenses and unfavorable mortality, partially offset by a higher investment margin.

Investment margin, which represents the excess of investment income earned over interest credited to policyholders and contractholders, increased 6.8% during the current year third quarter as compared to the prior year third quarter, and 11.1% in the first nine months of 2001 compared to the first nine months of 2000. These increases were due primarily to growth in investment balances from new sales in the previous twelve months. Average investment yields and interest-crediting rates during the quarter and for the first nine months of 2001 have contracted comparably when compared to the same periods in 2000.

Mortality margin, which represents premiums and cost of insurance charges in excess of related policy benefits, decreased 6.9% during the third quarter of 2001 as compared to the third quarter of 2000. During the first nine months of 2001, the mortality margin decreased 7.8% as compared to the first nine months of 2000. The decrease in the third quarter of 2001, compared to the same period of 2000, was due to a $10 million after-tax loss incurred as a result of the tragedy of September 11. These losses more than offset the growth in mortality margins from increased premiums and contract charges and lower mortality losses when compared to prior year levels. For the first nine months of 2001, compared to the same period of 2000, the mortality margin decreased as a result of a favorable level of annuity losses incurred in 2000 and mortality losses in excess of premium and contract charge growth during the current period. Mortality loss experience cannot be predicted and can cause benefit payments to fluctuate from period to period.

Operating expenses decreased 2.6% in the third quarter of 2001 to $225 million, compared to $231 million in the third quarter of 2000. During the period, lower deferred acquisition cost amortization was partially offset by growth in management expenses as compared to the prior year. Operating expenses during the third quarter of 2001, as compared to the prior quarters of 2001, decreased as they were aligned with the current economic and market conditions. Operating expenses increased 5.5% in the first nine months of 2001 to $712 million, compared to $675 million in the first nine months of 2000, as marketing and distribution expenses incurred on growth initiatives more than offset lower deferred acquisition cost amortization.

Net Investment Income and After-tax Realized Capital Gains and Losses

Net Investment Income Allstate Financial net investment income increased to $747 million in the third quarter of 2001 from $694 million in the same period of 2000. For the first nine months of 2001, investment income increased to $2.22 billion from $2.00 billion in the same period last year. Increases in both periods reflected higher investment balances from increased cash flows from operations, partially offset by declining portfolio yields compared to the prior year. Investment balances at September 30, 2001, excluding Separate Accounts and unrealized gains on fixed income securities, grew 14.2% when compared to the September 30, 2000 balances.

After-tax Realized Capital Gains and Losses Allstate Financial after-tax realized capital losses for the third quarter of 2001 were $46 million compared to after-tax realized capital gains of $11 million for the same period in 2000. After-tax realized capital losses in the third quarter of 2001 were comprised of a $34 million after-tax loss from the valuation of certain derivative instruments and an $18 million after-tax loss from investment write-downs, partially offset by a $6 million after-tax gain related to portfolio trading in the normal course of business.

During the first nine months of 2001, after-tax realized capital losses were $133 million compared to $29 million in the first nine months of last year. After-tax realized capital losses for the first nine months of 2001 were comprised of a $66 million after-tax loss from investment write-downs, a $59 million after-tax loss from the valuation of certain derivative instruments and an $8 million after-tax loss from portfolio trading in the normal course of business.

Realized capital gains and losses from the valuation of certain derivative instruments during both periods reflected the impact of new accounting policies adopted in the first quarter of 2001 related to the Statements of Financial Accounting Standards Nos. 133 and 138. Changes in realized capital gains and losses are also the result of the timing of sales reflecting management decisions on the positioning of the investment portfolio, as well as assessments of individual securities and overall market conditions.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources Allstate's capital resources consist of shareholders' equity, mandatorily redeemable preferred securities and debt, representing funds deployed or available to be deployed to support business operations. These resources are summarized in the following table.

($ in millions)	September 30, 2001	December 31, 2000

Common stock and retained earnings	$ 15,425	$ 15,525
Accumulated other comprehensive income	1,868	1,926
Total shareholders' equity	17,293	17,451
Mandatorily redeemable preferred securities	750	750
Debt	3,482	3,331
Total capital resources	$ 21,525	$ 21,532
Ratio of debt to total capital resources(1)	17.9%	17.2%

(1) When analyzing the Company's ratio of debt to total capital resources, various formulas are used. In this presentation, debt includes 50% of the mandatorily redeemable preferred securities.

Shareholders' Equity Shareholders' equity decreased $158 million in the first nine months of 2001 when compared to year-end 2000, as net income was offset by share repurchases and dividends paid to shareholders. During the first nine months of 2001, the Company acquired 18.8 million shares of its stock at a cost of $684 million primarily as part of its stock repurchase programs. During the third quarter of 2001, the Company acquired 10.6 million shares at a cost of $363 million to complete its $2 billion repurchase program, and acquired 0.5 million shares at a cost of $17 million to commence its current $500 million repurchase program. This program was 3.4% complete at September 30, 2001, and is expected to be completed by December 31, 2002.

Mandatorily Redeemable Preferred Securities On November 5, 2001, the Company announced that it would redeem $550 million of its mandatorily redeemable preferred securities. Funds to redeem these securities are expected to be obtained by utilizing the existing shelf registration statements.

Debt Consolidated debt at September 30, 2001 increased compared to December 31, 2000 due primarily to a $140 million increase in short-term borrowings outstanding.

The Company has access to additional borrowing as follows:

- Allstate has a commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. At September 30, 2001, the Company had outstanding commercial paper borrowings of $353 million.

- During the second quarter of 2001, Allstate replaced its primary credit facility and currently maintains three credit facilities totaling $1.20 billion as a potential source of funds to meet short-term liquidity requirements: a $575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in 2002 and a $50 million one-year revolving line of credit expiring in 2002. The rights to borrow on the five-year and 364-day lines of credit are subject to the requirement that the Company's ratio of total debt to total capital (as defined in the agreements) not exceed a designated level. This requirement is currently being met and management expects to continue to meet it in the future. There have been no borrowings under any of these lines of credit during the first nine months of 2001. The total amount outstanding at any point in time under the combination of the commercial paper program and the three credit facilities is limited to $1.20 billion.

- As of September 30, 2001, the Company had the right to issue up to an additional $2.35 billion of debt securities, preferred stock, trust preferred securities or debt warrants utilizing the shelf registration statements filed with the Securities and Exchange Commission in August 1998 ($350 million remaining) and in June 2000 ($2.00 billion remaining).

Financial Ratings and Strength The Company's and its major subsidiaries' debt, commercial paper and financial strength ratings are influenced by many factors including the amount of financial leverage (i.e. debt) and exposure to risks, such as catastrophes, as well as the current level of operating leverage.

In the first quarter of 2001, A.M. Best affirmed its financial strength ratings and assigned The Allstate Corporation's senior long-term debt a rating of a+, and commercial paper program a rating of AMB-1. All other ratings remained unchanged during the first nine months of 2001.

Liquidity The Allstate Corporation is a holding company whose principal operating subsidiaries include AIC and American Heritage Life Investment Corporation. The Company's principal sources of funds are dividend payments from AIC, inter-company borrowings, funds from the settlement of Company benefit plans and funds that may be raised periodically from the issuance of additional debt, including commercial paper, or stock.

The payment of dividends by AIC is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. Based on 2000 statutory net income, the maximum amount of dividends AIC is able to pay without prior Illinois Department of Insurance approval at a given point in time is $1.69 billion, less dividends paid during the preceding twelve months measured at that point in time. In the twelve-month period beginning October 31, 2000, AIC paid dividends of $1.24 billion. Notification and approval of inter-company lending activities is also required by the Illinois Department of Insurance for those transactions that exceed formula amounts based on statutory admitted assets and statutory surplus.

The Company's principal uses of funds are the payment of dividends to shareholders, share repurchases, inter-company lending to its insurance subsidiaries, debt service, additional investments in its subsidiaries and acquisitions.

The Company also uses funds to make policyholder and claims payments, including surrender and withdrawal payments on the Allstate Financial products. Total surrender and withdrawal amounts for Allstate Financial decreased during the third quarter of 2001 to $689 million, compared to $870 million in the third quarter of 2000, due primarily to the impact of market conditions. As Allstate Financial's interest-sensitive life policies and annuity contracts in force grow and age, the dollar amount of surrenders and withdrawals could increase. While the overall amount of surrenders may increase in the future, a significant increase in the level of surrenders relative to total contractholder account balances is not anticipated.

INVESTMENTS

The composition of the investment portfolio at September 30, 2001, is presented in the following table.

	Property-Liability		Allstate Financial		Corporate and Other		Total	
($in millions)		**Percent to total**		**Percent to total**		**Percent to total**		**Percent to total**
Fixed income securities(1)	$ 26,050	79.5%	$ 37,785	81.7%	$ 1,232	93.9%	$ 65,067	81.1%
Equity securities	4,870	14.9	332	0.7	13	1.0	5,215	6.5
Mortgage loans	132	0.4	5,345	11.6	—	—	5,477	6.8
Short-term	1,665	5.1	1,481	3.2	67	5.1	3,213	4.0
Other	18	0.1	1,281	2.8	—	—	1,299	1.6
Total	$ 32,735	100.0%	$ 46,224	100.0%	$ 1,312	100.0%	$ 80,271	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost for these securities was $24.78 billion, $35.76 billion and $1.17 billion for Property-Liability, Allstate Financial, and Corporate and Other, respectively.

Total investments increased to $80.27 billion at September 30, 2001 from $74.48 billion at December 31, 2000. Property-Liability investments were $32.74 billion at September 30, 2001 compared to $32.96 billion at December 31, 2000. This decrease was due to lower unrealized gains on equity securities. Allstate Financial investments at September 30, 2001, increased to

$46.22 billion from $40.25 billion at December 31, 2000. This increase was attributable to amounts invested from positive cash flows generated from operations and increased unrealized capital gains on fixed income securities. Generally, when market interest rates decrease, as they did in the first nine months of 2001, unrealized gains on fixed income securities increase.

Approximately 93.7% of the Company's fixed income securities portfolio is rated investment grade, which is defined by the Company as a security having an NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable Company internal rating.

The ratings of securities in the Company's portfolio are influenced by many factors, including the impact of the economic environment on individual securities. A fluctuation in these ratings could materially impact the results of operations, liquidity or financial position of the Company. The Company closely monitors its fixed income and equity securities portfolios for rating changes or other declines in value that are other than temporary. Fixed income securities are placed on non-accrual status when they are in default or when the timing or receipt of principal or interest payments are in doubt. Write downs of fixed income and equity securities are recorded when the decline in value is considered to be other than temporary.

OTHER DEVELOPMENTS

- Recently, insurance carriers writing approximately 25% of the auto insurance in the state of New Jersey have announced their intention to withdraw from the state, citing their inability to charge adequate premiums since the implementation of regulated rate and coverage reform in 1999. Allstate New Jersey Insurance Company ("ANJ") has not experienced the same result, and continues to execute its strategies in the state. The outcome of these actions and impact to ANJ are uncertain.

- In July of 2001, the Office of Thrift Supervision granted Allstate Bank, a subsidiary of The Allstate Corporation, full-service banking powers. Using these powers, Allstate Bank began offering a wider range of consumer banking products and services, such as certificates of deposit, insured money market and savings accounts, checking accounts and home mortgage services through the Internet and a toll-free number. Further, many of the Bank's products currently are available through exclusive Allstate agencies in California, and are expected to be rolled-out to all Allstate agencies during 2002. Allstate Bank opened in 1998 under a limited-purpose thrift charter, offering cash management and trust services.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS AFFECTING ALLSTATE

This document contains "forward-looking statements" that anticipate results based on management's plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "expects," "will," "anticipates," "estimates," "intends," "believes," "likely" and other words with similar meanings. These statements may address, among other things, the Company's strategy for growth, product development, regulatory approvals, market position, expenses, financial results and reserves. Forward-looking statements are based on management's current expectations of future events. The Company cannot guarantee that any forward-looking statement will be accurate. However, management believes that our forward-looking statements are based on reasonable, current expectations and assumptions. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

If the expectations or assumptions underlying the forward-looking statements prove inaccurate or if risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. In addition to the normal risks of business, Allstate is subject to significant risk factors, including those listed below which apply to it as an insurance business and a provider of other financial services.

- The implementation of Allstate's multi-access distribution model involves risks and uncertainties that could have a material adverse effect on Allstate's results of operations, liquidity or financial position. For example, the direct customer sales capabilities could lead to unreliable sales activity, an unacceptable profit contribution and channel competition.

- The Company continues to pursue expense reduction actions consistent with its $600 million reduction program announced in November 1999, as well as other actions to be fully realized in 2001. These expense reductions are dependent on the adequacy of the actions taken to eliminate certain employee positions, consolidate Allstate's operations and facilities, and reorganize its multiple employee agency programs to a single exclusive agency independent contractor program. The savings are being partially invested in technology, competitive pricing, The Good Hands Network and advertising.

- For its non-standard auto insurance business, Allstate is pursuing programs to address adverse profitability trends. These programs include changes, such as additional down payment requirements, new underwriting criteria, rate increases, non-renewing policies where permitted and certain other administrative changes. Allstate expects these programs to have an adverse impact on written premium growth, however they are designed to improve profitability.

- The insurance business is subject to extensive regulation-particularly at the state level. Many of these restrictions affect Allstate's ability to operate and grow its businesses in a profitable manner. In particular, the PP&C segment's implementation of SRM for its private passenger auto business is subject to state regulatory review processes.

- The Company believes that the risk factors and tier-based pricing used with SRM will allow it to be more competitive and operate more profitably. However, the use of SRM is subject to the regulatory review process. Moreover, it is possible that the use of SRM underwriting factors or pricing model do not accurately anticipate the level of loss costs that the Company will ultimately incur as a result of the mix of new business generated through the use of these strategies. In addition, it is possible that the actual performance of SRM may differ from the underlying assumptions in the Company's projected loss costs for high lifetime value customers.

- In recent years, the competitive pricing environment for private passenger auto insurance put pressure on the PP&C segment's premium growth and profit margins, and because Allstate's PP&C segment's loss ratio compares favorably to the industry, state regulatory authorities may resist our efforts to raise rates. In addition, because of other factors such as SRM, the rate increases that have been approved during 2001 may not increase net average premium to the current projected levels.

- From time to time, the private passenger auto insurance industry comes under pressure from state regulators, legislators and special interest groups to reduce, freeze or set rates at levels that do not correspond with underlying costs, in management's opinion. The homeowners insurance business faces similar pressure, particularly as regulators in catastrophe prone jurisdictions struggle to identify an acceptable methodology to price for catastrophe exposure. This kind of pressure is expected to persist. In addition, the use of financial stability as a factor in underwriting and pricing comes under attack by regulators, legislators and special interest groups in various states. The result could be legislation or regulation that adversely affects the profitability of Allstate's PP&C segment. The Company cannot predict the impact on results of operations, liquidity or financial position of possible future legislative and regulatory measures regarding rates.

- Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit a private passenger auto insurer's ability to cancel or refuse to renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of insurance business from the state, except pursuant to a plan that is approved by the state insurance department. State insurance departments have the authority to disapprove plans on the grounds that they may lead to market disruption. Laws and regulations that limit an insurer's ability to cancel or refuse to renew policies and that subject program withdrawals to prior approval requirements may restrict an insurer's ability to exit unprofitable markets.

- Certain states have laws that require an insurer conducting business in that state to offer coverage to all consumers and restrict an insurer's ability to charge an adequate price. In these markets, the Company or its subsidiaries may be compelled to underwrite significantly more business at an inadequate price, leading to an unacceptable return on the Company's capital.

- Weather conditions including the frequency and severity of tornadoes, hailstorms, hurricanes, tropical storms, high winds, and winter storms affect the frequency and severity of claims in the property lines of insurance. Changing driving patterns affect the frequency and severity of claims in the private passenger auto insurance business.

- Changes in the severity of claims have an impact on the profitability of Allstate's business. Changes in bodily injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in loss costs for homeowners insurance policies are driven by inflation in the construction industry, in building materials and in home furnishings and other economic and environmental factors. While the inflationary pressures in each of these sectors drives the Company's severity, it may not reflect the Company's experience.

- The Company is currently pursuing various loss management initiatives in PP&C that are expected to mitigate future increases in claim severity. However, these initiatives may not offset impacts of increased severity, which are inherently difficult to predict.

- Allstate has experienced, and expects to continue to experience, catastrophe losses. While management believes that our catastrophe management initiatives have reduced the potential magnitude of possible future losses, Allstate continues to be exposed to catastrophes that could have a material adverse impact on results of operations or financial position. Catastrophic events in the future may indicate that the techniques and data used to predict the probability of catastrophes and the extent of the resulting losses are inaccurate. The Company also continues to be exposed to assessments from the CEA and various Florida facilities, and losses that could surmount the liquidity of these mechanisms.

- There is inherent uncertainty in the process of establishing property-liability loss reserves, particularly reserves for the cost of environmental, asbestos and other mass tort claims. This uncertainty arises from a number of factors, including ongoing interpretation of insurance policy provisions by courts, inconsistent decisions in lawsuits regarding coverage and expanded theories of liability. In addition, on-going changes in claims settlement practices can lead to changes in loss payment patterns which are used to estimate reserve levels. Moreover, while management believes that improved actuarial techniques and databases have assisted in estimating environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable loss. Consequently, ultimate losses could materially exceed established loss reserves and have a material adverse effect on our results of operations, liquidity or financial position.

- There is uncertainty involved in estimating the availability of reinsurance and the collectibility of reinsurance recoverables. This uncertainty arises from a number of factors, including the restructuring by reinsurers of their capital structures and segregation by the industry generally of reinsurance exposure into separate legal entities with dedicated capital.

- In the wake of September 11, insurers are evaluating the possibility of excluding acts of terrorism from certain types of insurance policies. In the event that insurance coverage for terrorism becomes unavailable or very expensive, there could be significant adverse impacts on some portion of the Company's investment portfolio, particularly in sectors such as airlines and real estate. For example, commercial mortgages or certain debt obligations might be adversely affected due to the inability to obtain coverage to restore the related real estate or other property, thereby creating the potential for increased default risk.

- Changes in market interest rates can have adverse effects on Allstate's investment portfolio, investment income, product sales and results of operations. Increasing market interest rates have an adverse impact on the value of the investment portfolio, for example, by decreasing unrealized capital gains on fixed income securities. Declining market interest rates could have an adverse impact on Allstate's investment income as Allstate reinvests proceeds from positive cash flows from operations and from maturing and called investments into new investments that could be yielding less than the portfolio's average rate. Changes in market rates of interest as compared to rates offered on some of the Allstate Financial segment's products could make those products less attractive if competitive investment margins are not maintained, leading to lower sales and/or changes in the level of surrenders and withdrawals on these products. The Company seeks to limit its exposure to this risk on Allstate Financial's products by offering a diverse group of products, periodically reviewing and revising crediting rates and providing for surrender charges in the event of early withdrawal.

- The impact of decreasing Separate Accounts balances as a result of fluctuating market conditions could cause contract charges realized by the Allstate Financial segment to decrease.

- In order to meet the anticipated cash flow requirements of its obligations to policyholders, from time to time Allstate adjusts the effective duration of investments, liabilities for contractholder funds and reserves for life-contingent contract benefits. Those adjustments may have an impact on the value of the investment portfolio, investment income, interest credited on contractholder funds and the investment margin.

- Allstate Financial policy acquisition costs related to contractholder funds are amortized in proportion to gross profits over the estimated lives of the contract periods. Assumptions underlying the gross profits, which include estimated fees and investment and expense margins, are periodically updated to reflect actual experience resulting in adjustments to the cumulative amortization of these costs. These adjustments may have a material effect on results of operations.

- Management believes the reserves for life-contingent contract benefits are adequate to cover ultimate policy benefits, despite the underlying risks and uncertainties associated with their determination when payments will not be made until well into the future. The Company periodically reviews and revises its estimates. If future experience differs from assumptions, it may have a material impact on results of operations.

- Deferred annuities and interest-sensitive life insurance products receive favorable policyholder taxation under current tax laws and regulations. Any legislative or regulatory changes that adversely alter this treatment are likely to negatively affect the demand for these products. Additionally, the demand for life insurance products which are used to address a customer's estate planning needs may be impacted to the extent any legislative changes to the current estate tax laws occur.

- Allstate Financial distributes some of its products under agreements with other members of the financial services industry that are not affiliated with Allstate. Termination of one or more of these agreements due to, for example, changes in control of any of these entities, could have a detrimental effect on the segment's sales. This risk may be exacerbated by the enactment of the Gramm-Leach-Bliley Act of 1999, which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

- Allstate maintains three credit facilities totaling $1.20 billion as a potential source of funds to meet short-term liquidity requirements: a $575 million five-year revolving line of credit expiring in 2006, a $575 million 364-day revolving line of credit expiring in 2002 and a $50 million one-year revolving line of credit expiring in 2002. The rights to borrow on the five-year and 364-day lines of credit are subject to the requirement that the Company's ratio of total debt to total capital (as defined in the agreements) not exceed a designated level. The ability of Allstate to meet the requirement is dependent upon its financial condition.

- Allstate is a holding company with no significant business operations of its own. Consequently, to a large extent, its ability to pay dividends and meet its debt payment obligations is dependent on dividends from its subsidiaries, primarily AIC.

- Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies and, generally, may be expected to have an effect on an insurance company's sales. On an ongoing basis, rating agencies review the financial performance and condition of insurers. A downgrade, while not expected, could have a material adverse effect on Allstate's business, financial condition and results of operations.

- State insurance regulatory authorities require insurance companies to maintain specified levels of statutory capital and surplus. In addition, competitive pressures require Allstate's subsidiaries to maintain financial strength ratings. These restrictions affect Allstate's ability to pay shareholder dividends and use its capital in other ways.

- A number of enacted and pending legislative measures may lead to increased consolidation and increased competition in the financial services industry.

    - At the federal level, these measures include the Gramm-Leach-Bliley Act of 1999, which eliminated many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

    - At the state level, these measures include legislation to permit mutual insurance companies to convert to a hybrid structure known as a mutual holding company, thereby allowing insurance companies owned by their policyholders to become stock insurance companies owned (through one or more intermediate holding companies) partially by their policyholders and partially by stockholders. Also, several large mutual life insurers have used or are expected to use existing state laws and regulations governing the conversion of mutual insurance companies into stock insurance companies (demutualization).

    - In addition, state insurance regulators are reexamining the regulatory framework that currently governs the United States insurance business. They are engaged in an effort to determine the proper role of state insurance regulation in the United States financial services industry following the enactment of the Gramm-Leach-Bliley Act. The Company cannot predict whether any state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what affect any such measures would have on Allstate.

PART II. Other Information

Item 1. Legal Proceedings

The discussion "Regulation and Legal Proceedings" in Part I, Item 1, Note 6 of this Form 10-Q is incorporated herein by reference. That discussion updates the discussion "Regulation and Legal Proceedings" beginning on page D-29 of Allstate's Notice of Annual Meeting and Proxy Statement dated March 26, 2001.

Item 6. Exhibits

(a) Exhibits

An Exhibit Index has been filed as part of this report on Page E-1.

(b) Reports on Form 8-K

Registrant filed a Current Report on Form 8-K on July 12, 2001 (Items 5 and 7).
Registrant filed a Current Report on Form 8-K on October 16, 2001 (Items 5 and 7).

SIGNATURE

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

THE ALLSTATE CORPORATION (REGISTRANT)

November 9, 2001

By: /s/ SAMUEL H. PILCH

Samuel H. Pilch
(Principal Accounting Officer and duly authorized Officer of Registrant)

Exhibit No.	Description	Sequentially Numbered Page
3	Amended and Restated By-Laws of The Allstate Corporation	
4	Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.	
15	Acknowledgment of awareness from Deloitte & Touche LLP dated November 9, 2001, concerning unaudited interim financial information.	

Exhibit 3

Effective September 10, 2001

AMENDED AND RESTATED BYLAWS OF

THE ALLSTATE CORPORATION

A Delaware corporation

ARTICLE I

OFFICES

Section 1. *Registered Office; Registered Agent*. The registered office in the State of Delaware and the name of the corporation's registered agent at such address shall be as stated in the certificate of incorporation of The Allstate Corporation, as it may be amended.

Section 2. *Other Offices*. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors of the corporation may determine or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

Section 1. *Meetings of Stockholders*. All meetings of the stockholders for the election of directors shall be held at the registered office of the corporation or at such other place determined by the Board, within or without the State of Delaware, as may be set forth in the notice of call. Meetings of stockholders for any other purpose may be held at such time and place determined by the Board, within or without the State of Delaware, as shall be stated in the notice of call.

Section 2. *Annual Meeting*. The annual meeting of stockholders shall be held each year at a time and place determined by the Board. At the annual meeting, the stockholders shall elect a Board and transact such other business as may properly be brought before the meeting.

Section 3. *Notice of Annual Meetings*. Written notice of the annual meeting shall be given to each stockholder entitled to vote at the meeting at least ten and not more than 60 days before the date of the meeting.

Section 4. *Stockholder List*. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least ten days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 5. *Special Meetings*. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by the certificate of incorporation, may be called only by the Chairman of the Board and Chief Executive Officer. The Chairman of the Board and Chief Executive Officer shall call a special meeting at the request in writing of a majority of the Board. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. *Notice of Special Meetings*. Written notice of a special meeting of stockholders, stating the date, time, place and purpose or purposes thereof, shall be given to each stockholder entitled to vote at the meeting, at least ten and not more than 60 days before the date fixed for the meeting.

Section 7. *Business Transacted At Special Meetings*. Business transacted at any special stockholders meeting shall be limited to the purposes stated in the notice. If any other business is brought before the meeting, the chairman of the meeting may declare it to be out of order and then it shall not be transacted.

Section 8. *Appointment of Inspectors of Election*. In advance of sending to the stockholders any notice of a meeting of the holders of any class of shares, the Board shall appoint one or more inspectors of election to act at such meeting or any adjournment or postponement thereof and to make a written report thereof. The Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is so appointed or if no inspector or alternate is able to act, the Chairman of the Board and Chief Executive Officer shall appoint one or more inspectors to act at such meeting. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector

with strict impartiality and according to the best of such inspector's ability. No inspector shall be a director, officer or employee of the corporation.

Section 9. *Quorum; Adjournment*. Except as otherwise required by law or the certificate of incorporation, the holders of a majority of the stock issued and outstanding and entitled to vote at a meeting, present in person or represented by proxy, shall constitute a quorum at such stockholder meeting. When any stockholders meeting is convened, the chairman of the meeting may adjourn the meeting without a stockholders vote if (i) so directed by the Board and (ii) either (a) no quorum is present or (b) the Board determines that adjournment is necessary or appropriate to enable the stockholders (1) to fully consider information that the Board determines has not been made sufficiently available to stockholders or has not been made available to them on a timely basis or (2) to otherwise effectively exercise their voting rights. If a quorum is present or represented at the reconvening of an adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days or if, after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 10. *Voting Power*. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the statutes, the certificate of incorporation or these bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question. Directors shall be elected by a plurality of the votes present in person or represented by proxy at the meeting and entitled to vote in the election of directors.

Section 11. *Voting; Proxies*. Except as otherwise provided by law or by the certificate of incorporation and subject to these bylaws, at every stockholders meeting each stockholder shall be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder. No proxy shall be voted on after three years from its date, unless the proxy provides for a longer period. No share of stock shall be voted in any election for directors that has been transferred on the books of the corporation within 20 days next preceding such election of directors, except as otherwise provided by law or the certificate of incorporation or unless the transfer books of the corporation have been closed or a date has been fixed as a record date for the determination of stockholders entitled to vote in such election.

Section 12. *Ballots*. The vote on any matter, including the election of directors, shall be by written ballot. Each ballot shall be signed by the stockholder voting or by such stockholder's proxy and shall state the number of shares voted.

Section 13. *Stock Ledger*. The stock ledger of the corporation shall be the only evidence as to who are the stockholders entitled (i) to examine the stock ledger, any

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stockholder list required by these bylaws or the books of the corporation or (ii) to vote in person or by proxy at any meeting of stockholders.

Section 14. *No Stockholder Action By Written Consent*. Any action required or permitted to be taken by the holders of any class or series of stock of the corporation entitled to vote generally in the election of directors may be taken only by vote at an annual or special meeting at which such action may be taken and may not be taken by written consent.

Section 15. *Advance Notice of Stockholder-Proposed Business at Annual Meeting*. To be properly brought before an annual meeting, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (ii) otherwise properly brought before the meeting by or at the direction of the Board, or (iii) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be received by the Secretary at the corporation's principal place of business not earlier than 120 days and not later than 90 days prior to the one-year anniversary of the date of the annual meeting of the previous year. However, in the event that the date of the annual meeting is more than 30 days before or after such anniversary date, in order to be timely, a stockholder's notice must be received by the Secretary at the corporation's principal place of business not earlier than 120 days prior to such annual meeting and not later than the later of 90 days prior to such annual meeting and ten days following the date of the first public announcement of the annual meeting date. In no event shall the public announcement of an adjournment of an annual meeting, or such adjournment, commence a new time period for the giving of a stockholder's notice as described above. As to each matter the stockholder proposes to bring before the annual meeting, the stockholder's notice shall set forth (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business and the name and address of the beneficial owner, if any, on whose behalf the proposal is being made, (iii) the class and number of shares of the corporation that are owned of record and beneficially owned by each of such stockholder and such beneficial owner, and (iv) any material interest of such stockholder and such beneficial owner in such business. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 15 (and, with respect to the nomination and election of directors, Section 16 of this Article II). However, nothing in this Section 15 or such Section 16 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting. If any business is not properly brought before an annual meeting in accordance with this Section 15, the chairman of the meeting may declare it to be out of order and then it shall not be transacted.

Section 16. *Nomination of Directors; Advance Notice of Stockholder Nominations*. Only persons who are nominated in accordance with the procedures set forth in this Section 16 shall be eligible for election as directors. Nominations of persons for election to the Board at the annual meeting may be made at a stockholders meeting by or at the direction of the Board, by any nominating committee or person appointed for such purpose by the Board, or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this Section 16. Such nominations, other than those made by, at the direction of, or under the authority of the Board, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice of a nomination must be received by the Secretary at the corporation's principal place of business during the applicable period pursuant to Section 15 of this Article II for a timely stockholder's notice of a matter proposed to be brought before such annual meeting. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residential address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation, if any, which are beneficially owned by the person and (iv) all other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Rule 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the corporation's books, of the stockholder and the name and address of the beneficial owner, if any, on whose behalf the nomination is being made and (ii) the class and number of shares of the corporation which are owned of record and beneficially owned by each of such stockholder and such beneficial owner. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the qualifications of such proposed nominee to serve as director of the corporation. If a nomination is not properly made in accordance with this Section 16, the chairman of the meeting may declare it to be out of order and then the nomination shall be disregarded.

Notwithstanding anything in the fourth sentence of this Section 16 to the contrary, in the event that the number of directors to be elected to the Board is increased and the corporation does not make a public announcement naming all of the nominees for director or specifying the size of the increased Board at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 16 shall also be considered timely with respect to nominees for any new positions created by such increase if it is received by the Secretary at the corporation's principal place of business not more than ten days after the day on which such public announcement is first made by the corporation. For purposes of this Section 16, public announcement shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press, Reuters or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Section 17. *Stockholder Proposals; Preferred Stock Election Rights.* Nothing in this Article II shall be deemed to affect any rights of (i) stockholders to require inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act, or (ii) the holders of any series of preferred stock to elect directors in accordance with the terms thereof.

Section 18. *Procedural Matters*. At each stockholders meeting, the chairman of the meeting shall fix and announce the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any rules that are adopted by the Board, the chairman may establish rules to maintain order for the conduct of the meeting, including, without limitation, rules restricting attendance to *bona fide* stockholders of record, their proxies and other persons in attendance at the invitation of the chairman and rules governing speeches and debates. In establishing rules, the chairman will have absolute discretion and his or her rulings will not be subject to appeal. Rules established by the chairman need not be in writing.

ARTICLE III

DIRECTORS

Section 1. *Powers*. The business of the corporation shall be managed by or under the direction of its Board. The Board may exercise all such powers of the corporation and do all such lawful acts and things as are not by law, by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

Section 2. *Number; Election; Term of Office*. The Board shall consist of a minimum of three directors and a maximum of 15 directors. The number of directors shall be established by resolution of the Board. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 3 of this Article, and each director elected shall hold office until a successor is duly elected and qualified or his or her earlier resignation or removal.

Section 3. *Filling of Vacancies*. Vacancies and newly created directorships may be filled by a majority of the directors then in office, though less than a quorum. Each director so chosen shall hold office until a successor is duly elected and qualified or his or her earlier resignation or removal. If there are no directors in office, then an election of directors may be held in the manner provided by the General Corporation Law of the State of Delaware. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

Section 4. *Resignation*. Any director may resign at any time upon written notice to the corporation. Such written resignation shall take effect at the time specified therein,

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and if no time be specified, at the time of its receipt by the Chairman of the Board and Chief Executive Officer or Secretary. The acceptance of a resignation shall not be necessary to make it effective.

Section 5. *Meetings of the Board*. The Board may hold both regular and special meetings, either within or without the State of Delaware.

Section 6. *Annual Meetings*. The annual meeting of each newly elected Board shall be held without notice immediately after the annual meeting of stockholders, within or without the State of Delaware.

Section 7. *Regular Meetings*. Regular meetings, other than the annual meeting, of the Board may be held within or without the State of Delaware at such time and at such place as shall be determined by resolution of the Board.

Section 8. *Special Meetings*. Special meetings of the Board shall be called by the Secretary or an Assistant Secretary on the request of the Chairman of the Board and Chief Executive Officer or on the request in writing of one-third of the whole Board, stating the purpose or purposes of such meeting.

Section 9. *Notice of Meetings*. Notices of Board meetings may be made in writing, by electronic transmission, by telephone or in person. If a Board meeting notice is made in writing, it shall be addressed to each director at his or her usual place of business, residence or such other location at which he or she is known to be. Any such notice in writing shall be sent not later than three days before such meeting. If a Board meeting notice is made by electronic transmission, by telephone or in person, it shall be sent or given not later than three hours before the meeting. If a Board meeting notice is sent by electronic transmission, it shall be sent to each director at such destination and by such means as such director shall have previously consented to. Notice of any Board meeting need not be given to any director who shall sign a written waiver thereof either before or after the meeting or who shall be present at the meeting and participate in the business transacted. Any and all business transacted at any Board meeting shall be fully effective without any notice thereof having been given if all the members shall be present. Unless limited by law, the certificate of incorporation, the bylaws, or by the terms of the notice thereof, any and all business may be transacted at any meeting without the notice thereof having so specially enumerated the matters to be acted upon.

Section 10. *Organization*. The Chairman of the Board and Chief Executive Officer shall preside at all Board meetings at which he or she is present. If the Chairman of the Board and Chief Executive Officer shall be absent from any Board meeting, the duties otherwise provided in this Section 10 to be performed by the Chairman of the Board and Chief Executive Officer at such meeting shall be performed at such meeting by one of the directors chosen by the members of the Board present at such meeting. The Secretary of the corporation shall act as the secretary at all Board meetings and, in the Secretary's absence, the chairman of the meeting shall appoint a temporary secretary.

Section 11. *Quorum; Voting; Adjournment*. Except as otherwise required by law, by the certificate of incorporation or by these bylaws, at all Board meetings, a majority of the whole Board shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board. If a quorum shall not be present at any Board meeting, the directors who are present may adjourn the meeting, without notice other than announcement at the meeting, until a quorum shall be present.

Section 12. *Action By Unanimous Written Consent*. Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any Board meeting or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 13. *Participation in Meetings by Conference Telephone or Other Communications Equipment*. Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board or any committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

Section 14. *Committees of Directors*. By resolution passed by a majority of the whole Board, the Board may designate one or more committees. Each committee shall consist of two or more of the directors of the corporation. To the extent provided in the resolution, each committee shall have and may exercise the powers of the Board in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each committee shall have such name as may be determined by resolution adopted by the Board.

Section 15. *Committee Members*. Each member of any such committee shall hold office until such member's successor is elected and has qualified, unless such member sooner dies, resigns, or is removed. Subject to these bylaws, the number of directors which shall constitute any committee shall be determined by the whole Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any committee meeting.

Section 16. *Committee Secretary*. The Board may elect a secretary of any such committee. If the Board does not elect such a secretary, the committee shall do so. The secretary of any committee need not be a member of the committee, but shall be selected from a member of the staff of the office of the Secretary of the corporation, unless otherwise provided by the Board.

Section 17. *Minutes of Committee Meetings*. The secretary of each committee shall keep regular minutes of the committee meetings and shall provide copies of the minutes to the Secretary of the corporation, unless otherwise provided by the Board.

Section 18. *Committee Meetings*. Meetings of committees of the Board may be held at any place, within or without the State of Delaware, as shall be designated by the Board or the committee. Regular meetings of any committee shall be held at such times as may be determined by resolution of the Board or the committee and no notice shall be required for any regular meeting. A special meeting of any committee shall be called by resolution of the Board or by the Secretary or an Assistant Secretary upon the request of any member of the committee. Notices of special meetings may be made in writing, by electronic transmission, by telephone or in person. If such meeting notice is made in writing, it shall be addressed to each member at his or her usual place of business, residence or such other location at which he or she is known to be. Any such notice in writing shall be sent not later than two days before such meeting. If a meeting notice is made by electronic transmission, by telephone or in person, it shall be sent or given not later than three hours before the meeting. If a committee meeting notice is sent by electronic transmission, it shall be sent to each member at such destination and by such means as such member shall have previously consented to. Notice of any such meeting need not be given to any member who shall sign a written waiver thereof, either before or after the meeting, or who shall be present at the meeting and participate in the business transacted. Any and all business transacted at any meeting of any committee shall be fully effective without any notice thereof having been given if all the members of the committee shall be present. Unless limited by law, the certificate of incorporation, these bylaws, or by the terms of the notice thereof, any and all business may be transacted at any special meeting without the notice thereof having so specifically enumerated the matters to be acted upon.

Section 19. *Executive Committee*. The Executive Committee shall consist of a director, who shall serve as chairman of the Executive Committee, and not less than two other directors, a majority of whom shall not be officers or employees of the corporation, as shall be prescribed by the Board. Unless otherwise provided by resolution of the Board, between Board meetings the Executive Committee shall have all the powers of the Board and may perform all of the Board's duties. However, the Executive Committee shall have no authority as to the following matters: (i) submission to stockholders of any action that requires stockholders' authorization under the General Corporation Law of the State of Delaware; (ii) compensation of directors; (iii) amendment or repeal of these bylaws or the adoption of new bylaws; (iv) amendment or repeal of any resolution of the Board that by its terms may not be so amended or repealed; (v) action in respect of dividends to stockholders; (vi) election of officers, directors or members of committees of the Board. Any action taken by the Executive Committee shall be subject to revision or alteration by the Board, provided that rights or acts of third parties vested or taken in reliance on such action prior to their written notice of any such revision or alteration shall not be adversely affected by such revision or alteration.

Section 20. *Audit Committee.* The size of the Audit Committee shall be set by the Board, but will always consist of at least three directors. The members of the Audit Committee shall be appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence and experience requirements of the New York Stock Exchange. The powers, responsibilities and functions of the Audit Committee shall be as set forth in the Audit Committee charter, which shall be adopted and approved by the Board. The Audit Committee shall review and reassess the adequacy of its charter on an annual basis and recommend any proposed changes to the Board for its adoption and approval.

Section 21. *Compensation and Succession Committee*. The size of the Compensation and Succession Committee shall be set by the Board, but will always consist of at least two directors. The members of the Compensation and Succession Committee shall be appointed by the Board upon the recommendation of the Nominating and Governance Committee and shall be limited to directors who are not employees of the corporation or any of its subsidiaries. The powers, responsibilities and functions of the Compensation and Succession Committee shall be as set forth in the Compensation and Succession Committee charter, which shall be adopted and approved by the Board.

Section 22. *Nominating and Governance Committee.* The size of the Nominating and Governance Committee shall be set by the Board, but will always consist of at least two directors. The members of the Nominating and Governance Committee shall be appointed by the Board upon the recommendation of either the Chairman of the Board and Chief Executive Officer or the Nominating and Governance Committee and shall be limited to directors who are not employees of the corporation or any of its subsidiaries. The powers, responsibilities and functions of the Nominating and Governance Committee shall be as set forth in the Nominating and Governance Committee charter, which shall be adopted and approved by the Board.

Section 23. *Compensation of Directors*. Unless otherwise restricted by the certificate of incorporation, the Board shall have the authority to fix the compensation of directors by written resolution. The directors may be paid their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

INDEMNIFICATION OF OFFICERS, DIRECTORS AND OTHERS

Section 1. *Definitions*. As used in this Article:

(A) "acted properly" as to any employee shall mean that such person

(i) acted in good faith;

(ii) acted in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation; and

(iii) with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act properly.

(B) "covered person" shall mean an Indemnitee (as defined below) or an Employee Indemnitee (as defined below).

(C) "Employee Indemnitee" shall mean any non-officer employee of the corporation (but not subsidiaries of the corporation).

(D) "expenses" shall include attorneys' fees and expenses and any attorneys' fees and expenses of establishing a right to indemnification under this Article.

(E) "Indemnitee" shall mean any person who is or was

(i) a director or officer of the corporation and/or any subsidiary;

(ii) a trustee or a fiduciary under any employee pension, profit sharing, welfare or similar plan or trust of the corporation and/or any subsidiary; or

(iii) serving at the request of the corporation as a director or officer of or in a similar capacity in another corporation, partnership, joint venture, trust or other enterprise, (which shall, for the purpose of this Article be deemed to include

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not-for-profit or for-profit entities of any type), whether acting in such capacity or in any other capacity including, without limitation, as a trustee or fiduciary under any employee pension, profit sharing, welfare or similar plan or trust.

(F) "proceeding" shall mean any threatened, pending or completed action or proceeding, whether civil or criminal, and whether judicial, legislative or administrative and shall include investigative action by any person or body.

(G) "subsidiary" shall mean a corporation, 50% or more of the shares of which at the time outstanding having voting power for the election of directors are owned directly or indirectly by the corporation or by one or more subsidiaries or by the corporation and one or more subsidiaries.

Section 2. *Indemnification*.

(A) The corporation shall indemnify any Indemnitee to the fullest extent permitted under law (as the same now or hereafter exists), who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person is or was an Indemnitee against liabilities, expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her.

(B) The corporation shall indemnify any Employee Indemnitee who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was an employee against liabilities, expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such proceeding if such person acted properly.

(C) The corporation shall indemnify any Employee Indemnitee who was or is a party or is threatened to be made a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was an employee against amounts paid in settlement and against expenses actually and reasonably incurred by him or her in connection with the defense or settlement of such proceeding if he or she acted properly, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in

view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Section 3. *Advances*. Expenses incurred in defending a proceeding shall be paid by the corporation to or on behalf of a covered person in advance of the final disposition of such proceeding if the corporation shall have received an undertaking by or on behalf of such person to repay such amounts unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article.

Section 4. *Procedures for Indemnification or Advance*. Any indemnification or advance under Sections 2 or 3 of this Article (unless ordered by a court) shall be made by the corporation only as authorized in the specific proceeding upon a determination that indemnification or advancement to a covered person is proper in the circumstances. Such determination shall be made:

(A) by the Board, by a majority vote of a quorum consisting of directors who were not made parties to such proceeding, or

(B) if such a quorum is not obtainable, or, even if obtainable and a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or

(C) in the absence of a determination made under (A) or (B), by the stockholders.

Section 5. *Indemnification—Other Entities*. The corporation shall indemnify or advance funds to any Indemnitee described in Section 1(E)(iii) only after such person shall have sought indemnification or an advance from the corporation, partnership, joint venture, trust or other enterprise in which he or she was serving at the corporation's request, shall have failed to receive such indemnification or advance and shall have assigned irrevocably to the corporation any right to receive indemnification which he or she might be entitled to assert against such other corporation, partnership, joint venture, trust or other enterprise.

Section 6. *Miscellaneous*.

(A) The indemnification provided to a covered person by this Article:

(i) shall not be deemed exclusive of any other rights to which such person may be entitled by law or under any articles of incorporation, by-law, agreement, vote of shareholders or disinterested directors or otherwise;

(ii) shall inure to the benefit of the legal representatives of such person or his or her estate, whether such representatives are court appointed or otherwise designated, and to the benefit of the heirs of such person; and

(iii) shall be a contract right between the corporation and each such person who serves in any such capacity at any time while this Article IV is in effect, and any repeal or modification of this Article IV shall not affect any rights or obligations then existing with respect to any state of facts or any proceedings then existing.

(B) The indemnification and advances provided to a covered person by this Article shall extend to and include claims for such payments arising out of any proceeding commenced or based on actions of such person taken prior to the effective date of this Article; provided that payment of such claims had not been agreed to or denied by the corporation at the effective date.

(C)

The corporation shall have the power to purchase and maintain insurance on behalf of any covered person against any liability asserted against him or her and incurred by him or her as a covered person or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Article. The corporation shall also have power to purchase and maintain insurance to indemnify the corporation for any obligation which it may incur as a result of the indemnification of covered persons under the provisions of this Article.

(D)

The invalidity or unenforceability of any provision in this Article shall not affect the validity or enforceability of the remaining provisions of this Article.

ARTICLE V

NOTICES

Section 1. *Notice*. Except as otherwise specifically provided for in these bylaws, notices to directors and stockholders shall be in writing and, if mailed, shall be deemed given when deposited in the United States mail, postage prepaid, directed to the director or stockholder at such address as appears on the records of the corporation.

Section 2. *Waiver*. Whenever any notice is required to be given by law or by the certificate of incorporation or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Any person who is present at a meeting shall be

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conclusively presumed to have waived notice of such meeting except when such person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. In the case of directors, such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the secretary immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

ARTICLE VI

OFFICERS

Section 1. *General*. The officers of the corporation shall be elected by the Board and shall be a Chairman of the Board and Chief Executive Officer, a President, a Chief Financial Officer, one or more Vice Presidents, a Secretary, a Controller and a Treasurer. The Board may also choose one or more Assistant Secretaries and Assistant Treasurers. Two or more offices may be held by the same person, with the exception of the office of Chairman of the Board and Chief Executive Officer and the office of Secretary. The officers of the corporation need not be stockholders, employees or directors of the corporation.

Section 2. *Election*. At its first meeting held after each annual meeting of stockholders, the Board shall elect the officers of the corporation. Such officers shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined by the Board. Vacancies may be filled or new offices created and filled at any meeting of the Board. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier resignation or removal as hereinafter provided.

Section 3. *Other Officers and Agents*. The Board may appoint such other officers and agents as it shall deem necessary. Such officers and agents shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined by the Board.

Section 4. *Compensation*. The salaries of all officers of the corporation shall be fixed by the Board, acting directly or through the Compensation and Succession Committee.

Section 5. *Removal*. Any officer elected or appointed by the Board may be removed at any time, with or without cause, by the affirmative vote of a majority of the Board. Any vacancy occurring in any office of the corporation shall be filled by the Board.

Section 6. *Chairman of the Board and Chief Executive Officer*. The Chairman of the Board and Chief Executive Officer shall be a member of the Board and shall be an officer of the corporation. The Chairman of the Board and Chief Executive Officer shall be the chief executive officer of the corporation; shall direct, coordinate and control the corporation's business and activities and its operating expenses and capital expenditures; shall have general authority to exercise all the powers necessary for the chief executive officer of the corporation; and shall perform such other duties and have such other powers as may properly belong to his or her office or as shall be prescribed by the Board or these bylaws, all in accordance with basic policies as established by and subject to the control of the Board. The Chairman of the Board and Chief Executive Officer shall preside at all meetings of the Board and of the stockholders at which he or she is present. In the absence or disability of the Chairman of the Board and Chief Executive Officer, the duties of the Chairman of the Board and Chief Executive Officer shall be performed and his or her authority shall be exercised by the President or, in the absence or inability of the President, by one of the Vice Presidents designated for this purpose by the Board.

Section 7. *President*. The President shall be the chief operating officer of the Company and shall have general administrative control and supervision over the operations of the Company subject to the supervision of the Chairman of the Board and Chief Executive Officer. He or she shall, in the absence or inability of the Chairman of the Board and Chief Executive Officer, perform the duties and exercise the powers of the Chairman of the Board and Chief Executive Officer. He or she shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the corporation. He or she shall also perform such other duties as may properly belong to his or her office or as shall be prescribed by the Chairman of the Board and Chief Executive Officer or by the Board.

Section 8. *Chief Financial Officer*. The Chief Financial Officer of the corporation shall, under the direction of the Chairman of the Board and Chief Executive Officer, be responsible for all financial and accounting matters. The Chief Financial Officer shall have such other powers and perform such other duties as the Board, the Chairman of the Board and Chief Executive Officer, or these bylaws may prescribe.

Section 9. *Vice Presidents*. Each Vice President shall have such powers and shall perform such duties as may be assigned to him or her by the Chairman of the Board and Chief Executive Officer or by the Board. In the absence or in the case of inability of the Chairman of the Board and Chief Executive Officer and the President to act, the Board may designate which one of the Vice Presidents shall be the acting Chairman of the Board and Chief Executive Officer of the corporation during such absence or inability, whereupon such acting Chairman of the Board and Chief Executive Officer shall have all the powers and perform all of the duties incident to the office of Chairman of the Board

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and Chief Executive Officer during the absence or inability of the Chairman of the Board and Chief Executive Officer to act.

Section 10. *Controller*. Under the direction of the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, the Controller shall have general charge, control, and supervision over the accounting and auditing affairs of the corporation. The Controller or such persons as the Controller shall designate shall have responsibility for the custody and safekeeping of all permanent financial and accounting records and papers of the corporation. The Controller shall have responsibility for the preparation and maintenance of the books of account and of the accounting records and papers of the corporation; shall supervise the preparation of all financial statements and reports on the operation and condition of the business; shall have responsibility for the establishment of financial procedures, records, and forms used by the corporation; shall have responsibility for the filing of all financial reports and returns, required by law; shall render to the Chairman of the Board and Chief Executive Officer, the Chief Financial Officer or the Board, whenever they may require, an account of the Controller's transactions; and in general shall have such other powers and perform such other duties as are incident to the office of Controller and as the Board, the Chairman of the Board and Chief Executive Officer, the Chief Financial Officer, or these bylaws may prescribe.

Section 11. *Secretary*. The Secretary shall attend all Board meetings and all stockholder meetings; shall record all the proceedings of the meetings of the corporation and of the Board in a book to be kept for that purpose; shall perform like duties for the standing or special committees when required; and shall have such other powers and perform such other duties as the Board, the Chairman of the Board and Chief Executive Officer or these bylaws may prescribe. Under the Chairman of the Board and Chief Executive Officer's supervision, the Secretary shall give, or cause to be given, all notices required to be given by these bylaws or by law. The Secretary shall keep in safe custody the seal of the corporation, shall have the authority to affix the same to any instrument requiring it and, when so affixed, it shall be attested by his or her signature or by the signature of an Assistant Secretary.

Section 12. *Assistant Secretaries*. In the absence or disability of the Secretary, the Assistant Secretary or Assistant Secretaries shall perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board or the Chairman of the Board and Chief Executive Officer may prescribe.

Section 13. *Treasurer*. Under the direction of the Chairman of the Board and Chief Executive Officer, the Treasurer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all monies and other valuable effects in the name and to the credit of the corporation as may be ordered by the Board; shall cause the funds of the corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; shall render to the Chairman of the Board and Chief Executive Officer and the Board, at its regular meeting or when

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the Board so requires, an account of the Treasurer's actions; and shall have such other powers and perform such other duties as the Board, the Chairman of the Board and Chief Executive Officer or these bylaws may prescribe.

Section 14. *Assistant Treasurers*. In the absence or disability of the Treasurer, the Assistant Treasurer or the Assistant Treasurers shall perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board or the Chairman of the Board and Chief Executive Officer may prescribe.

Section 15. *Appointed Officers*. The Chairman of the Board and Chief Executive Officer of the corporation may establish positions and offices identified as a function, department or other organizational component of the corporation, and may appoint individuals, who need not be employees of the corporation, to occupy those positions, subject to approval of the Compensation and Succession Committee. The titles of such individuals (herein referred to as "appointed officers") may be either conventional corporate officer titles or titles designating a functional activity, but in all cases shall contain, as an integral part of the title, a reference to the function, organizational component or department within which the position is established.

Section 16. *Appointment, Removal and Term of Appointed Officers*. Appointed officers may be appointed by the Chairman of the Board and Chief Executive Officer. The Chairman of the Board and Chief Executive Officer may remove any appointed officer at any time without notice or accept such appointed officer's resignation. No term of office shall be established for any appointed officer.

Section 17. *Duties of Appointed Officers*. An appointed officer shall have such powers as may be assigned by the Chairman of the Board and Chief Executive Officer, the Board or any committee of the Board and shall perform such duties (not including duties normally performed by an officer of the corporation) as may be assigned by the Chairman of the Board and Chief Executive Officer, the Board, any committee of the Board or the officer of the corporation having management responsibility for the organizational component or function to which such appointed officer is assigned.

ARTICLE VII

CERTIFICATE OF STOCK

Section 1. *Certificates of Stock*. Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by, the Chairman of the Board and Chief Executive Officer or a Vice President of the corporation and by the Secretary or an Assistant Secretary of the corporation, certifying the number of shares owned by such holder in the corporation. All certificates of stock issued shall be numbered consecutively.

Section 2. *Countersigned Certificates; Signature of Former Officers, Transfer Agents or Registrars*. Where a certificate is countersigned by (i) a transfer agent other than the corporation or its employee or (ii) a registrar other than the corporation or its employee, any signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 3. *Lost, Stolen or Destroyed Certificates*. The Board may direct a new certificate or certificates to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board may, in its discretion as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as it shall require and/or give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. *Transfer of Stock*. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5. *Closing of Transfer Books; Record Dates*. The Board may close the stock transfer books of the corporation for a period not exceeding 60 days preceding the date of any stockholders meeting, the date for payment of any dividend, the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or for a period not exceeding 60 nor less than ten days in connection with obtaining the consent of stockholders for any purpose. In lieu of closing the stock transfer books, the Board may fix in advance a date, not exceeding 60 days preceding the date of any meeting of stockholders, the date for the payment of any dividend, the date for the allotment of rights, the date when any change or conversion or exchange of capital stock shall go into effect or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, to receive payment of any such dividend, to any such allotment of rights, to exercise the rights in respect of any such change, conversion or exchange of capital stock or to give such consent. In such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, to receive payment of such dividend, to receive such allotment of rights, to exercise such rights or to give such consent, as the case may be,

notwithstanding any transfer of any stock on the books of the corporation after any such record date.

Section 6. *Registered Stockholders*. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner. The corporation shall be entitled to hold liable for calls and assessments a person registered on its books as the owner of shares. The corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person or persons, except as otherwise provided by the General Corporation Law of the State of Delaware.

Section 7. *Stock Subscriptions*. Unless otherwise provided for in the subscription agreement, subscriptions for shares shall be paid in full at such time, or in such installments and at such times, as shall be determined by the Board. Any call made by the Board for payment on subscriptions shall be uniform as to all shares of the same class or as to all shares of the same series. In case of default in the payment of any installment or call when such payment is due, the corporation may proceed to collect the amount due in the same manner as any debt due the corporation.

ARTICLE VIII

GENERAL PROVISIONS

Section 1. *Dividends*. Subject to the provisions of the certificate of incorporation, any dividends upon the corporation's capital stock may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. *Reserves*. Before payment of any dividend, there may be set aside, out of any funds of the corporation available for dividends, such sum or sums as the directors, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, for equalizing dividends, for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation. The directors may modify or abolish any such reserve in the manner in which it is created.

Section 3. *Checks*. All checks or demands for money and notes of the corporation shall be signed by such person or persons as shall be designated by the Board or by such officer or officers of the corporation as shall be appointed for that purpose by the Board.

Section 4. *Fiscal Year*. The fiscal year of the corporation shall be the calendar year, unless otherwise fixed by resolution of the Board.

Section 5. *Seal*. The corporate seal shall have inscribed thereon the name of the corporation and shall be in such form as may be approved by the Board. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 6. *Inspection of Books and Records*. Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean any purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or at its principal place of business.

Section 7. *Inconsistent Provisions; Titles*. In the event that any provision of these bylaws is or becomes inconsistent with any provision of the certificate of incorporation, the General Corporation Law of the State of Delaware or any other applicable law, the provision of these bylaws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect. The section titles contained in these bylaws are for convenience only and shall be without substantive meaning or content of any kind whatsoever.

Section 8. *Writing and Signing; Electronic Transmission*. Whenever any provision of these bylaws specifies that a writing is required or permitted to take action or to give notice, such action or notice may also be accomplished by electronic transmission. Electronic transmission means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such recipient through an automated process. If an electronic transmission is used to satisfy any provision of these bylaws that specifies that a writing is required or permitted to take action or to give notice and these bylaws require that such writing be signed by a particular person, such electronic transmission need not be signed but must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by that person.

An electronic transmission shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the director or stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the director or stockholder has consented to receive notice; (iii) if by posting on an electronic network together with separate notice to the director or stockholder of such specific posting, upon the later of (a) such posting or (b) the giving of

such separate notice; and (iv) if by any other form of electronic transmission, when directed to the director or stockholder.

ARTICLE IX

AMENDMENTS

Section 1. *Amendments*. These bylaws may be amended or repealed by the vote of a majority of the directors present at any meeting at which a quorum is present or by the affirmative vote of the holders of not less than $66^{2}/3\%$ of the total number of votes entitled to be cast generally in the election of directors.

To the Board of Directors and Shareholders of
The Allstate Corporation:

We have reviewed, in accordance with standards established by the American Institute of Certified Public Accountants, the unaudited interim condensed consolidated financial statements of The Allstate Corporation and subsidiaries for the three-month and nine-month periods ended September 30, 2001 and 2000, as indicated in our report dated November 9, 2001; because we did not perform an audit, we expressed no opinion on such financial statements.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001, is incorporated by reference in the following Registration Statements:

Forms S-3 Registration Nos.	Forms S-8 Registration Nos.
333-34583	33-77928
333-61817	33-93758
333-95821	33-93760
333-39640	33-93762
	33-99132
	33-99136
	33-99138
	333-04919
	333-16129
	333-23309
	333-30776
	333-40283
	333-40285
	333-40289
	333-49022
	333-60916

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche LLP

Chicago, Illinois
November 9, 2001