UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

o 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	**36-3871531**
(State of Incorporation)	(I.R.S. Employer Identification No.)
2775 Sanders Road **Northbrook, Illinois**	**60062**
(Address of principal executive offices)	(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☒

As of October 28, 2005, the registrant had 648,640,752 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION
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September 30, 2005

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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, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(Unaudited)		(Unaudited)	
Revenues				
Property-liability insurance premiums earned	$ 6,781	$ 6,551	$ 20,201	$ 19,382
Life and annuity premiums and contract charges	505	508	1,525	1,508
Net investment income	1,457	1,333	4,264	3,906
Realized capital gains and losses	199	50	448	261
	8,942	8,442	26,438	25,057
Costs and expenses				
Property-liability insurance claims and claims expense	8,529	5,661	16,706	13,668
Life and annuity contract benefits	395	401	1,209	1,174
Interest credited to contractholder funds	608	505	1,784	1,455
Amortization of deferred policy acquisition costs	1,160	1,124	3,557	3,251
Operating costs and expenses	713	738	2,266	2,241
Restructuring and related charges	10	(1)	36	26
Interest expense	85	76	251	223
	11,500	8,504	25,809	22,038
Loss on disposition of operations	(4)	(6)	(12)	(17)
(Loss) income from operations before income tax (benefit) expense and cumulative effect of change in accounting principle, after-tax	(2,562)	(68)	617	3,002
Income tax (benefit) expense	(1,014)	(124)	(107)	788
(Loss) income before cumulative effect of change in accounting principle, after-tax	(1,548)	56	724	2,214
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net (loss) income	$ (1,548)	$ 56	$ 724	$ 2,039

Earnings per share:				
Net (loss) income per share - Basic	$ (2.36)	$ 0.10	$ 1.09	$ 2.92
Weighted average shares - Basic	654.8	692.1	666.3	698.8
Net (loss) income per share - Diluted	$ (2.36)	$ 0.09	$ 1.08	$ 2.90
Weighted average shares - Diluted	654.8	696.8	671.9	703.5
Cash dividends declared per share	$ 0.32	$ 0.28	$ 0.96	$ 0.84

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions except par value data)	September 30, 2005 (Unaudited)	December 31, 2004
Assets		
Investments		
Fixed income securities, at fair value (amortized cost $95,934 and $90,657)	$ 99,707	$ 95,715
Equity securities, at fair value (cost $4,770 and $4,566)	6,095	5,895
Mortgage loans	8,485	7,856
Short-term	3,274	4,133
Other	1,845	1,931
Total investments	119,406	115,530
Cash	408	414
Premium installment receivables, net	4,959	4,721
Deferred policy acquisition costs	5,610	4,968
Reinsurance recoverables, net	4,552	4,323
Accrued investment income	1,094	1,014
Property and equipment, net	1,024	1,018
Goodwill	825	825
Other assets	3,347	2,535
Separate Accounts	14,906	14,377
Total assets	$ 156,131	$ 149,725
Liabilities		
Reserve for property-liability insurance claims and claims expense	$ 23,469	$ 19,338
Reserve for life-contingent contract benefits	12,390	11,754
Contractholder funds	58,952	55,709
Unearned premiums	10,490	9,932
Claim payments outstanding	708	787
Other liabilities and accrued expenses	10,576	9,842
Deferred income taxes	329	829
Short-term debt	—	43
Long-term debt	4,892	5,291
Separate Accounts	14,906	14,377
Total liabilities	136,712	127,902
Commitments and Contingent Liabilities (Note 3 and Note 6)		
Shareholders' Equity		
Preferred stock, $1 par value, 25 million shares authorized, none issued	—	—
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 650 million and 683 million shares outstanding	9	9
Additional capital paid-in	2,823	2,685
Retained income	24,129	24,043
Deferred compensation expense	(135)	(157)
Treasury stock, at cost (250 million and 217 million shares)	(9,343)	(7,372)
Accumulated other comprehensive income:		
Unrealized net capital gains and losses	2,301	2,988
Unrealized foreign currency translation adjustments	24	16
Minimum pension liability adjustment	(389)	(389)
Total accumulated other comprehensive income	1,936	2,615
Total shareholders' equity	19,419	21,823

Total liabilities and shareholders' equity	$ 156,131	$ 149,725

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Nine Months Ended September 30, 2005	2004
	(Unaudited)	
Cash flows from operating activities		
Net income	$ 724	$ 2,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	(37)	8
Realized capital gains and losses	(448)	(261)
Loss on disposition of operations	12	17
Cumulative effect of change in accounting principle	—	175
Interest credited to contractholder funds	1,784	1,455
Changes in:		
Policy benefits and other insurance reserves	4,193	2,085
Unearned premiums	548	706
Deferred policy acquisition costs	(188)	(383)
Premium installment receivables, net	(234)	(451)
Reinsurance recoverables, net	(228)	(575)
Income taxes payable	(1,151)	(414)
Other operating assets and liabilities	294	428
Net cash provided by operating activities	5,269	4,829
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	15,711	14,648
Equity securities	3,152	2,565
Investment collections		
Fixed income securities	4,545	4,441
Mortgage loans	971	564
Investment purchases		
Fixed income securities	(23,964)	(25,724)
Equity securities	(3,206)	(2,807)
Mortgage loans	(1,604)	(1,731)
Change in short-term investments, net	446	(814)
Change in other investments, net	(59)	(106)
Purchases of property and equipment, net	(186)	(127)
Net cash used in investing activities	(4,194)	(9,091)
Cash flows from financing activities		
Change in short-term debt, net	(43)	96
Proceeds from issuance of long-term debt	789	655
Repayment of long-term debt	(1,198)	(13)
Contractholder fund deposits	8,614	10,080
Contractholder fund withdrawals	(6,647)	(5,197)
Dividends paid	(621)	(562)
Treasury stock purchases	(2,247)	(975)
Other	272	182
Net cash (used in) provided by financing activities	(1,081)	4,266
Net (decrease) increase in cash	(6)	4
Cash at beginning of period	414	366
Cash at end of period	$ 408	$ 370

See notes to condensed consolidated financial statements.

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

1. General

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 ("AIC"), a property-liability insurance company with various property-liability and life and investment subsidiaries, including Allstate Life Insurance Company ("ALIC") (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of September 30, 2005, and for the three-month and nine-month periods ended September 30, 2005 and 2004 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

To conform to the 2005 presentation, certain amounts in the prior year's condensed consolidated financial statements and notes have been reclassified.

Non-cash investment exchanges and modifications, which primarily reflect refinancings of fixed income securities and mergers completed with equity securities, totaled $36 million and $86 million for the nine months ended September 30, 2005 and 2004, respectively.

Adopted accounting standard

Financial Accounting Standards Board Staff Position Nos. FAS 106-1 and FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-1" and "FSP FAS 106-2")

In May 2004, the Financial Accounting Standards Board ("FASB") issued FSP FAS 106-2, which supersedes FSP FAS 106-1, to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act"). FSP FAS 106-2, which the Company adopted in the third quarter of 2004, required reporting entities that elected deferral under FSP FAS 106-1 and were able to determine if their plans are actuarially equivalent to recognize the impact of the Act no later than the first interim or annual reporting period beginning after June 15, 2004. In January 2005, the Center for Medicare and Medicaid Services issued the final regulations for the Act including the determination of actuarial equivalence. In the first quarter of 2005, the Company determined that its plans are actuarially equivalent. As a result of the recognition of the subsidy provided by the Act, the Company's accumulated postretirement benefit obligation ("APBO") was reduced by $115 million for benefits attributable to past service and the estimated annual net periodic postretirement benefit cost for 2005 will be reduced by $17 million, of which $8 million is amortization of the actuarial experience gain attributable to past service, $4 million is a reduction of current period service cost, and $5 million is the reduction in interest cost on the APBO (see Note 7).

Pending accounting standards

Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ("SOP 05-1")

In October 2005, the American Institute of Certified Public Accountants issued SOP 05-1. SOP 05-1 provides accounting guidance for deferred policy acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards ("SFAS") No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. Internal replacement contracts are those that are substantially changed from the replaced contract and are accounted for as an extinguishment of the replaced contract. Nonintegrated contract features are accounted for as separately issued contracts. Modifications resulting from the election of a feature or coverage within a contract or from an integrated contract feature generally do not result in an internal replacement contract subject to SOP 05-1 provided certain conditions are met. The provisions of SOP 05-1 are effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company's accounting policy for internal replacements is generally consistent with the accounting guidance prescribed in SOP 05–1; therefore, the SOP is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections ("SFAS No. 154")

In May 2005, the FASB issued SFAS No. 154, which replaces Accounting Principles Board ("APB") Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless determination of either the period specific effects or the cumulative effect of the change is impracticable. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. SFAS No. 154 is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R")

In December 2004, the FASB issued SFAS No. 123R, which revises SFAS No. 123 and supersedes APB 25. SFAS No. 123R requires all share-based payment transactions to be accounted for using a fair value based method. In addition, although it does not require use of a binomial lattice model, SFAS No. 123R indicates that a binomial lattice model may be more effective in valuing employee stock options than the Black-Scholes model, which was primarily developed to value publicly traded options. In the first quarter of 2005, the Company began using a binomial lattice model in place of the Black-Scholes model to determine the fair value of employee stock options. In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS No. 123R from the first interim or annual period beginning after June 15, 2005 to the next fiscal year beginning after June 15, 2005. SFAS No. 123R is not expected to have a material impact on the Company's Condensed Consolidated Statements of Operations or Financial Position.

2. 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 weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of the common shares underlying outstanding stock options and restricted stock units.

The computation of basic and diluted earnings per share is presented in the following table.

(in millions, except per share data)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Numerator (applicable to common shareholders):				
(Loss) income before cumulative effect of change in accounting principle, after-tax	$ (1,548)	$ 56	$ 724	$ 2,214
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net (loss) income applicable to common shareholders	$ (1,548)	$ 56	$ 724	$ 2,039
Denominator:				
Weighted average common shares outstanding	654.8	692.1	666.3	698.8
Effect of potential dilutive securities:				
Stock options	—	4.7	5.2	4.7
Restricted stock units	—	—	0.4	—
Weighted average common and dilutive potential common shares outstanding	654.8	696.8	671.9	703.5
Earnings per share—Basic:				
(Loss) income before cumulative effect of change in accounting principle, after-tax	$ (2.36)	$ 0.10	$ 1.09	$ 3.17
Cumulative effect of change in accounting principle, after-tax	—	—	—	(0.25)
Net (loss) income applicable to common shareholders	$ (2.36)	$ 0.10	$ 1.09	$ 2.92
Earnings per share—Diluted:				
(Loss) income before cumulative effect of change in accounting principle, after-tax	$ (2.36)	$ 0.09	$ 1.08	$ 3.15
Cumulative effect of change in accounting principle, after-tax	—	—	—	(0.25)
Net (loss) income applicable to common shareholders	$ (2.36)	$ 0.09	$ 1.08	$ 2.90

As a result of the third quarter 2005 net loss, weighted average dilutive potential common shares outstanding, resulting from stock options and restricted stock units of 5.1 million and .5 million, respectively, were not included in the computation of diluted earnings per share for the three-month period ended September 30, 2005 since inclusion of these securities would have an anti-dilutive effect. In the absence of the net loss, weighted average common and dilutive potential common shares outstanding would have totaled 660.4 million.

Options to purchase 290.4 thousand and 33.5 thousand Allstate common shares, with exercise prices ranging from $58.47 to $61.90 and $47.26 to $50.72, were outstanding at September 30, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share for the three-month periods ended September 30, 2005 and 2004 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 period. Options to purchase 481.9 thousand and 4.0 million Allstate common shares, with exercise prices ranging from $56.25 to $61.90 and $45.96 to $50.72, were outstanding at September 30, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share for the nine-month periods ended September 30, 2005 and 2004 since inclusion of these options would have an anti-dilutive effect.

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

The Company establishes reserves for claims and claims expense ("loss") on reported and unreported claims of insured losses. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, law changes, court decisions, changes to regulatory requirements and economic conditions. In the normal course of business, the Company 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 related claims. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of losses that have occurred, including incurred but not reported ("IBNR") losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in prior period reserve estimates, which may be material, are reported in property-liability insurance claims and claims expenses in the Condensed Consolidated Statements of Operations in the period such changes are determined.

Losses in the third quarter of 2005 include estimates of $3.68 billion related to Hurricane Katrina and $850 million, net of reinsurance recoverable of $205 million, related to Hurricane Rita. The reinsurance is recoverable by Allstate Texas Lloyd's ("ATL"), a syndicate insurance company. ATL also has a 100% reinsurance agreement with AIC providing net benefits to AIC as reinsurer. These estimates include losses on the Company's standard auto, non-standard auto, homeowners, commercial and other products from approximately 216,000 and 90,000 expected claims of which over 178,000 and 66,000 claims have been reported as of October 28, 2005, related to Hurricanes Katrina and Rita, respectively. Loss estimates also include an accrual of $37 million for anticipated assessments from various state facilities, including $33 million for a regular assessment from the Louisiana Citizens Property Insurance Corporation (see Note 6).

The Company's estimates of losses for Hurricanes Katrina and Rita are generally based on claim adjuster inspections and the application of historical loss development factors to the extent the Company has been able to complete inspections in areas impacted by the hurricanes. However, in areas where the Company has not yet been able to complete inspections, or the Company has reason to believe that its historical loss development factors may not be predictive, the Company has relied on analysis of actual claim notices received compared to the total policies in force, as well as visual, governmental and third party information including aerial photos, area observations and data on wind speeds and flood depth to the extent available.

The Company's loss estimates for Hurricanes Katrina and Rita are calculated in accordance with the coverage provided by its policies. The Company's homeowners policies specifically exclude coverage for losses caused by flood, but generally provide coverage for physical damage caused by wind or wind driven rain. The Company's homeowners estimates, therefore, do not include estimates for losses caused by flood. Auto policyholders generally have coverage for physical damage due to flood if they have purchased optional auto comprehensive coverage.

Management believes the estimated losses for Hurricanes Katrina and Rita are appropriately established and recorded based on available facts, information, laws and regulations. However, actual results may differ materially from the amounts recorded because the estimation of the amount and extent of damage for the approximately 306,000 expected claims has been complicated by difficulties such as: the short amount of time that elapsed since these hurricane events occurred and the end of the quarter; the assessment of the extent of damage in the initial stages of adjusting residential property losses is particularly difficult; the policyholders' ability to report claims and the Company's ability to adjust claims have been impeded by the extent and nature of the devastation and certain restrictions on access to the affected areas; increased costs due to the effects of increased demand for services and supplies in the affected areas could occur at a higher level than estimated; increased pressure on the Company's catastrophe claims settlement management process due to the number and nature of the claims; and litigation recently filed by several parties including policyholders and state attorneys general (see Note 6). In addition, the number of IBNR claims may be greater or less than anticipated.

The Company calculates and records a single best reserve estimate for losses from catastrophes, in conformance with generally accepted actuarial principles, and as a result management believes that no other estimate is better than the recorded amount. Due to the uncertainties involved, including the factors described above, the ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. Accordingly, management believes that it is not practicable to develop a meaningful range for any such changes in losses incurred.

Management believes that the reserve for claims and claims expense, net of reinsurance recoverables, at September 30, 2005 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 based on available facts, technology, laws and regulations.

Subsequent Event

On October 24, 2005, Hurricane Wilma made landfall in Florida. Allstate Floridian Insurance Company and its subsidiaries ("AFIC"), subsidiaries of the Company, write property and casualty insurance in Florida. AFIC maintains separate group ratings and is not reinsured by other Allstate subsidiaries that are not part of AFIC. However, AIC has committed to make up to $375 million of additional capital available to AFIC through May of 2006 under specified circumstances. In the event of a qualifying catastrophe, AFIC has access to reimbursement provided by the Florida Hurricane Catastrophe Fund ("FHCF"), for 90% of qualifying losses that exceed its retention of $233 million for the two largest hurricanes and $78 million for other hurricanes, up to an estimated maximum of $871 million. As of September 30, 2005, none of the 2005 hurricanes covered by AFIC's insurance policies have qualified for reimbursement from the FHCF as the estimated losses were below AFIC's retention. AFIC also has a multi-year reinsurance treaty that covers excess catastrophe losses in Florida whereby AFIC cedes 90% of losses in excess of the FHCF reimbursement up to $900 million and AFIC has reinsurance with Universal Insurance Company of North America (see Note 4). Management believes it is not practicable, at the present time, to develop a meaningful loss estimate for Hurricane Wilma due to the short amount of time that has elapsed since this event. In addition, the ultimate impact of Hurricane Wilma on Citizens Property Insurance Corporation ("Citizens") is currently uncertain, but could result in Citizens recognizing a financial deficit. Citizens may, in turn, levy a regular or emergency assessment on participating companies when the financial deficit occurs, adversely affecting the Company's results of operations (see Note 6). The ultimate net cost of this event may be material to the Company's Condensed Consolidated Statements of Operations.

4. Reinsurance

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

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Property-liability insurance premiums earned	$ 151	$ 109	$ 429	$ 290
Life and annuity premiums and contract charges	171	181	511	464

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

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Property-liability insurance claims and claims expense	$ 466	$ 372	$ 833	$ 782
Life and annuity contract benefits (1)	135	125	429	347

(1) Effective January 1, 2004, the Company adopted Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for certain Nontraditional Long Duration Contracts and for Separate Accounts" and, in connection therewith, recorded a cumulative effect of change in accounting principle due to an increase in benefit reserves of $94 million, after-tax ($145 million, pre-tax). The increase in benefit reserves was comprised of direct, assumed and ceded benefit reserves of $155 million, $4 million and $14 million, respectively.

Effective June 1, 2005, multi-year reinsurance treaties cover excess catastrophe losses in seven states: Connecticut, New Jersey, New York, North Carolina, South Carolina, Texas and Florida. These reinsurance treaties replaced the reinsurance contracts entered into in 2004 that reinsured losses from future catastrophic events in the state of Florida, which expired in May 2005, and five three-year cancelable excess of loss reinsurance contracts that reinsured personal property losses in other states. In the three-month and nine-month periods ended September 30, 2005, the Company ceded $48 million and $64 million of premiums earned under the new reinsurance treaties, respectively. The Company ceded $37 million of premiums earned under the expiring and cancelled programs in the nine-month period ended September 30, 2005.

AFIC reached a definitive agreement for a portion of its existing customers to have new policies available from Universal Insurance Company of North America when their existing policies expire and are not renewed. AFIC is also ceding premiums and losses on these policies through their expiration date under an indemnity reinsurance agreement. In the nine-months ended September 30, 2005, AFIC ceded $32 million of unearned premiums on the policies subject to the agreement as of the agreement's inception date and $34 million of premiums written since the inception date through September 30, 2005. AFIC ceded $23 million and $37 million of premiums earned related to these policies in the three-month and nine-month periods ended September 30, 2005, respectively.

5. Company Restructuring

The Company undertakes various programs to reduce expenses and increase productivity. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and a non-cash charge resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate's multiple agency programs to a single exclusive agency program.

The following table illustrates the inception to date change in the restructuring liability at September 30, 2005:

(in millions)	Employee costs	Exit costs	Total liability
Liability at inception	$ 46	$ 21	$ 67
Net adjustments to liability	(1)	(3)	(4)
Payments applied against the liability	(40)	(14)	(54)
Liability at Septemebr 30, 2005	$ 5	$ 4	$ 9

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties.

6. Guarantees and Contingent Liabilities

State Facility assessments

The Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations in various states that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of the Company's participation, the Company may be exposed to losses that surpass the capitalization of these facilities and/or to assessments from these facilities.

AFIC is subject to assessments from Citizens, which was created by the state of Florida to provide insurance to property owners unable to obtain coverage in the private insurance market. Citizens, at the discretion and direction of its Board of Governors ("Citizens Board"), can levy a regular assessment on participating companies for a deficit in any calendar year up to the greater of 10% of the deficit or 10% of Florida property premiums industry-wide for the prior year. An insurer may recoup a regular assessment through a surcharge to policyholders. In order to recoup its Citizens regular assessment, an insurer must file for a policy surcharge with the Florida Department of Insurance at least fifteen days prior to imposing the surcharge on policies. If a deficit remains after the regular assessment, Citizens can also fund the remaining deficit by issuing bonds. The costs of these bonds are then funded through emergency assessments in subsequent years. Companies are required to collect the emergency assessments directly from residential property policyholders and remit them to Citizens as they are collected. Participating companies are obligated to purchase any unsold bonds issued by Citizens.

Citizens reported losses from the hurricanes that struck Florida in the third quarter of 2004 and a deficit for the 2004 plan year. When the Citizens Board met on April 21, 2005, they declared a deficit. In August 2005, the Citizens Board declared and the Florida Office of Insurance Regulation approved a $515 million industry assessment to cover the deficit of which $43 million was assessed to the Company. The Company accrued a liability of $43 million in the second quarter of 2005 based on the available information at that time since the state of Florida legislative session concluded on May 6, 2005 without adopting any legislative alternatives to an industry assessment by Citizens to eliminate the deficit, and the Board deferred any decision on assessment at their June 8, 2005 meeting until new Board members were installed in August 2005. This assessment was paid in September 2005 and is expected to be partially recouped through premiums written in Florida in the fourth quarter of 2005 and in 2006. These recoupments will be recorded in the consolidated financial statements as the related premiums are written.

The Company is also subject to assessments from the Louisiana Citizens Property Insurance Corporation ("LA Citizens"). LA Citizens was created to provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. LA Citizens has estimated plan losses due to losses incurred from the hurricanes that struck Louisiana in the third quarter of 2005, and is thereby able to levy a regular and emergency assessment to participating companies and policyholders, respectively. Based on information available through September 30, 2005, regarding the amount of the estimated deficiency and the Company's market share, the Company accrued a liability of $33 million in the third quarter of 2005 for a regular assessment from LA Citizens. Insurers are permitted to recoup a regular assessment through a surcharge to policyholders. These recoupments will be recorded in the consolidated financial statements as the related premiums are written. Insurers are required to collect emergency assessments, of which there have been none, directly from residential property policyholders and remit them to LA Citizens as they are collected.

The Company is currently monitoring developments with respect to various state facilities such as guaranty funds, LA Citizens, the Mississippi Windstorm Underwriting Association, the Mississippi Residential Underwriting Association, the Alabama Insurance Underwriting Association, the Texas FAIR Plan Association and the Texas Windstorm Insurance Association. The ultimate impact of Hurricanes Katrina and Rita on these facilities is currently uncertain, but could result in the facilities recognizing a financial deficit different than the level currently estimated. They may, in turn, have the ability to assess participating insurers when financial deficits occur, adversely affecting the Company’s results of operations.

These facilities are generally designed so that the ultimate cost is borne by policyholders, however the exposure to assessments and the availability of recoupments or premium rate increases may not offset each other in the Company’s financial statements. Moreover, even if they do offset each other, they may not offset each other in the financial statements for the same fiscal period due to the ultimate timing of the assessments and recoupments or premium rate increases, as well as the possibility that affected policies will not be renewed in subsequent years.

Guarantees

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective September 30, 2005, the Company’s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $18 million at September 30, 2005. The remaining term of each residual value guarantee is equal to the term of the underlying lease that range from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company’s maximum amount at risk on these fixed income securities, as measured by their par value was $173 million at September 30, 2005. The obligations associated with these fixed income securities expire at various times during the next seven years.

Lincoln Benefit Life Company (“LBL”), a wholly owned subsidiary of ALIC, has issued universal life insurance contracts to third parties who finance the premium payments on the universal life insurance contracts through a commercial paper program. LBL has issued a repayment guarantee on the outstanding commercial paper balance that is fully collateralized by the cash surrender value of the universal life insurance contracts. At September 30, 2005, the amount due under the commercial paper program was $302 million and the cash surrender value of the policies was $307 million. The repayment guarantee expires April 30, 2006.

In the normal course of business, the Company provides standard indemnifications to counterparties in contracts in connection with numerous transactions, including acquisitions and divestitures. The types of indemnifications typically provided include indemnifications for breaches of representations and warranties, taxes and certain other liabilities, such as third party lawsuits. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. The terms of the indemnifications vary in duration and nature. In many cases, the maximum obligation is not explicitly stated and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. Consequently, the maximum amount of the obligation under such indemnifications is not determinable. Historically, the Company has not made any material payments pursuant to these obligations.

The aggregate liability balance related to all guarantees was not material as of September 30, 2005.

Regulation

The Company is subject to changing social, economic and regulatory conditions. From time to time regulatory authorities seek to influence and restrict premium rates, require premium refunds to policyholders, restrict the ability of insurers to cancel or non-renew policies, limit insurers’ ability to impose underwriting standards, impose additional regulations regarding agent and broker compensation and otherwise expand overall regulation of insurance products and the insurance industry. The ultimate changes and eventual effects of these initiatives on the Company’s business, if any, are uncertain.

Legal and regulatory proceedings and inquiries

<u>Background</u>

The Company and certain subsidiaries are involved in a number of lawsuits, regulatory inquiries, and other legal proceedings arising out of various aspects of its business. As background to the “Proceedings” sub-section below, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including but not limited to, the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise and, in some cases, the timing of their resolutions relative to other similar matters involving other companies; the fact that many of the lawsuits are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined; the fact that many of the lawsuits involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear; and the current challenging legal environment faced by large corporations and insurance companies.

- In the lawsuits, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. In some cases, the monetary damages sought include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages, is not available because plaintiffs have not requested specific relief in their pleadings. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available in state court, regardless of the specifics of the case, while still avoiding the risk of removal to federal court. In our experience, monetary demands in pleadings bear little relation to the ultimate loss, if any, to the Company.

- In connection with regulatory examinations and proceedings, government authorities may seek various forms of relief, including penalties, restitution and changes in business practices. The Company may not be advised of the nature and extent of relief sought until the final stages of the examination or proceeding.

- For the reasons specified above, it is not possible at this time to make meaningful estimates of the amount or range of loss that could result from the matters described below in the "Proceedings" subsection. The Company reviews these matters on an on-going basis and follows the provisions of SFAS No. 5, "Accounting for Contingencies" when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.

- In the opinion of the Company's management, while the ultimate liability in some of the matters described below in the "Proceedings" subsection in excess of amounts currently reserved may be material to the Company's operating results for any particular period if an unfavorable outcome results, none will have a material adverse effect on the consolidated financial condition of the Company.

Proceedings

There is one active nationwide class action lawsuit pending against Allstate regarding its specification of after-market (non-original equipment manufacturer) replacement parts in the repair of insured vehicles. This suit alleges that the specification of such parts constitutes breach of contract and fraud. The suit mirrors to a large degree lawsuits filed against other carriers in the industry. The plaintiffs allege that after-market parts are not "of like kind and quality" as required by the insurance policy, and they are seeking actual and punitive damages. The Company has been vigorously defending this lawsuit, but its outcome is uncertain. A second aftermarket parts lawsuit has now been dismissed. In that case, plaintiffs had alleged that Allstate and three co-defendants violated federal antitrust laws by conspiring to manipulate the price of auto physical damage coverages in such a way that not all savings realized by the use of aftermarket parts are passed on to the policyholders. In a related development, the Illinois Supreme Court recently reversed the billion-dollar judgment entered against State Farm in a nationwide aftermarket parts class action, *Avery*

v. State Farm. The Company believes that the *Avery* decision will be useful in its defense of the remaining aftermarket parts case discussed above, which is pending in Illinois.

There are several statewide and nationwide class action lawsuits pending against Allstate alleging that its failure to pay "inherent diminished value" to insureds under the collision, comprehensive, uninsured motorist property damage, or auto property damage liability provisions of auto policies constitutes breach of contract and fraud. Plaintiffs define "inherent diminished value" 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 policy. To a large degree, these lawsuits mirror similar lawsuits filed against other carriers in the industry. These lawsuits are pending in various state and federal courts, and they are in various stages of development. Classes have been certified in only two cases. Both are multi-state class actions. A trial in one of these multi-state class action cases involving collision and comprehensive coverage concluded on April 29, 2004, with a jury verdict in favor of the Company. The plaintiffs made a motion for a new trial, which was denied, and have now filed an appeal from the judgment. In the other certified class action lawsuit, which involves uninsured motorist property damage coverage, the appellate court granted the Company's petition for review of the order of certification. That appeal has been briefed and argued, and the Company is awaiting a decision by the court. The Company has been vigorously defending all of these lawsuits and, since 1998, has been implementing policy language in more than 40 states reaffirming that its collision and comprehensive coverages do not include diminished value claims. The outcome of these disputes remains 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 class action has 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. Plaintiffs seek monetary damages in the form of contractual and extra-contractual damages. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

A number of nationwide and statewide putative class actions are pending against Allstate that 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 has been vigorously defending them, but the outcome of these disputes is currently uncertain.

The Company is defending a putative nationwide class action that alleges that the Company discriminates against non-Caucasian policyholders, through underwriting and rate-making practices including the use of credit information, by charging them higher premiums. The Company is also defending a putative statewide class action challenging its use of credit information under certain state insurance statutes. The plaintiffs in these cases seek monetary and equitable relief, including actual and punitive damages and injunctive relief. The Company removed the statewide class action to federal court. The Fifth Circuit Court of Appeals has recently affirmed the trial court's denial of the plaintiff's motion to remand to state court. The Company denies these allegations and has been vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Allstate is defending various lawsuits involving worker classification issues. These lawsuits include a number of putative class actions and one certified class action challenging the overtime exemption claimed by the Company under the Fair Labor Standards Act or state wage and hour laws. In these cases, plaintiffs seek monetary relief, such as penalties and liquidated damages, and non-monetary relief, such as injunctive relief and an accounting. These class actions mirror similar lawsuits filed against other carriers in the industry and other employers, some of which have been settled recently. In the one certified class action against Allstate, based on California law, the parties reached a tentative agreement on June 24, 2005 to settle the case. The parties executed a definitive settlement agreement on August 30, 2005, which the trial court preliminarily approved. The settlement is subject to a final fairness hearing and approval by the trial court. With respect to this matter, Allstate established an accrual in the second quarter of 2005 of $120 million, including attorney fees and other costs. Allstate is continuing to vigorously defend its other worker classification lawsuits. The outcome of these disputes is currently uncertain.

The Company is defending certain matters relating to the Company's agency program reorganization announced in 1999. These matters include a lawsuit filed in December 2001 by the U.S. Equal Employment Opportunity Commission ("EEOC") alleging retaliation under federal civil rights laws, a class action filed in August 2001 by former employee agents alleging retaliation and age discrimination under the Age Discrimination in Employment Act, breach of contract and ERISA violations, and a lawsuit filed in October 2004 by the EEOC alleging age discrimination with respect to a policy limiting the rehire of agents affected by the agency program reorganization. The Company is also defending a certified class action filed by former employee agents who terminated their employment prior to the agency program reorganization. These plaintiffs have asserted breach of contract and ERISA claims and are seeking actual damages including benefits under Allstate employee benefit plans and payments provided in connection with the reorganization, as well as punitive damages. In late March 2004, in the first EEOC lawsuit and class action lawsuit, the trial court issued a memorandum and order that, among other things, certified classes of agents, including a mandatory class of agents who had signed a release, for purposes of effecting the court's declaratory judgment that the release is voidable at the option of the release signer. The court also ordered that an agent who voids the release must return to Allstate "any and all benefits received by the [agent] in exchange for signing the release." The court also "concluded that, on the undisputed facts of record, there is no basis for claims of age discrimination." The EEOC and plaintiffs have asked the court to clarify and/or reconsider its memorandum and order. The case otherwise remains pending. A putative nationwide class action has also been filed by former employee agents alleging various violations of ERISA, including a worker classification issue. These plaintiffs are challenging certain amendments to the Agents Pension Plan and are seeking to have exclusive agent independent contractors treated as employees for benefit purposes. This matter was dismissed with prejudice by the trial court, was the subject of further proceedings on appeal, and was reversed and remanded to the trial court in April 2005. In these matters, plaintiffs seek compensatory and punitive damages, and equitable relief. Allstate has been vigorously defending these lawsuits and other matters related to its agency program reorganization. In addition, Allstate has been defending certain matters relating to its life agency program reorganization announced in 2000. These matters have been the subject of an investigation by the EEOC with respect to allegations of age discrimination and retaliation and conciliation discussions between Allstate and the EEOC. The outcome of these disputes is currently uncertain.

The Company has resolved through mediation and settlement all but one of its lawsuits brought by plaintiffs challenging trading restrictions the Company adopted in an effort to limit market-timing activity in its variable annuity sub-accounts. In the one lawsuit the Company is still defending, the plaintiff seeks a variety of remedies including monetary and equitable relief. The Company has been vigorously defending this matter, but the outcome is currently uncertain.

The Company is defending several matters filed in the aftermath of Hurricanes Katrina and Rita, including several statewide putative class action lawsuits pending in Louisiana, Mississippi, and Texas. In addition, the Mississippi Attorney General filed a suit asserting that the flood exclusion found in Allstate's and other insurance companies' policies is either ambiguous, unenforceable as unconscionable or contrary to public policy, or inapplicable to the damage suffered in the wake of Hurricane Katrina. These suits seek primarily declaratory relief, and in some cases, actual and punitive damages in an unspecified amount. Additionally, in connection with a petition for injunctive relief filed by the Texas Attorney General, a temporary injunction was entered against Allstate on October 21, 2005, which prevents it from denying and failing to pay claims for loss of use (additional living expense) caused by Hurricane Rita if the insured property is rendered untenantable, regardless of whether direct physical loss or physical damage to the property occurred. Allstate denies that there is coverage under these circumstances. The Texas Court of Appeals stayed the temporary injunction on October 27, 2005, pending disposition of Allstate's request for immediate review of the temporary injunction. The matters described in this paragraph are in various stages of development and Allstate intends to vigorously defend them. The outcome of these disputes is currently uncertain.

Other Matters

The Company and some of its subsidiaries have received interrogatories and demands for information from regulatory and enforcement authorities relating to various insurance products and practices. The areas of inquiry include variable annuity market timing, late trading and the issuance of funding agreements backing medium-term notes. The Company and some of its subsidiaries have also received interrogatories and demands for information from authorities seeking information relevant to on-going investigations into the possible violation of antitrust or insurance laws by unnamed parties and, in particular, seeking information as to whether any person engaged in activities for the

purpose of price fixing, market allocation, or bid rigging. The Company believes that these inquiries are similar to those made to many financial services companies as part of industry-wide investigations by various authorities into the practices, policies and procedures relating to insurance and financial services products. The Company and its subsidiaries have responded and will continue to respond to these inquiries.

Various other legal and regulatory actions, including state market conduct exams, are currently pending that involve the Company and specific aspects of its conduct of business. Like other members of the insurance industry, the Company is the target of a number of class action lawsuits and other types of proceedings, some of which involve claims for substantial or indeterminate amounts. These actions are based on a variety of issues and target a range of the Company's practices. The outcome of these disputes is currently unpredictable.

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 the actions described in this "Other Matters" subsection in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial condition of the Company.

Asbestos and environmental

Allstate's reserves for asbestos claims were $1.49 billion and $1.46 billion, net of reinsurance recoverables of $912 million and $963 million at September 30, 2005 and December 31, 2004, respectively. Reserves for environmental claims were $219 million and $232 million, net of reinsurance recoverables of $44 million and $49 million at September 30, 2005 and December 31, 2004, respectively. Approximately 66% and 62% of the total net asbestos and environmental reserves at September 30, 2005 and December 31, 2004, respectively, were for incurred but not reported estimated losses.

Management believes its net loss reserves for environmental, asbestos and other discontinued lines exposures are appropriately established based on available facts, technology, laws and regulations. However, establishing net loss reserves for asbestos, environmental and other discontinued lines 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, unresolved legal issues regarding the determination, availability and timing of exhaustion of policy limits, plaintiffs' evolving and expanding theories of liability, availability and collectibility of recoveries from reinsurance, retrospectively determined premiums and other contractual agreements, and estimating the extent and timing of any contractual liability, and other uncertainties. There are also complex legal issues concerning the interpretation of various insurance policy provisions and whether those losses are covered, or were ever intended to be covered, and could be recoverable through retrospectively determined premium, reinsurance or other contractual agreements. 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, and the ultimate cost may vary materially from the amounts currently recorded resulting in an increase in loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate asbestos, environmental, and other discontinued lines 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 reserves that may be required.

7. Components of Net Periodic Pension and Postretirement Benefit Costs

The components of net periodic cost for the Company's pension and postretirement benefit plans are as follows:

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Pension benefits				
Service cost (1)	$ 46	$ 39	$ 156	$ 117
Interest cost	71	66	212	198
Expected return on plan assets	(79)	(72)	(235)	(216)
Amortization of:				
Prior service costs	(1)	(1)	(2)	(2)
Net loss	34	30	100	88
Settlement loss	9	9	27	32
Net periodic pension cost	$ 80	$ 71	$ 258	$ 217
Postretirement benefits				
Service cost (1)	6	7	25	21
Interest cost	17	17	50	53
Amortization of:				
Prior service costs	—	—	(1)	(1)
Net loss	1	3	5	9
Net periodic postretirement cost	$ 24	$ 27	$ 79	$ 82

(1) In the three months ended March 31, 2005, the Company recognized $19 million and $4 million pretax for pension and postretirement benefits, respectively, related to a non-recurring increase in liability for future benefits of a discontinued benefit plan.

As a result of the subsidy provided by the Medicare Prescription Drug, Improvement and Modernization Act of 2003, the net periodic postretirement benefit cost for the three-month and nine-month periods ended September 30, 2005 was reduced by $5 million and $11 million, respectively, of which $2 million and $3 million was a reduction of current period service cost, $1 million and $3 million was the reduction in interest cost on the APBO and $2 million and $5 million was amortization of the actuarial experience gain attributable to past service, respectively (see Note 1).

As of September 30, 2005, the Company contributed $70 million to its pension plans. The Company plans to contribute a total of $356 million to its pension plans in 2005.

8. Equity Incentive Plans

The following table illustrates the effect on net income and earnings per share as if the fair value based method, adopted prospectively by the Company on January 1, 2003, had been applied to all outstanding and unvested options in each period.

(in millions, except per share data)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Net (loss) income, as reported	$ (1,548)	$ 56	$ 724	$ 2,039
Add: Employee stock option expense included in reported net (loss) income, after-tax (1)	7	2	24	11
Deduct: Total employee stock option expense determined under fair value based method for all awards, after-tax	(8)	(7)	(32)	(27)
Pro forma net (loss) income	$ (1,549)	$ 51	$ 716	$ 2,023
Earnings per share—Basic:				
As reported	$ (2.36)	$ 0.10	$ 1.09	$ 2.92
Pro forma	(2.37)	0.08	1.07	2.89
Earnings per share—Diluted:				

As reported	$ (2.36)	$ 0.09	$ 1.08	$ 2.90
Pro forma	(2.37)	0.08	1.07	2.87

(1) In the three-month and nine-month periods ended September 30, 2005, the Company recognized a total of $3 million and $19 million after-tax, respectively, related to the acceleration of deferred compensation expense on unvested stock awards granted to retirement eligible employees, including $2 million and $11 million after-tax, respectively, on unvested stock options (included in the table above) and $1 million and $8 million after-tax, respectively, on restricted stock.

9. Business Segments

Summarized revenue data for each of the Company's business segments are as follows:

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Revenues				
Property-Liability				
Property-liability insurance premiums earned				
Standard auto	$ 4,086	$ 3,915	$ 12,118	$ 11,548
Non-standard auto	438	490	1,345	1,515
Auto	4,524	4,405	13,463	13,063
Homeowners	1,589	1,483	4,732	4,360
Other	667	662	2,006	1,955
Allstate Protection	6,780	6,550	20,201	19,378
Discontinued Lines and Coverages	1	1	—	4
Total property-liability insurance premiums earned	6,781	6,551	20,201	19,382
Net investment income	454	443	1,333	1,310
Realized capital gains and losses	163	100	385	400
Total Property-Liability	7,398	7,094	21,919	21,092
Allstate Financial				
Life and annuity premiums and contract charges				
Traditional life	68	81	204	246
Immediate annuities with life contingencies	37	66	160	209
Accident and health and other	113	100	325	290
Total life and annuity premiums	218	247	689	745
Interest-senstive life	196	187	581	540
Fixed annuities	16	13	49	41
Variable annuities	75	61	206	182
Total contract charges	287	261	836	763
Total life and annuity premiums and contract charges	505	508	1,525	1,508
Net investment income	974	866	2,838	2,520
Realized capital gains and losses	27	(51)	52	(135)
Total Allstate Financial	1,506	1,323	4,415	3,893
Corporate and Other				
Service fees	3	3	7	9
Net investment income	29	24	93	76
Realized capital gains and losses	9	1	11	(4)
Total Corporate and Other before reclassification of service fees	41	28	111	81
Reclassification of service fees (1)	(3)	(3)	(7)	(9)
Total Corporate and Other	38	25	104	72
Consolidated Revenues	$ 8,942	$ 8,442	$ 26,438	$ 25,057

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

Summarized financial performance data for each of the Company's reportable segments are as follows:

(in millions)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Income before cumulative effect of change in accounting principle, after-tax				
Property-Liability				
Underwriting (loss) income				
Allstate Protection	$ (3,227)	$ (370)	$ (1,218)	$ 1,707
Discontinued Lines and Coverages	(136)	(315)	(170)	(639)

Total underwriting (loss) income	(3,363)	(685)	(1,388)	1,068
Net investment income	454	443	1,333	1,310
Income tax benefit (expense) on operations	1,124	167	291	(605)
Realized capital gains and losses, after-tax	99	69	248	272
Property-Liability (loss) income before cumulative effect of change in accounting principle, after-tax	(1,686)	(6)	484	2,045
Allstate Financial				
Life and annuity premiums and contract charges	505	508	1,525	1,508
Net investment income	974	866	2,838	2,520
Periodic settlements and accruals on non-hedge derivative instruments	14	15	49	33
Contract benefits and interest credited to contractholder funds	(1,003)	(906)	(2,961)	(2,626)
Operating costs and expenses and amortization of deferred policy acquisition costs	(270)	(259)	(819)	(818)
Restructuring and related charges	(1)	(1)	(1)	(5)
Income tax expense on operations	(63)	(72)	(189)	(203)
Operating income	156	151	442	409
Realized capital gains and losses, after-tax	17	(33)	33	(90)
Deferred policy acquisition costs and deferred sales inducements amortization relating to realized capital gains and losses, after-tax	(2)	(15)	(106)	(28)
Non-recurring increase in liability for future benefits, after-tax (1)	—	—	(22)	—
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(10)	(10)	(32)	(21)
Loss on disposition of operations, after-tax	(7)	(5)	(11)	(22)
Allstate Financial income before cumulative effect of change in accounting principle, after-tax	154	88	304	248
Corporate and Other				
Service fees (2)	3	3	7	9
Net investment income	29	24	93	76
Operating costs and expenses	(82)	(82)	(255)	(241)
Income tax benefit on operations	29	28	84	79
Operating loss	(21)	(27)	(71)	(77)
Realized capital gains and losses, after-tax	5	1	7	(2)
Corporate and Other loss before cumulative effect of change in accounting principle, after-tax	(16)	(26)	(64)	(79)
Consolidated (loss) income before cumulative effect of change in accounting principle, after-tax	$ (1,548)	$ 56	$ 724	$ 2,214

(1) The non-recurring increase in liability for future benefits is for a discontinued benefit plan (see Note 7 for impact to pension and postretirement benefits).

(2) For presentation in the Condensed Consolidated Statements of Operations, service fees of the Corporate and Other segment are reclassified to operating costs and expenses.

10. Other Comprehensive Income

The components of other comprehensive income (loss) on a pretax and after-tax basis are as follows:

	Three months ended September 30,					
	2005			2004		
(in millions)	**Pretax**	**Tax**	**After-tax**	**Pretax**	**Tax**	**After-tax**
Unrealized net holding (losses) gains arising during the period	$ (734)	$ 257	$ (477)	$ 1,229	$ (430)	$ 799
Less: reclassification adjustments	89	(31)	58	50	(18)	32
Unrealized net capital (losses) gains	(823)	288	(535)	1,179	(412)	767
Unrealized foreign currency translation adjustments	23	(8)	15	26	(9)	17
Other comprehensive (loss) income	$ (800)	$ 280	(520)	$ 1,205	$ (421)	784
Net (loss) income			(1,548)			56
Comprehensive (loss) income			$ (2,068)			$ 840

	Nine months ended September 30,					
	2005			2004		
(in millions)	**Pretax**	**Tax**	**After-tax**	**Pretax**	**Tax**	**After-tax**

Unrealized net holding (losses) gains arising during the period	$ (761)	$ 266	$ (495)	$ (148)	$ 52	$ (96)
Less: reclassification adjustments	296	(104)	192	349	(122)	227
Unrealized net capital (losses) gains	(1,057)	370	(687)	(497)	174	(323)
Unrealized foreign currency translation adjustments	12	(4)	8	17	(6)	11
Other comprehensive (loss) income	$ (1,045)	$ 366	(679)	$ (480)	$ 168	(312)
Net income			724			2,039
Comprehensive income			$ 45			$ 1,727

11. Debt Outstanding

In May 2005, the Company issued $800 million of 5.55% senior notes due 2035. The net proceeds of this issuance were used for general corporate purposes, including funding the repayment of a portion of the $900 million of 7.875% senior notes, which were repaid at their scheduled maturity, May 1, 2005.

In July 2005, the Company liquidated its consolidated investment management variable interest entity ("VIE"). As a result of the liquidation, long-term debt and assets decreased by $279 million and $305 million (of which $298 million was classified as investments), respectively. In September 2005, the Company established a new investment management VIE that holds assets under the management of Allstate Investment Management Company, a subsidiary of the Company, on behalf of unrelated third party investors. The VIE had assets consisting primarily of investments totaling $318 million and liabilities consisting primarily of long-term debt totaling $288 million at September 30, 2005. The Company does not consolidate the VIE because it is not the primary beneficiary of this VIE. The Company's maximum loss exposure related to its investment in the VIE is the current carrying value of its equity investment, which was $10 million at September 30, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 (the "Company") as of September 30, 2005, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2005 and 2004, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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 reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim 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 the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 2004, 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 24, 2005, which report includes an explanatory paragraph as to changes in the Company's method of accounting for certain nontraditional long-duration contracts and separate accounts in 2004, method of accounting for stock-based compensation, embedded derivatives in modified coinsurance agreements and variable interest entities in 2003 and method of accounting for goodwill and other intangible assets in 2002, 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, 2004 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Chicago, Illinois
November 1, 2005

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, 2005 AND 2004

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of The Allstate Corporation (referred to in this document as "we", "our", "us", 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 2004. Analysis of our insurance segments is provided in Property-Liability Operations (which includes the Allstate Protection and the Discontinued Lines and Coverages segments) and in the Allstate Financial Segment (which represents the Allstate Financial segment) sections of Management's Discussion and Analysis ("MD&A"). The segments are consistent with the way in which we use financial information to evaluate business performance and to determine the allocation of resources.

HIGHLIGHTS

- Catastrophe losses in the third quarter of 2005 totaled $4.71 billion compared to $1.71 billion in the same period of 2004. Catastrophe losses in the first nine months of 2005 totaled $5.02 billion compared to $2.06 billion in the same period of 2004. The effect of catastrophe losses on the combined ratio was 69.4 points and 26.0 points in the third quarter of 2005 and 2004, respectively, and 24.8 points and 10.6 points in the first nine months of 2005 and 2004, respectively. Catastrophe losses in the third quarter of 2005 included the impacts of Hurricanes Katrina ($3.68 billion pre-tax or $2.39 billion after-tax), Rita ($850 million pre-tax or $553 million after-tax, net of reinsurance), Dennis and Ophelia.
- Net loss per diluted share was $2.36 in the third quarter of 2005 compared to a net income per diluted share of $0.09 in the third quarter of last year, primarily due to higher catastrophes. Net income per diluted share was $1.08 in the first nine months of 2005 compared to $2.90 in the first nine months of last year, primarily due to higher catastrophes.
- Property-Liability premiums earned increased $230 million or 3.5% to $6.78 billion in the third quarter of 2005 from $6.55 billion in the third quarter of 2004 and increased $819 million or 4.2% to $20.20 billion for the first nine months of 2005 from $19.38 billion for the first nine months of 2004.
- The Property-Liability combined ratio was 149.6 in the third quarter of 2005 compared to 110.5 in the third quarter of 2004 and 106.9 in the first nine months of 2005 compared to 94.5 in the first nine months of 2004.
- Allstate Financial net income increased to $154 million in the third quarter of 2005 compared to $88 million in the third quarter of 2004 and to $304 million for the first nine months of 2005 compared to $73 million for the first nine months of 2004. The increase in the first nine months of 2005 was partially due to a $175 million cumulative effect of a change in accounting principle, after-tax for the adoption of AICPA Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" in the first quarter of 2004.
- Allstate Financial investments increased 4.6% as of September 30, 2005 compared to December 31, 2004 due primarily to increased contractholder funds and increased funds associated with securities lending.
- Net realized capital gains were $199 million in the third quarter of 2005 compared to $50 million in the third quarter of 2004. Net realized capital gains were $448 million in the first nine months of 2005 compared to $261 million in the first nine months of 2004.
- For the twelve months ended September 30, 2005, return on equity declined 4.7 points to 9.2% from 13.9% for the twelve months ended September 30, 2004. This decline is due to the increased level of hurricane losses incurred in the third quarter of 2005, which are included in our trailing twelve month calculation. Return on equity for the twelve months ended June 30, 2005 was 16.1%.

CONSOLIDATED NET INCOME

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues				
Property-liability insurance premiums earned	$ 6,781	$ 6,551	$ 20,201	$ 19,382
Life and annuity premiums and contract charges	505	508	1,525	1,508
Net investment income	1,457	1,333	4,264	3,906
Realized capital gains and losses	199	50	448	261
Total revenues	8,942	8,442	26,438	25,057
Costs and expenses				
Property-liability insurance claims and claims expense	(8,529)	(5,661)	(16,706)	(13,668)
Life and annuity contract benefits	(395)	(401)	(1,209)	(1,174)
Interest credited to contractholder funds	(608)	(505)	(1,784)	(1,455)
Amortization of deferred policy acquisition costs	(1,160)	(1,124)	(3,557)	(3,251)
Operating costs and expenses	(713)	(738)	(2,266)	(2,241)
Restructuring and related charges	(10)	1	(36)	(26)
Interest expense	(85)	(76)	(251)	(223)
Total costs and expenses	(11,500)	(8,504)	(25,809)	(22,038)
Loss on disposition of operations	(4)	(6)	(12)	(17)
Income tax benefit (expense)	1,014	124	107	(788)
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net (loss) income	$ (1,548)	$ 56	$ 724	$ 2,039
Property-Liability	$ (1,686)	$ (6)	$ 484	$ 2,045
Allstate Financial	154	88	304	73
Corporate and Other	(16)	(26)	(64)	(79)
Net (loss) income	$ (1,548)	$ 56	$ 724	$ 2,039

PROPERTY-LIABILITY HIGHLIGHTS

- Premiums written increased 2.9% in the third quarter of 2005 over the third quarter of 2004 and 3.5% in the first nine months of 2005 over the first nine months of 2004, primarily due to increases in the Allstate brand standard auto and homeowners policies in force ("PIF") and average premiums. Premiums written grew 3.7%, excluding the cost of catastrophe reinsurance programs purchased in 2005, impacts of Hurricane Katrina and business ceded to Universal Insurance Company of North America ("Universal"). The impacts of Hurricane Katrina related to an estimate of policies expected to be canceled by the policyholder, which decreased premiums written by $14 million. Allstate brand standard auto and homeowners premiums written increased 4.7% and 6.0%, respectively, in the third quarter of 2005 and 5.1% and 7.4%, respectively, in the first nine months of 2005, over the same periods of 2004. Allstate brand standard auto new business premiums written increased 2.0% in the third quarter of 2005 and decreased 1.3% in the first nine months of 2005 over the same periods of 2004. Allstate brand homeowners new business premiums written decreased 6.5% in the third quarter of 2005 and 6.8% in the first nine months of 2005 over the same periods of 2004. The Allstate brand homeowner decrease was primarily due to declines in certain markets from proactive risk management actions. Premiums written is an operating measure that is defined and reconciled to premiums earned on page 25.

- Growth in PIF as of the third quarter of 2005 when compared to the third quarter of 2004 for Allstate brand standard auto and homeowners was 3.6% and 4.4%, respectively, and total Allstate brand personal lines PIF increased 2.9%. The Allstate brand standard auto renewal ratio was 90.5 in the third quarter of 2005 compared to 90.9 in the third quarter of 2004 and 90.7 in the first nine months of 2005 compared to 90.8 in the first nine months of 2004. The Allstate brand homeowners renewal ratio was 88.5 in the third quarter of 2005 compared to 88.6 in the third quarter of 2004 and 88.4 in the first nine months of 2005 compared to 88.3 in the first nine months of 2004. The PIF and renewal ratio results exclude Allstate Canada.
- Property-Liability underwriting loss was $3.36 billion in the third quarter of 2005 compared to $685 million in the third quarter of 2004 due to higher catastrophes, partially offset by higher premiums earned, favorable claim frequencies (rate of claim occurrence) excluding catastrophes and favorable reserve reestimates related to prior years. The combined ratio was 149.6 in the third quarter of 2005 compared to 110.5 in the third quarter of 2004. Property-Liability underwriting loss was $1.39 billion in the first nine months of 2005 compared to an underwriting income of $1.07 billion in the first nine months of 2004 due to higher catastrophes, increased severity (average cost per claim) of current year claims and a $120 million accrual for the anticipated settlement of a worker classification lawsuit, partially offset by higher premiums earned, favorable claim frequencies excluding catastrophes and favorable reserve reestimates related to prior years. The combined ratio was 106.9 in the first nine months of 2005 compared to 94.5 in the first nine months in 2004. Underwriting income (loss), a measure that is not based on generally accepted accounting principles ("GAAP"), is defined below.

PROPERTY-LIABILITY OPERATIONS

Our Property-Liability operations consist of two business segments: Allstate Protection and Discontinued Lines and Coverages. Allstate Protection is comprised of two brands, the Allstate brand and Encompass brand. Allstate Protection is principally engaged in the sale of personal property and casualty insurance, primarily private passenger auto and homeowners insurance, to individuals in the United States and Canada. Discontinued Lines and Coverages includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. These segments are consistent with the groupings of financial information that management uses to evaluate performance and to determine the allocation of resources.

Underwriting income (loss), a measure that is not based on GAAP and is reconciled to net income on page 25, is calculated as premiums earned, less claims and claims expense ("losses"), amortization of deferred policy acquisition costs ("DAC"), operating costs and expenses and restructuring and related charges, as determined using GAAP. We use this measure in our evaluation of results of operations to analyze the profitability of the Property-Liability insurance operations separately from investment results. It is also an integral component of incentive compensation. It is useful for investors to evaluate the components of income separately and in the aggregate when reviewing performance. Underwriting income (loss) should not be considered as a substitute for net income and does not reflect the overall profitability of the business. Net income is the most directly comparable GAAP measure.

The table below includes GAAP operating ratios we use to measure our profitability. We believe that they enhance an investor's understanding of our profitability. They are calculated as follows:

- Claims and claims expense ("loss") ratio - the ratio of claims and claims expense to premiums earned. Loss ratios include the impact of catastrophe losses.
- Expense ratio – the ratio of amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned.
- Combined ratio – the ratio of claims and claims expense, amortization of DAC, operating costs and expenses and restructuring and related charges to premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income (loss) as a percentage of premiums earned.

We have also calculated the following impacts of specific items on the GAAP operating ratios because of the volatility of these items between fiscal periods.

- Effect of catastrophe losses on combined ratio – the percentage of catastrophe losses included in claims and claims expenses to premiums earned.
- Effect of pretax reserve reestimates on combined ratio – the percentage of pretax reserve reestimates included in claims and claims expense to premiums earned.
- Effect of restructuring and related charges on combined ratio – the percentage of restructuring and related charges to premiums earned.

- Effect of Discontinued Lines and Coverages on combined ratio – the ratio of claims and claims expense and other costs and expenses in the Discontinued Lines and Coverages segment to Property-Liability premiums earned. The sum of the effect of Discontinued Lines and Coverages on the combined ratio and the Allstate Protection combined ratio on page 36 is equal to the Property-Liability combined ratio.

Summarized financial data, a reconciliation of underwriting (loss) income to net income and GAAP operating ratios for our Property-Liability operations are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except ratios)	**2005**	**2004**	**2005**	**2004**
Premiums written	$ 7,158	$ 6,958	$ 20,733	$ 20,032
Revenues				

Premiums earned	$ 6,781	$ 6,551	$ 20,201	$ 19,382
Net investment income	454	443	1,333	1,310
Realized capital gains and losses	163	100	385	400
Total revenues	7,398	7,094	21,919	21,092
Costs and expenses				
Claims and claims expense	(8,529)	(5,661)	(16,706)	(13,668)
Amortization of DAC	(1,029)	(985)	(3,061)	(2,858)
Operating costs and expenses	(577)	(592)	(1,787)	(1,767)
Restructuring and related charges	(9)	2	(35)	(21)
Total costs and expenses	(10,144)	(7,236)	(21,589)	(18,314)
Income tax benefit (expense)	1,060	136	154	(733)
Net (loss) income	$ (1,686)	$ (6)	$ 484	$ 2,045
Underwriting (loss) income	$ (3,363)	$ (685)	$ (1,388)	$ 1,068
Net investment income	454	443	1,333	1,310
Income tax benefit (expense) on operations	1,124	167	291	(605)
Realized capital gains and losses, after-tax	99	69	248	272
Net (loss) income	$ (1,686)	$ (6)	$ 484	$ 2,045
Catastrophe losses	$ 4,707	$ 1,706	$ 5,017	$ 2,056
GAAP operating ratios				
Claims and claims expense ("loss") ratio	125.8	86.4	82.7	70.5
Expense ratio	23.8	24.1	24.2	24.0
Combined ratio	149.6	110.5	106.9	94.5
Effect of catastrophe losses on combined ratio	69.4	26.0	24.8	10.6
Effect of pretax reserve reestimates on combined ratio	(2.2)	1.3	(1.6)	(0.2)
Effect of restructuring and related charges on combined ratio	0.1	—	0.2	0.1
Effect of Discontinued Lines and Coverages on combined ratio	2.0	4.9	0.9	3.3

Premiums written, an operating measure, is the amount of premiums charged for policies issued during a fiscal period. Premiums earned is a GAAP measure. Premiums are considered earned and are included in the financial results on a pro-rata basis over the policy period. The portion of premiums written applicable to the unexpired terms of the policies is recorded as unearned premiums on our Consolidated Statements of Financial Position.

A reconciliation of premiums written to premiums earned is presented in the following table.

(in millions)	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
Premiums written:				
Allstate Protection	$ 7,158	$ 6,957	$ 20,732	$ 20,029
Discontinued Lines and Coverages	—	1	1	3
Property-Liability premiums written	7,158	6,958	20,733	20,032
Increase in unearned premiums	(393)	(450)	(548)	(696)
Other	16	43	16	46
Property-Liability premiums earned	$ 6,781	$ 6,551	$ 20,201	$ 19,382
Premiums earned:				
Allstate Protection	$ 6,780	$ 6,550	$ 20,201	$ 19,378
Discontinued Lines and Coverages	1	1	—	4
Property-Liability	$ 6,781	$ 6,551	$ 20,201	$ 19,382

ALLSTATE PROTECTION SEGMENT

As we continue to use Tiered Pricing, which includes our Strategic Risk Management, and underwriting, the distinctions between standard and non-standard have become less important in certain states. For this reason, we are shifting our managerial focus and believe it is useful for investors to analyze auto results that aggregate our standard and non-standard business. However, we will continue to provide results for standard and non-standard auto. Generally, standard auto customers are expected to have lower risks of loss than non-standard auto customers. Our strategy for the Encompass brand focuses on those markets that give us the best opportunity to grow profitably, in part by using Tiered Pricing. The integration of Encompass policies onto Allstate systems has resulted in a different counting process for PIF. As a result, percent changes in PIF and average premium and the renewal ratio are subject to some distortion until the integration is fully complete.

Homeowners Catastrophe Management Strategy

The overarching intent of our catastrophe management strategy is to support profitable growth of our homeowners business. While in many areas of the country we are currently achieving returns within acceptable risk management tolerances, our goal is to find solutions that support a continued yet prudent presence in catastrophe prone markets. Allstate is introducing integrated enterprise risk management ("ERM") capabilities as part of our continued commitment to effective management of our capital, returns and risk profile. A principal ERM goal is to validate where and how we insure homeowners catastrophes and to further increase our return on equity, thereby lessening our earnings volatility and capital requirements. In introducing integrated ERM capabilities, we are considering and adopting new performance measurements for managing our homeowners business. These measurements currently include establishing an exposure limit based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis, refining acceptable targeted rates of return by line and by state and evaluating potential capital impairment measurements. Actions resulting from the evaluation of these measurements will reduce our catastrophe risk and improve long-term returns.

We consider the greatest areas of potential catastrophe losses due to hurricanes to be major metropolitan centers near the eastern and gulf coasts of the United States, and the greatest areas of potential catastrophe losses due to earthquakes to be California, areas surrounding the New Madrid fault system in the states of Missouri, Kentucky and Tennessee, and faults in and surrounding the states of Oregon, Washington and South Carolina. While in most cases the areas we consider to have the greatest potential for catastrophe losses do not include an entire state, as of September 30, 2005, homeowners premiums earned in these states represented approximately 75% of our total homeowners premiums earned, with the states along the eastern and gulf coasts representing approximately 55% and the states with earthquake exposure listed above (excluding South Carolina) representing approximately 20%.

We are evaluating the implications of reducing our catastrophe exposure. Possible actions we may undertake include additional purchases of reinsurance to mitigate potential exposure to major hurricane and earthquake

catastrophe risks, including assessments from the California Earthquake Authority ("CEA"); changes in rates, deductibles and coverage; limitations on new business writings; changes to underwriting requirements; non-renewal or withdrawal from certain markets; and/or pursuing alternative markets for placement of business or segments of risk exposure in certain areas.

We utilize reinsurance in order to reduce exposure to catastrophe risk and to support the required statutory surplus and the insurance financial strength ratings of certain subsidiaries, such as Allstate Floridian Insurance Company and Allstate New Jersey Insurance Company. We purchase significant reinsurance where we believe the greatest benefit will be achieved in terms of our aggregate countrywide exposure limits based on our ERM model. The price and terms of reinsurance are also considered in the purchase process, and whether the price can be included in future rates charged to policyholders. Effective June 1, 2005, multi-year reinsurance treaties cover excess catastrophe losses in seven states: Connecticut, New Jersey, New York, North Carolina, South Carolina, Texas and Florida. The cost of these treaties is approximately $190 million per year, or $48 million per quarter. The annual retentions and limits on these treaties are shown in the following table.

State	% Placed	Annual Retention	Limit
Connecticut	95	$ 100,000,000	$ 200,000,000
New Jersey	95	100,000,000	100,000,000
New York	90	750,000,000	1,000,000,000
North Carolina	10	80,000,000	175,000,000
South Carolina	10	97,000,000	435,000,000
Texas(2)	95	320,000,000	550,000,000
Florida	90	Excess of FHCF Reimbursement(1)	900,000,000

(1) The Florida Hurricane Catastrophe Fund ("FHCF") provides 90% reimbursement of qualifying losses up to an estimated maximum. For the current season, this maximum is estimated to be $871 million in excess of Allstate's retention of $233 million for the two largest hurricanes and $78 million for other hurricanes.

(2) Reinsurance is recoverable by Allstate Texas Lloyd's ("ATL"), a syndicate insurance company. ATL also has a 100% reinsurance agreement with Allstate Insurance Company ("AIC") providing net benefits to AIC as reinsurer.

These reinsurance treaties provide coverage per occurrence above each respective retention to the respective maximum coverage limit according to the percent placed. Each of these treaties also has a reinstatement provision, none of which have been exercised to date; annual remeasurements, which could result in changes in retentions, limits and/or reinsurance premiums as a result of increases or decreases in our exposure levels from the previous year; and the New Jersey and Texas treaties have the option to expand coverage limits by $100 million per year in each of the two subsequent years.

Our exposure to certain potential losses from catastrophes is limited by our participation in various state facilities, such as the CEA, which provides insurance for California earthquake losses; the FHCF, which provides reimbursements on certain qualifying Florida hurricane losses; and other state facilities, such as wind pools. In addition, in various states we are required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Because of our participation, we may be exposed to losses that surpass the capitalization of these facilities and/or to assessments from these facilities.

We also continue to advocate for public policy solutions to help the country become better prepared for and protected from catastrophes. These solutions include the development of state and national catastrophe funds; improved prevention and mitigation measures, including the adoption of more effective land use policies and stronger building codes; enhanced public education about catastrophe risk; better catastrophe relief, recovery and rebuilding processes; and a rigorous process of continuous improvement of public policy solutions.

Historical Catastrophe Experience Since the beginning of 1992, the average annual impact of catastrophes on our Property-Liability loss ratio was 7.6 pts. However, this average does not reflect the impact of some of the more significant actions we have taken to limit our catastrophe exposure. Consequently, we think it is useful to consider the impact of catastrophes after excluding losses that are now partially or substantially covered by the CEA, FHCF or placed with a third party, such as hurricane coverage in Hawaii. The average annual impact of all catastrophes, excluding losses from Hurricanes Andrew and Iniki and losses from California earthquakes, on our Property-Liability loss ratio was 6.0 points since the beginning of 1992.

Comparatively, the average annual impact of catastrophes on the homeowners loss ratio for the years 1992 through 2004 is shown in the following table.

	Average annual impact of catastrophes on the homeowners loss ratio	Average annual impact of catastrophes on the homeowners loss ratio excluding losses from Hurricanes Andrew and Iniki, and losses from California earthquakes
Eastern and gulf coast states	27.2	19.8
All other	24.1	15.4
Total	25.8	17.8

Premiums written by brand are shown in the following tables.

	Three Months Ended September 30,					
	2005			2004		
(in millions)	New	Renewal	Total	New	Renewal	Total
Allstate brand:						
Standard auto	$ 357	$ 3,544	$ 3,901	$ 350	$ 3,375	$ 3,725
Non-standard auto	63	335	398	70	384	454
Auto	420	3,879	4,299	420	3,759	4,179
Homeowners	216	1,462	1,678	231	1,352	1,583
Other personal lines	128	514	642	131	512	643
Total Allstate brand	764	5,855	6,619	782	5,623	6,405
Encompass brand:						
Standard auto	79	226	305	64	263	327
Non-standard auto (Deerbrook)	7	21	28	12	25	37
Auto	86	247	333	76	288	364
Homeowners	22	141	163	19	131	150
Other personal lines	11	32	43	10	28	38
Total Encompass brand	119	420	539	105	447	552
Total Allstate Protection Premiums written	$ 883	$ 6,275	$ 7,158	$ 887	$ 6,070	$ 6,957

	Nine Months Ended September 30,					
	2005			2004		
(in millions)	New	Renewal	Total	New	Renewal	Total
Allstate brand:						
Standard auto	$ 994	$ 10,441	$ 11,435	$ 1,007	$ 9,873	$ 10,880
Non-standard auto	197	1,029	1,226	216	1,165	1,381
Auto	1,191	11,470	12,661	1,223	11,038	12,261
Homeowners	588	3,960	4,548	631	3,604	4,235
Other personal lines	380	1,558	1,938	441	1,510	1,951
Total Allstate brand	2,159	16,988	19,147	2,295	16,152	18,447
Encompass brand:						
Standard auto	214	686	900	168	764	932
Non-standard auto (Deerbrook)	26	64	90	42	77	119
Auto	240	750	990	210	841	1,051
Homeowners	62	401	463	51	365	416
Other personal lines	37	95	132	31	84	115
Total Encompass brand	339	1,246	1,585	292	1,290	1,582
Total Allstate Protection premiums written	$ 2,498	$ 18,234	$ 20,732	$ 2,587	$ 17,442	$ 20,029

Standard auto premiums written increased 3.8% to $4.21 billion in the three months ended September 30, 2005 from $4.05 billion in the same period of 2004 and 4.4% to $12.34 billion during the first nine months of 2005 as compared to $11.81 billion in the first nine months of 2004.

	Allstate brand		Encompass brand (2)	
Standard Auto	2005	2004	2005	2004
Three Months Ended September 30,				
New business premiums ($ millions)	$ 357	$ 350	$ 79	$ 64
New business premiums (% change)	2.0	7.7	23.4	56.1
Renewal business premiums ($ millions)	$ 3,544	$ 3,375	$ 226	$ 263
Renewal ratio(1)	90.5	90.9	77.2	75.6
PIF (% change)(1)	3.6	5.4	(3.1)	(6.0)
Average premium (% change)(1)	1.4	0.8	7.2	20.5
Nine Months Ended September 30,				
New business premiums ($ millions)	$ 994	$ 1,007	$ 214	$ 168
New business premiums (% change)	(1.3)	24.6	27.4	55.6
Renewal business premiums ($ millions)	$ 10,441	$ 9,873	$ 686	$ 764
Renewal ratio(1)	90.7	90.8	75.5	78.2
PIF (% change)(1)	3.6	5.4	(3.1)	(6.0)
Average premium (% change)(1)	1.4	1.4	11.4	17.7

(1) Allstate brand statistic excludes business written by Allstate Canada and Allstate Motor Club.
(2) Encompass brand statistics are subject to some distortion due to continued integration of systems.

Allstate brand standard auto new business premiums written increased for the three months ended September 30, 2005 and decreased in the first nine months of 2005 compared to the same periods of 2004. The increase for the third quarter of 2005 was primarily due to increases in average premium, partially offset by competitive pressures in certain states. In addition to the effects of PIF and average premium, written premium is also affected by other impacts of lesser consequence, such as changes in coverage. The decrease in the first nine months of 2005 was primarily due to competitive pressures in certain states and our proactive catastrophe risk management actions. For example, we are continuing to experience a decline in New Jersey due to new entrants in that market. Allstate brand standard auto

new business premiums grew 3.3% for the three months ended September 30, 2005 and 0.9% in the first nine months of 2005, excluding New Jersey, and increased in approximately 65% of the states.

The increase in Allstate brand standard auto PIF as of September 30, 2005 as compared to September 30, 2004 is the result of increases in renewal business, new business related to the implementation of a broader marketing approach and a decrease in rate activity.

The increase in the Allstate brand standard auto average premium for the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004 is primarily due to higher average renewal premiums. The rate of increase in average premium has declined over time due to the decrease in rate activity.

Encompass brand standard auto new business premiums written increased for the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004 due to increases in new PIF and rate activity, the effect of which is declining due to the decrease in rate change activity. We expect the rate of decline in Encompass brand standard auto PIF to moderate as we pursue growth opportunities in this channel.

We continue to pursue rate changes when indicated. At the same time, we continue to expand the number of tiers used in our Tiered Pricing programs, which tends to result in lower net rate changes. The following table shows the annual impact of net rate changes that were approved for standard auto during the three-month and nine-month periods ended September 30, 2005.

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	# of States	Countrywide (%)(1)	State Specific (%)(2)	# of States	Countrywide (%)(1)	State Specific (%)(2)
Allstate brand	6	0.1	3.8	22	0.4	0.9
Encompass brand	8	0.3	2.1	21	0.6	1.3

(1) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and the first nine months of 2005 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and the first nine months of 2005 as a percentage of total prior year-end premiums written in those states.

Non-standard auto premiums written decreased 13.2% to $426 million for the three months ended September 30, 2005 from $491 million in the same period of 2004 and 12.3% to $1.32 billion during the first nine months of 2005 as compared to $1.50 billion in the first nine months of 2004.

Non-Standard Auto	Allstate Brand 2005	Allstate Brand 2004	Encompass brand (Deerbrook) 2005	Encompass brand (Deerbrook) 2004
Three Months Ended September 30,				
New business premiums ($ millions)	$ 63	$ 70	$ 7	$ 12
New business premiums (% change)	(10.0)	4.5	(41.7)	(36.8)
Renewal business premiums ($ millions)	$ 335	$ 384	$ 21	$ 25
Renewal ratio(1)	77.5	78.2	64.5	60.8
PIF (% change)(1)	(12.2)	(12.2)	(19.6)	(7.4)
Average premium (% change)(1)	(0.3)	3.4	(7.4)	(6.5)
Nine Months Ended September 30,				
New business premiums ($ millions)	$ 197	$ 216	$ 26	$ 42
New business premiums (% change)	(8.8)	—	(38.1)	(37.3)
Renewal business premiums ($ millions)	$ 1,029	$ 1,165	$ 64	$ 77
Renewal ratio(1)	78.0	78.3	64.7	61.1
PIF (% change)(1)	(12.2)	(12.2)	(19.6)	(7.4)
Average premium (% change)(1)	(0.2)	2.3	(6.3)	(6.3)

(1) Allstate brand statistic excludes business written by Allstate Canada.

Declines in Allstate brand non-standard auto renewal business premiums during the three months ended September 30, 2005 and the first nine months of 2005 compared to the same periods of 2004 are primarily due to a decline in PIF. Renewal PIF declined because new business production in prior periods was insufficient to make up for an inherently low renewal ratio in this business, and new business PIF declined due to continued agent focus on our standard auto business. The decline in average premium during the three months ended September 30, 2005 and first nine months of 2005 compared to the same periods of 2004 is due to a decrease in rates.

Encompass brand (Deerbrook) non-standard premiums written have decreased in the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004 primarily because of declines in new business.

We continue to pursue rate changes when indicated. The following table shows the annual impact of net rate changes that were approved for non-standard auto during the three-month and nine-month periods ended September 30, 2005.

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	# of States	Countrywide (%)(1)	State Specific (%)(2)	# of States	Countrywide (%)(1)	State Specific (%)(2)
Allstate brand	—	—	—	4	(0.4)	(1.7)
Encompass brand	—	—	—	—	—	—

(1) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and first nine months of 2005 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and first nine months of 2005 as a percentage of total prior year-end premiums written in those states.

Auto premiums written increased 2.0% to $4.63 billion in the three months ended September 30, 2005 from $4.54 billion in the same period of 2004 and 2.5% to $13.65 billion during the first nine months of 2005 as compared to $13.31 billion in the first nine months of 2004. Auto includes standard auto and non-standard auto business.

	Allstate brand		Encompass brand (2)	
Auto	**2005**	**2004**	**2005**	**2004**
Three Months Ended September 30,				
New business premiums ($ millions)	$ 420	$ 420	$ 86	$ 76
New business premiums (% change)	—	7.1	13.2	26.7
Renewal business premiums ($ millions)	$ 3,879	$ 3,759	$ 247	$ 288
Renewal ratio(1)	89.5	89.9	75.3	73.2
PIF (% change)(1)	2.4	3.9	(4.7)	(6.1)
Average premium (% change)(1)	0.7	0.5	6.8	16.8
Nine Months Ended September 30,				
New business premiums ($ millions)	$ 1,191	$ 1,223	$ 240	$ 210
New business premiums (% change)	(2.6)	19.4	14.3	20.0
Renewal business premiums ($ millions)	$ 11,470	$ 11,038	$ 750	$ 841
Renewal ratio(1)	89.7	89.7	73.9	75.4
PIF (% change)(1)	2.4	3.9	(4.7)	(6.1)
Average premium (% change)(1)	0.7	0.7	10.2	14.0

(1) Allstate brand statistic excludes business written by Allstate Canada and Allstate Motor Club.
(2) Encompass brand statistics are subject to some distortion due to continued integration of systems.

The following table shows the annual impact of net rate changes that were approved for auto (standard and non-standard) during the three-month and nine-month periods ended September 30, 2005.

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	# of States	Countrywide (%)(1)	State Specific (%)(2)	# of States	Countrywide (%)(1)	State Specific (%)(2)
Allstate brand	6	0.1	3.8	22	0.3	0.8
Encompass brand	8	0.2	2.1	21	0.5	1.3

(1) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and first nine months of 2005 as a percentage of total countrywide prior year-end premiums written.

(2) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and first nine months of 2005 as a percentage of total prior year-end premiums written in those states.

Homeowners premiums written increased 6.2% to $1.84 billion in the three months ended September 30, 2005 from $1.73 billion in the same period of 2004 and 7.7% to $5.01 billion during the first nine months of 2005 as compared to $4.65 billion in the first nine months of 2004. For the three months and nine months ended September 30, 2005, growth in Allstate Protection premiums written from the prior year periods was negatively impacted by reinsurance transactions, Hurricane Katrina and business ceded to Universal.

	Allstate brand		Encompass brand (2)	
Homeowners	**2005**	**2004**	**2005**	**2004**
Three Months Ended September 30,				
New business premiums ($ millions)	$ 216	$ 231	$ 22	$ 19
New business premiums (% change)	(6.5)	10.5	15.8	46.2
Renewal business premiums ($ millions)	$ 1,462	$ 1,352	$ 141	$ 131
Renewal ratio(1)	88.5	88.6	88.6	87.5
PIF (% change)(1)	4.4	6.2	4.4	—

Average premium (% change)(1)	5.2	2.9	6.3	13.7
	2005	2004	2005	2004
Nine Months Ended September 30,				
New business premiums ($ millions)	$ 588	$ 631	$ 62	$ 51
New business premiums (% change)	(6.8)	25.4	21.6	64.5
Renewal business premiums ($ millions)	$ 3,960	$ 3,604	$ 401	$ 365
Renewal ratio(1)	88.4	88.3	87.4	89.6
PIF (% change)(1)	4.4	6.2	4.4	—
Average premium (% change)(1)	5.3	3.4	8.9	13.4

(1) Allstate brand statistic excludes business written in Canada.
(2) Encompass brand statistics are subject to some distortion due to continued integration of systems.

Allstate brand homeowners new business premiums written declined in the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004, primarily due to declines in certain markets, such as Florida, California and New York, from our proactive catastrophe risk management actions. New business premiums grew 2.8% in the three months ended September 30, 2005 and 3.8% in the first nine months of 2005, excluding Florida, California and New York, and increased in approximately 60% of the states.

The increase in Allstate brand homeowners PIF in the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004 is the result of new business. PIF are expected to be impacted by the Universal transaction and the non-renewal of 95,000 of Allstate Floridian policies or approximately 1% of Allstate brand homeowners PIF. These policies non-renewed at a rate of 13% in the third quarter of 2005 and are expected to non-renew at a rate of 23% in the fourth quarter of 2005, 23% in the first quarter of 2006, 28% in the second quarter of 2006 and 13% in the third quarter of 2006.

The increases in Allstate brand average premium during the three months ended September 30, 2005 and the first nine months of 2005 compared to the same periods of 2004 were primarily due to higher average renewal premiums. Higher average renewal premiums were primarily related to increases in insured value.

Encompass brand homeowners new business premiums written increased in the three months ended September 30, 2005 and in the first nine months of 2005 compared to the same periods of 2004 due to increases in PIF and average premium. The increase in Encompass brand homeowners average premium was due to rate actions taken during the current and prior year and increases in insured value.

The following table shows the annual impact of net rate changes that were approved for homeowners during the three-month and nine-month periods ended September 30, 2005.

	Three Months Ended September 30, 2005			Nine Months Ended September 30, 2005		
	# of States	Countrywide (%)(1)	State Specific (%)(2)	# of States	Countrywide (%)(1)	State Specific (%)(2)
Allstate brand	4	0.6	6.6	11	1.0	5.8
Encompass brand	4	0.7	4.9	18	1.5	3.6

(1) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and the first nine months of 2005 as a percentage of total countrywide prior year-end premiums written.
(2) Represents the impact in the states where rate changes were approved during the three months ended September 30, 2005 and the first nine months of 2005 as a percentage of total prior year-end premiums written in those states.

Premiums earned by brand are shown in the following tables.

	Three Months Ended September 30,					
	Allstate brand		Encompass brand		Total Allstate Protection	
(in millions)	2005	2004	2005	2004	2005	2004
Standard auto	$ 3,791	$ 3,606	$ 295	$ 309	$ 4,086	$ 3,915
Non-standard auto	407	451	31	39	438	490
Auto	4,198	4,057	326	348	4,524	4,405
Homeowners	1,441	1,347	148	136	1,589	1,483
Other	626	628	41	34	667	662
Total	$ 6,265	$ 6,032	$ 515	$ 518	$ 6,780	$ 6,550

	Nine Months Ended September 30,					
	Allstate brand		Encompass brand		Total Allstate Protection	
(in millions)	2005	2004	2005	2004	2005	2004
Standard auto	$ 11,225	$ 10,639	$ 893	$ 909	$ 12,118	$ 11,548
Non-standard auto	1,248	1,391	97	124	1,345	1,515
Auto	12,473	12,030	990	1,033	13,463	13,063
Homeowners	4,301	3,966	431	394	4,732	4,360
Other	1,885	1,851	121	104	2,006	1,955
Total	$ 18,659	$ 17,847	$ 1,542	$ 1,531	$ 20,201	$ 19,378

Underwriting results are shown in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Premiums written	$ 7,158	$ 6,957	$ 20,732	$ 20,029
Premiums earned	$ 6,780	$ 6,550	$ 20,201	$ 19,378
Claims and claims expense	(8,394)	(5,347)	(16,543)	(13,032)
Amortization of DAC	(1,029)	(986)	(3,061)	(2,858)
Other costs and expenses	(575)	(589)	(1,780)	(1,760)
Restructuring and related charges	(9)	2	(35)	(21)
Underwriting (loss) income	$ (3,227)	$ (370)	$ (1,218)	$ 1,707
Catastrophe losses	$ 4,707	$ 1,706	$ 5,017	$ 2,056
Underwriting (loss) income by brand				
Allstate brand	$ (3,120)	$ (389)	$ (1,187)	$ 1,634
Encompass brand	(107)	19	(31)	73
Underwriting (loss) income	$ (3,227)	$ (370)	$ (1,218)	$ 1,707

Allstate Protection generated an underwriting loss of $3.23 billion during the three months ended September 30, 2005 compared to an underwriting loss of $370 million in the same period of 2004. For the third quarter of 2005 as compared to the third quarter of 2004, increased premiums earned, declines in auto and homeowners claim frequency excluding catastrophes and higher favorable reserve reestimates related to prior years were more than offset by increased catastrophe losses and increased current year claim severity. For the nine months ended September 30, 2005, Allstate Protection generated an underwriting loss of $1.22 billion compared to underwriting income of $1.71 billion for the first nine months of last year. For the nine months ended September 30, 2005 as compared to the same period of 2004, increased premiums earned and declines in auto and homeowners claim frequency excluding catastrophes were more than offset by increased catastrophe losses and increased current year claim severity. For the nine months ended September 30, 2005, claims and claims expense and the claims and claims expense ratio include the effect of $120 million or 0.6 points related to an accrual for a pending settlement of a worker classification lawsuit challenging our overtime exemption under California wage and hour laws ("accrual for litigation").

Claim severity was impacted by inflation in medical costs and auto repair and home repair costs. If future development of current year claim severity differs from the current reserve expectations by one percent, reserve reestimates would impact net income by approximately $110 million.

Impacts of Hurricanes Katrina and Rita

Hurricane Katrina made initial landfall in Florida on August 25, 2005 and again in the states of Louisiana, Mississippi and Alabama on August 29, 2005. Hurricane Katrina is the costliest catastrophe in the United States' history.

Catastrophe claims and claims expense estimates include losses from approximately 216,000 expected claims of which over 178,000 claims have been reported as of October 28, 2005 on our standard auto, non-standard auto, homeowners, commercial and other products. The pre-tax estimates of catastrophe claims and claims expense by product are shown in the following table.

($ in millions)	Allstate brand	Encompass brand	Total
Hurricane Katrina			
Standard auto	$ 219	$ 16	$ 235
Non-standard auto	17	—	17
Homeowners	2,886	101	2,987
Other	316	13	329
Total personal lines	$ 3,438	$ 130	$ 3,568
Commercial	115	N/A	115
Total loss estimate	$ 3,553	$ 130	$ 3,683

Our total loss estimate for Hurricane Katrina by state is approximately 70% in Louisiana, 24% in Mississippi, 4% in Alabama and 2% in Florida and other states.

Hurricane Rita made landfall near the border of Texas and Louisiana on September 24, 2005. Our estimate of Hurricane Rita catastrophe claims and claims expense is $850 million, net of reinsurance.

Catastrophe claims and claims expense estimates include losses from approximately 90,000 expected claims of which over 66,000 claims have been reported as of October 28, 2005, on our standard auto, non-standard auto, homeowners, commercial and other products. The pre-tax estimates of claims and claims expense by product are shown in the following table.

($ in millions)	Allstate brand	Encompass brand	Total
Hurricane Rita			
Standard auto	$ 21	$ 1	$ 22
Non-standard auto	6	—	6
Homeowners	672	11	683
Other	102	—	102
Total personal lines	$ 801	$ 12	$ 813

Commercial	37	N/A	37
Total loss estimate, net of reinsurance	$ 838	$ 12	$ 850
Total loss estimate, gross of reinsurance	$ 1,043	$ 12	$ 1,055
Reinsurance recoverable(1)	205	—	205
Total loss estimate, net of reinsurance	$ 838	$ 12	$ 850

(1) Reinsurance is recoverable by ATL, a syndicate insurance company. ATL also has a 100% reinsurance agreement with AIC providing net benefits to AIC as reinsurer.

Our total net loss estimate for Hurricane Rita by state is approximately 50% in Louisiana, 49% in Texas and 1% in other states. For details of our reinsurance program in Texas, see the Homeowners Catastrophe Management Strategy section.

Catastrophe claims and claims expense estimates also include an accrual of $37 million for anticipated assessments from various state facilities, including $33 million for a regular assessment from the Louisiana Citizens Property Insurance Corporation (“LA Citizens”). For further information, see Note 6 to the Condensed Consolidated Financial Statements.

At September 30, 2005, a reserve reestimation resulting in a one percent increase or decrease in net reserves for Hurricane Katrina would impact net income by approximately $24 million, after-tax, and a reserve reestimation resulting in a one percent increase or decrease in net reserves for Hurricane Rita would impact net income by approximately $6 million, after-tax. For further information on our loss estimation methodology, see Note 3 to the Condensed Consolidated Financial Statements.

Loss ratios by product, and expense and combined ratios by brand, are shown in the following table. These ratios are defined on page 24.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Loss Ratio		Effect of Catastrophe Losses on the Loss Ratio		Loss Ratio		Effect of Catastrophe Losses on the Loss Ratio	
	2005	2004	2005	2004	2005	2004	2005	2004
Allstate brand loss ratio:								
Standard auto	64.8	62.6	6.5	1.1	65.4	63.3	2.6	0.8
Non-standard auto	59.5	48.8	5.9	1.6	58.9	54.6	2.2	0.9
Auto	64.3	61.1	6.4	1.2	64.8	62.3	2.6	0.8
Homeowners	298.1	128.7	257.9	86.5	131.6	75.3	90.7	35.5
Other	148.6	123.1	91.3	68.2	89.9	82.3	33.1	24.8
Total Allstate brand loss ratio	126.5	82.6	72.8	27.2	82.7	67.3	26.0	11.0
Allstate brand expense ratio	23.3	23.8			23.7	23.5		
Allstate brand combined ratio	149.8	106.4			106.4	90.8		
Encompass brand loss ratio:								
Standard auto	75.3	61.1	5.8	0.6	67.6	61.4	1.9	0.8
Non-standard auto (Deerbrook)	64.5	79.5	3.2	2.6	73.2	78.2	1.0	0.8
Auto	74.2	63.2	5.5	0.8	68.2	63.4	1.8	0.8
Homeowners	124.3	86.0	78.4	44.8	78.2	71.3	31.8	21.0
Other	102.4	73.5	34.1	2.9	81.0	85.6	14.1	2.9
Encompass brand loss ratio	90.9	69.9	28.8	12.6	72.0	67.0	11.2	6.2
Encompass brand expense ratio	29.7	26.4			30.0	28.3		
Encompass brand combined ratio	120.6	96.3			102.0	95.3		
Total Allstate Protection loss ratio	123.8	81.6	69.4	26.0	81.9	67.3	24.8	10.7
Allstate Protection expense ratio	23.8	24.0			24.1	23.9		
Allstate Protection combined ratio	147.6	105.6			106.0	91.2		

Standard auto loss ratio for the Allstate brand increased 2.2 points in the three months ended September 30, 2005 and 2.1 points during the first nine months of 2005 when compared to the same periods last year. Standard auto loss ratio for Encompass brand increased 14.2 points in the three months ended September 30, 2005 and 6.2 points during the first nine months of 2005 when compared to the same periods last year. The increases in the third quarter of 2005 were due to higher premiums earned, higher favorable reserve reestimates related to prior years and lower claim frequency excluding catastrophes, being more than offset by higher catastrophe losses and higher current year claim severity. The increases during the first nine months of 2005 were due to higher premiums earned in Allstate brand and lower claim frequency excluding catastrophes being more than offset by higher catastrophe losses, lower favorable reserve reestimates related to prior years and higher current year claim severity. The Allstate brand loss ratio for the first nine months of 2005 also included an accrual for litigation. The Encompass brand standard auto loss ratio in the third quarter of 2005 was also unfavorably impacted by 8.2 points as a result of adopting procedures for establishing loss reserve estimates consistent with those used for the Allstate brand. The third quarter of 2004 included lower estimates of current year Encompass brand claim severity.

Non-standard auto loss ratio for the Allstate brand increased 10.7 points in the three months ended September 30, 2005 and 4.3 points during the first nine months of 2005 when compared to the same periods last year due to decreases in premiums earned, higher catastrophe losses and higher current year claim severity. The first nine months of 2005 included an accrual for litigation. Non-standard auto loss ratio for Encompass brand decreased 15.0 points in the three months ended September 30, 2005 and 5.0 points during the first nine months of 2005 when compared to the same periods last year due to lower claim frequency, partially offset by higher current year claim severity.

Auto loss ratio for Allstate brand increased 3.2 points in the three months ended September 30, 2005 and 2.5 points during the first nine months of 2005 when compared to the same periods last year. Auto loss ratio for Encompass brand increased 11.0 points in the three months ended September 30, 2005 and 4.8 points during the first nine months of 2005 when compared to the same periods of 2004. The increases in the third quarter of 2005 were due to higher premiums earned in Allstate brand, higher favorable reserve reestimates related to prior years and lower claim frequency excluding catastrophes being more than offset by higher catastrophe losses and higher current year claim severity. The increases during the first nine months of 2005 were due to higher premiums earned in Allstate brand and lower claim frequency excluding catastrophes being more than offset by higher catastrophe losses, lower favorable reserve reestimates related to prior years and higher current year claim severity. The Allstate brand loss ratio for the first nine months of 2005 also included an accrual for litigation. The Encompass brand auto loss ratio in the third quarter of 2005 was also unfavorably impacted as a result of adopting procedures for establishing loss reserve estimates consistent with those used for the Allstate brand. The third quarter of 2004 included lower estimates of current year Encompass brand claim severity.

Homeowners loss ratio for the Allstate brand increased 169.4 points in the three months ended September 30, 2005 and 56.3 points during the first nine months of 2005 when compared to the same periods last year. Homeowners loss ratio for the Encompass brand increased 38.3 points in the three months ended September 30, 2005 and 6.9 points in the first nine months of 2005 when compared to the same periods of 2004. The increases in the third quarter of 2005 were due to higher premiums earned, higher favorable reserve reestimates related to prior years and lower claim frequency, excluding catastrophes, being more than offset by higher catastrophe losses and higher current year claim severity. The increases during the first nine months of 2005 were due to higher premiums earned and lower claim frequency excluding catastrophes being more than offset by higher catastrophe losses, lower favorable reserve reestimates related to prior years and higher current year claim severity. The Allstate brand loss ratio for the first nine months of 2005 also included an accrual for litigation.

Expense ratio for Allstate Protection decreased in the three months ended September 30, 2005 compared to the same period of 2004 due to a $35 million reduction in employee incentives due to lower anticipated financial results for 2005. The expense ratio increased in the first nine months of 2005 when compared to the same period of 2004 primarily due to higher agent incentives.

The impact of specific costs and expenses on the expense ratio are included in the following table.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Allstate brand		Encompass brand		Allstate brand		Encompass brand	
	2005	2004	2005	2004	2005	2004	2005	2004
Amortization of DAC	14.8	14.7	20.6	19.4	14.7	14.3	20.6	19.3
Other costs and expenses	8.4	9.2	9.1	6.7	8.8	9.1	9.1	8.7
Restructuring and related charges	0.1	(0.1)	—	0.3	0.2	0.1	0.3	0.3
Total expense ratio	23.3	23.8	29.7	26.4	23.7	23.5	30.0	28.3

Reserve reestimates

The tables below show net reserves representing the estimated cost of outstanding claims as they were recorded at the beginning of years 2005 and 2004, and the effect of reestimates in each year.

	January 1 Reserves	
(in millions)	**2005**	**2004**
Auto	$ 10,228	$ 10,419
Homeowners	1,917	1,873
Other personal lines	2,289	1,851
Total Allstate Protection	$ 14,434	$ 14,143
Allstate brand	$ 13,204	$ 12,866
Encompass brand	1,230	1,277
Total Allstate Protection	$ 14,434	$ 14,143

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Reserve Reestimate		Effect on Combined Ratio		Reserve Reestimate		Effect on Combined Ratio	
(in millions, except ratios)	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Auto	$ (276)	$ (194)	(4.1)	(3.0)	$ (501)	$ (551)	(2.5)	(2.8)
Homeowners	(12)	(5)	(0.2)	(0.1)	(4)	(112)	—	(0.6)
Other personal lines	4	(31)	0.1	(0.4)	21	(14)	0.1	(0.1)
Total Allstate Protection	$ (284)	$ (230)	(4.2)	(3.5)	$ (484)	$ (677)	(2.4)	(3.5)
Allstate brand	$ (275)	$ (233)	(4.1)	(3.6)	$ (485)	$ (682)	(2.4)	(3.5)
Encompass brand	(9)	3	(0.1)	0.1	1	5	—	—
Total Allstate Protection	$ (284)	$ (230)	(4.2)	(3.5)	$ (484)	$ (677)	(2.4)	(3.5)

DISCONTINUED LINES AND COVERAGES SEGMENT

The Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is reported in this segment. This segment is managed by a designated group of professionals with expertise in claims handling, policy coverage interpretation and exposure identification. As part of its responsibilities, this group is also regularly engaged in policy buybacks, settlements and reinsurance assumed and ceded commutations.

Summarized underwriting results are presented in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Premiums written	$ —	$ 1	$ 1	$ 3
Premiums earned	$ 1	$ 1	$ —	$ 4
Claims and claims expense	(135)	(314)	(163)	(636)
Other costs and expenses	(2)	(2)	(7)	(7)
Underwriting loss	$ (136)	$ (315)	$ (170)	$ (639)

Underwriting loss of $136 million in the third quarter of 2005 and $170 million in the first nine months of 2005 were primarily related to a $139 million reestimate of asbestos reserves. The underwriting loss in the third quarter of 2004 and the first nine months of 2004 was primarily related to reestimates of asbestos reserves and a related increase in the allowance for future uncollectible reinsurance recoverables.

During the quarter, we completed our annual comprehensive "ground up" review of reserves for the Discontinued Lines and Coverages segment. This review employed established industry and actuarial best practices within the context of the legal, legislative and economic environment, and it was conducted in addition to quarterly assessments in which we review reserves to determine if any intervening significant events or developments require adjustments to reserves. Reserve re-estimates are recorded in the reporting period in which they are determined.

Our net asbestos reserves by type of exposure and total reserve additions by quarter are shown in the following table.

($ in millions)	September 30, 2005 Number of Active Policyholders	September 30, 2005 Net Asbestos Reserves	September 30, 2005 % of Asbestos Reserves	December 31, 2004 Number of Active Policyholders	December 31, 2004 Net Asbestos Reserves	December 31, 2004 % of Asbestos Reserves
Direct policyholders[(1)]						
-Primary	50	$ 19	1%	52	$ 23	2%
-Excess	333	242	16	322	297	20
Total direct policyholders	383	261	17%	374	320	22%
Assumed reinsurance		230	16		222	15
Incurred but not reported claims ("IBNR")		1,001	67		922	63
Total net reserves		$ 1,492	100%		$ 1,464	100%
Reserve additions						
-First Quarter		$ —			$ —	
-Second Quarter		—			216	
-Third Quarter		139			247	
-Fourth Quarter		N/A			—	
Year to date period		$ 139			$ 463	
Net survival ratio						
-Annual		10.4			18.8	
-3-Year		11.7			13.9	
Net survival ratio excluding commutations, policy buy-backs and settlement agreements						
-Annual		31.9			25.5	
-3-Year		29.2			28.4	

(1) During the first nine months of 2005, 34 direct primary and excess policyholders reported new claims, and claims of 25 policyholders were closed, so the number of direct policyholders with active claims increased by 9.

Reserve additions for asbestos in the third quarter of 2005, totaling $139 million, were primarily for products-related coverage. They were essentially a result of a continuing level of increased claim activity being reported by excess insurance policyholders with existing active claims, excess policyholders with new claims, and re-estimates of liabilities for increased assumed reinsurance cessions, as ceding companies (other insurance carriers) also experienced increased claim activity. Increased claim activity over prior estimates has also resulted in an increased estimate for future claims reported. These trends are consistent with the trends of other carriers in the industry, which we believe are related to increased publicity and awareness of coverage, ongoing litigation, potential congressional activity, and bankruptcy actions. However, we are somewhat encouraged that the pace of industry asbestos claim activity seems to be slowing, perhaps reflecting various recent state legislative actions and increased legal scrutiny of the legitimacy of claims. IBNR now represents 67% of total net asbestos reserves, 4 points higher than at December 31, 2004. IBNR provides for estimated probable future unfavorable reserve development of known claims and future reporting of additional unknown claims from current and new policyholders and ceding companies.

Our exposure to non-products-related losses represents approximately 5% of total asbestos case reserves. We do not anticipate significant changes in this percentage as insureds' retentions associated with excess insurance programs, which are our principal direct insurance, and assumed reinsurance exposure are seldom exceeded. We did not write direct primary insurance on policyholders with the potential for significant non-products-related loss exposure.

Our survival ratios, as updated above, are at levels we consider indicative of a strong asbestos reserve position.

To further limit our asbestos exposure, we have significant reinsurance, primarily to reduce our exposure to loss in our direct excess insurance business. Our reinsurance recoverables are estimated to be approximately 38% of our gross estimated loss reserves.

As of September 30, 2005, the allowance for uncollectible reinsurance is $213 million, or approximately 17% of total recoverables from reinsurers in the Discontinued Lines and Coverages segment.

We believe that our reserves are appropriately established based on assessments of pertinent factors and characteristics of exposure (e.g. claim activity, potential liability, jurisdiction, products versus non-products exposure) presented by individual policyholders. The ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates, due to uncertainties, such as changes in the legal, legislative or economic environment, which we are unable to predict.

PROPERTY-LIABILITY INVESTMENT RESULTS

Net investment income was $454 million in the third quarter of 2005 compared to $443 million in the same period of 2004, and $1.33 billion in the first nine months of 2005 compared to $1.31 billion in the same period of 2004. Net investment income increased due to higher income from partnerships and higher portfolio balances resulting from positive cash flows from operations and investment activities, partially offset by lower portfolio yields.

Net realized capital gains and losses, after-tax were $99 million in the third quarter of 2005 compared to $69 million in the same period of 2004. Net realized capital gains and losses, after-tax were $248 million in the first nine months of 2005 compared to $272 million in the same period of 2004. The following table presents the factors driving the net realized capital gains and losses results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Write-downs	$ (6)	$ (19)	$ (20)	$ (34)
Dispositions	125	189	385	522
Valuation of derivative instruments	23	(20)	(4)	(23)
Settlements of derivative instruments	21	(50)	24	(65)
Realized capital gains and losses, pretax	163	100	385	400
Income tax expense	(64)	(31)	(137)	(128)
Realized capital gains and losses, after-tax	$ 99	$ 69	$ 248	$ 272

For a further discussion of investments and net realized capital gains and losses, see the Investments section of the MD&A.

ALLSTATE FINANCIAL HIGHLIGHTS

- Allstate Financial revenues increased 13.8% and 13.4% in the third quarter and first nine months of 2005, respectively, compared to the same periods in the prior year. The increases in both periods were due to higher net investment income, improved realized capital gains and losses and increased contract charges, partially offset by lower premiums.
- Net income increased 75.0% in the third quarter of 2005 compared to the same period in the prior year. The increase was primarily attributable to improved realized capital gains and losses, higher gross margin and lower taxes, partially offset by higher amortization of DAC. Net income improved by $231 million in the first nine months of 2005 compared to the same period in the prior year due primarily to an unfavorable cumulative effect of a change in accounting principle of $175 million, after-tax, that was recorded in the prior year and improved realized capital gains and losses in the current year.
- Investments increased 4.6% to $75.88 billion at September 30, 2005 compared to December 31, 2004, due primarily to increased contractholder funds and increased balances associated with securities lending.
- Contractholder fund deposits declined to $1.87 billion and $8.91 billion for the third quarter and first nine months of 2005, respectively, compared to $3.59 billion and $10.29 billion for the third quarter and first nine months of 2004, respectively.

ALLSTATE FINANCIAL SEGMENT

Summarized financial data is presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Revenues				
Life and annuity premiums and contract charges	$ 505	$ 508	$ 1,525	$ 1,508
Net investment income	974	866	2,838	2,520
Realized capital gains and losses	27	(51)	52	(135)
Total revenues	1,506	1,323	4,415	3,893

Costs and expenses				
Life and annuity contract benefits	(395)	(401)	(1,209)	(1,174)
Interest credited to contractholder funds	(608)	(505)	(1,784)	(1,455)
Amortization of DAC	(131)	(139)	(496)	(393)
Operating costs and expenses	(142)	(143)	(482)	(465)
Restructuring and related charges	(1)	(1)	(1)	(5)
Total costs and expenses	(1,277)	(1,189)	(3,972)	(3,492)
Loss on disposition of operations	(4)	(6)	(12)	(17)
Income tax expense	(71)	(40)	(127)	(136)
Income before cumulative effect of change in accounting principle, after-tax	154	88	304	248
Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net income	$ 154	$ 88	$ 304	$ 73
Investments	$ 75,881	$ 70,934	$ 75,881	$ 70,934
Separate accounts assets	14,906	13,313	14,906	13,313
Investments, including separate accounts assets	$ 90,787	$ 84,247	$ 90,787	$ 84,247

We are pursuing the following actions and strategies to improve Allstate Financial's return on equity: maintaining and developing focused top-tier products, deepening distribution partner relationships, improving our cost structure, advancing our enterprise risk management program and leveraging the strength of the Allstate brand name across products and distribution channels. The execution of our business strategies has and may continue to involve simplifying our business model by changing the number and selection of products being marketed, for example, through such actions as our previously announced exit from the guaranteed investment contract market and the long-term care product market and the sale of our direct response distribution business in 2004; terminating underperforming distribution relationships; merging or disposing of unnecessary and/or non-strategic legal entities, such as the merger of Glenbrook Life and Annuity Company into Allstate Life Insurance Company ("ALIC") in 2005 and the pending sales of four legal entities for which the anticipated losses are reflected in the current year financial statements; reducing policy administration software systems; and other actions that we may determine are appropriate to successfully execute our business strategies.

Life and annuity premiums and contract charges Premiums represent revenues generated from traditional life, immediate annuities with life contingencies, accident and health and other insurance products that have significant mortality or morbidity risk. Contract charges are revenues generated from interest-sensitive life, variable annuities, fixed annuities and institutional products for which deposits are classified as contractholder funds or separate accounts liabilities. Contract charges are assessed against the contractholder account values for maintenance, administration, cost of insurance and surrender prior to contractually specified dates. As a result, changes in contractholder funds and separate accounts liabilities are considered in the evaluation of growth and as indicators of future levels of revenues.

The following table summarizes life and annuity premiums and contract charges by product.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Premiums				
Traditional life	$ 68	$ 81	$ 204	$ 246
Immediate annuities with life contingencies	37	66	160	209
Accident and health and other	113	100	325	290
Total premiums	218	247	689	745
Contract charges				
Interest-sensitive life	196	187	581	540
Fixed annuities	16	13	49	41
Variable annuities	75	61	206	182
Total contract charges	287	261	836	763
Life and annuity premiums and contract charges	$ 505	$ 508	$ 1,525	$ 1,508

The following table summarizes life and annuity premiums and contract charges by distribution channel.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Premiums				
Allstate agencies	$ 83	$ 99	$ 283	$ 284
Independent agents	113	84	289	253
Specialized brokers	22	51	115	165
Other	—	13	2	43
Total premiums	218	247	689	745
Contract charges				

Allstate agencies	129	115	388	344
Independent agents	78	77	224	226
Broker dealers	59	50	165	147
Banks	14	11	37	25
Specialized brokers	6	7	20	19
Other	1	1	2	2
Total contract charges	287	261	836	763
Life and annuity premiums and contract charges	$ 505	$ 508	$ 1,525	$ 1,508

Total premiums declined 11.7% and 7.5% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. In both periods, increased supplemental accident and health and other premiums were more than offset by lower premiums on immediate annuities with life contingencies and traditional life products.

Contract charges increased 10.0% and 9.6% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. These increases were primarily due to higher contract charges on interest-sensitive life, variable annuities and, to a lesser extent, fixed annuities. The increases in the interest-sensitive life contract charges were attributable to in-force business growth resulting from deposits and credited interest more than offsetting surrenders and benefits. Higher variable annuity contract charges were primarily the result of higher account values and participation fees. Fixed annuity contract charges for the third quarter and first nine months of 2005 reflect higher surrender charges compared with the same periods in the prior year.

Contractholder funds represent interest-bearing liabilities arising from the sale of individual and institutional products, such as interest-sensitive life, fixed annuities, bank deposits and funding agreements. The balance of contractholder funds is equal to the cumulative deposits received and interest credited to the contractholder less cumulative contract maturities, benefits, surrenders, withdrawals and contract charges for mortality or administrative expenses.

The following table shows the changes in contractholder funds.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Contractholder funds, beginning balance	$ 59,182	$ 51,457	$ 55,709	$ 47,071
Impact of adoption of SOP 03-1(1)	—	—	—	421
Deposits				
Fixed annuities (immediate and deferred)	1,191	2,115	4,465	4,967
Institutional products (primarily funding agreements)	—	852	2,423	3,452
Interest-sensitive life	363	348	1,046	1,008
Variable annuity and life deposits allocated to fixed accounts	107	102	313	373
Bank and other deposits	211	175	659	485
Total deposits	1,872	3,592	8,906	10,285
Interest credited	617	509	1,774	1,454
Maturities, benefits, withdrawals and other adjustments				
Maturities of institutional products	(909)	(820)	(2,202)	(1,915)
Benefits	(252)	(192)	(726)	(533)
Surrenders and partial withdrawals	(1,248)	(863)	(3,520)	(2,429)
Contract charges	(175)	(170)	(519)	(488)
Net transfers to separate accounts	(94)	(94)	(249)	(328)
Fair value hedge adjustments for institutional products	(64)	66	(237)	(53)
Other adjustments	23	(7)	16	(7)
Total maturities, benefits, withdrawals and other adjustments	(2,719)	(2,080)	(7,437)	(5,753)
Contractholder funds, ending balance	$ 58,952	$ 53,478	$ 58,952	$ 53,478

(1) The increase in contractholder funds due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds, the reclassification of deferred sales inducements ("DSI") from contractholder funds to other assets and the establishment of reserves for certain liabilities that are primarily related to income and other guarantees provided under fixed annuity, variable annuity and interest-sensitive life contracts.

Contractholder deposits decreased 47.9% and 13.4% in the third quarter and first nine months of 2005, respectively, compared to the same periods of 2004. The declines in both periods were the result of lower deposits on institutional products and fixed annuities. Fixed annuity deposits declined 43.7% and 10.1% in the third quarter and first nine months of 2005, respectively, due to lower deposits on traditional fixed annuities, partially offset by increased deposits on equity-indexed annuities. The declines in traditional fixed annuities were primarily due to lower consumer demand and our continued focus on achieving higher returns. Increases in short-term interest rates without corresponding increases in longer term rates have generally reduced the competitiveness of fixed annuity products relative to shorter term deposit products such as money market funds and certificates of deposit. A continuation of this environment will impact the level of expected fixed annuity deposits. We have prioritized the allocation of fixed income investments to support sales of retail products with the best sustainable growth and contribution margins and to maintain our retail market presence. There were no sales of institutional products during the current quarter. Our institutional business sales remain opportunistic. Average contractholder funds increased 12.6% in the third quarter and 13.6% in the first nine months of 2005 compared to the same periods of 2004.

Surrenders and partial withdrawals increased 44.6% in the third quarter and 44.9% in the first nine months of 2005 compared to the same periods of 2004 reflecting an annualized withdrawal rate of 10.8% for the third quarter and 10.7% for the first nine months of 2005 based on the beginning of period contractholder funds balance excluding institutional product reserves. This compares to an annualized withdrawal rate of 8.7% for the third quarter and 8.7% for the first nine months of 2004. These increases were primarily attributable to higher surrenders of market value adjusted annuities as a portion of these contracts entered a 30-45 day window in which there were

no surrender charges or market value adjustments during the period. Surrenders and withdrawals may vary with changes in interest rates and equity market conditions and the aging of our in-force contracts.

Separate accounts liabilities represent contractholders' claims to the related separate accounts assets. Separate accounts liabilities primarily arise from the sale of variable annuity contracts and variable life insurance policies.

The following table shows the changes in separate accounts liabilities.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Separate accounts liabilities, beginning balance	$ 14,341	$ 13,564	$ 14,377	$ 13,425
Impact of adoption of SOP 03-1(1)	—	—	—	(204)
Variable annuity and life deposits	486	361	1,414	1,322
Variable annuity and life deposits allocated to fixed accounts	(107)	(102)	(313)	(373)
Net deposits	379	259	1,101	949
Investment results	613	(152)	691	209
Contract charges	(73)	(64)	(209)	(189)
Net transfers from fixed accounts	94	94	249	328
Surrenders and benefits	(448)	(388)	(1,303)	(1,205)
Separate accounts liabilities, ending balance	$ 14,906	$ 13,313	$ 14,906	$ 13,313

(1) The decrease in separate accounts due to the adoption of SOP 03-1 reflects the reclassification of certain products previously included as a component of separate accounts to contractholder funds.

Separate accounts liabilities increased as of September 30, 2005 compared to December 31, 2004. The increase was attributable to net deposits, positive investment results and transfers from fixed accounts more than offsetting surrenders and benefits and contract charges. Net variable annuity and life deposits increased 46.3% and 16.0% in the third quarter and first nine months of 2005. Variable product deposits may vary with equity market conditions and consumer preferences related to our product features. Variable annuity contractholders often allocate a significant portion of their initial variable annuity contract deposit into a fixed rate investment option. The level of this activity is reflected above in the deposits allocated to fixed accounts, while all other transfer activity between the fixed and separate accounts investment options is reflected in net transfers from fixed accounts. The liability for the fixed portion of variable annuity contracts is reflected in contractholder funds.

Net investment income increased 12.5% in the three months ended September 30, 2005 and 12.6% in the first nine months of 2005 compared to the same periods of 2004. The increases in both periods were primarily due to the effect of higher portfolio balances. Portfolio yields increased slightly in the third quarter of 2005 compared to the same period in the prior year but were unchanged in the nine-month period. Portfolio balances as of September 30, 2005, increased 4.6% from December 31, 2004 due primarily to increased contractholder funds and increased balances associated with securities lending.

Net income analysis is presented in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Life and annuity premiums and contract charges	$ 505	$ 508	$ 1,525	$ 1,508
Net investment income	974	866	2,838	2,520
Periodic settlements and accruals on non-hedge derivative instruments (1)	14	15	49	33
Contract benefits	(395)	(401)	(1,209)	(1,174)
Interest credited to contractholder funds (2)	(597)	(501)	(1,719)	(1,430)
Gross margin	501	487	1,484	1,457
Amortization of DAC and DSI	(139)	(120)	(398)	(375)
Operating costs and expenses	(142)	(143)	(482)	(465)
Restructuring and related charges	(1)	(1)	(1)	(5)
Income tax expense	(63)	(72)	(183)	(203)
Realized capital gains and losses, after-tax	17	(33)	33	(90)
DAC and DSI amortization relating to realized capital gains and losses, after-tax	(2)	(15)	(106)	(28)
Reclassification of periodic settlements and accruals on non-hedge derivative instruments, after-tax	(10)	(10)	(32)	(21)
Loss on disposition of operations, after-tax	(7)	(5)	(11)	(22)

Cumulative effect of change in accounting principle, after-tax	—	—	—	(175)
Net income	$ 154	$ 88	$ 304	$ 73

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Condensed Consolidated Statements of Operations.
(2) Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled $11 million and $4 million in the three months ended September 30, 2005 and 2004, respectively, and $65 million and $25 million in the first nine months of 2005 and 2004, respectively.

Gross margin, a non-GAAP measure, represents life and annuity premiums and contract charges, net investment income and periodic settlements and accruals on non-hedge derivative instruments, less contract benefits and interest credited to contractholder funds excluding amortization of DSI. We reclassify periodic settlements and accruals on non-hedge derivative instruments into gross margin to report them in a manner consistent with the economically hedged investments, replicated assets or product attributes (e.g. net investment income or interest credited to contractholder funds) and by doing so, appropriately reflect trends in product performance. We use gross margin as a component of our evaluation of the profitability of Allstate Financial's life insurance and financial product portfolio. Additionally, for many of our products, including fixed annuities, variable life and annuities, and interest-sensitive life insurance, the amortization of DAC and DSI is determined based on actual and expected gross margin. Gross margin is comprised of three components that are utilized to further analyze the business: investment margin, benefit margin, and contract charges and fees. We believe gross margin and its components are useful to investors because they allow for the evaluation of income components separately and in the aggregate when reviewing performance. Gross margin, investment margin and benefit margin should not be considered as a substitute for net income and do not reflect the overall profitability of the business. Net income is the GAAP measure that is most directly comparable to these margins. Gross margin is reconciled to Allstate Financial's GAAP net income in the previous table.

The components of gross margin are reconciled to the corresponding financial statement line items in the following tables.

	Three Months Ended September 30,							
	Investment Margin		Benefit Margin		Contract Charges and Fees		Gross Margin	
(in millions)	**2005**	**2004 (3)**	**2005**	**2004 (3)**	**2005**	**2004 (3)**	**2005**	**2004**
Life and annuity premiums	$ —	$ —	$ 218	$ 247	$ —	$ —	$ 218	$ 247
Contract charges	—	—	158	147	129	114	287	261
Net investment income	974	866	—	—	—	—	974	866
Periodic settlements and accruals on non-hedge derivative instruments (1)	14	15	—	—	—	—	14	15
Contract benefits	(135)	(133)	(260)	(268)	—	—	(395)	(401)
Interest credited to contractholder funds(2)	(597)	(501)	—	—	—	—	(597)	(501)
	$ 256	$ 247	$ 116	$ 126	$ 129	$ 114	$ 501	$ 487

	Nine Months Ended September 30,							
	Investment Margin		Benefit Margin		Contract Charges and Fees		Gross Margin	
(in millions)	**2005**	**2004 (3)**	**2005**	**2004 (3)**	**2005**	**2004 (3)**	**2005**	**2004**
Life and annuity premiums	$ —	$ —	$ 689	$ 745	$ —	$ —	$ 689	$ 745
Contract charges	—	—	465	420	371	343	836	763
Net investment income	2,838	2,520	—	—	—	—	2,838	2,520
Periodic settlements and accruals on non-hedge derivative instruments (1)	49	33	—	—	—	—	49	33
Contract benefits	(398)	(391)	(811)	(783)	—	—	(1,209)	(1,174)
Interest credited to contractholder funds(2)	(1,719)	(1,430)	—	—	—	—	(1,719)	(1,430)
	$ 770	$ 732	$ 343	$ 382	$ 371	$ 343	$ 1,484	$ 1,457

(1) Periodic settlements and accruals on non-hedge derivative instruments are reflected as a component of realized capital gains and losses on the Condensed Consolidated Statements of Operations.
(2) Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating gross margin. Amortization of DSI totaled $11 million and $4 million in the three months ended September 30, 2005 and 2004, respectively, and $65 million and $25 million in the first nine months of 2005 and 2004, respectively.
(3) The prior period has been restated to conform to the current period presentation. In connection therewith, contract charges related to guaranteed minimum death, income, accumulation and withdrawal benefits on variable annuities have been reclassified to benefit margin from maintenance charges. Additionally, amounts previously presented as maintenance charges and surrender charges are now presented in the aggregate as contract charges and fees. Further, the Allstate Workplace Division margins were conformed. These reclassifications did not result in a change in gross margin.

Gross margin increased 2.9% in the third quarter of 2005 and increased 1.9% in the first nine months of 2005 compared to the same periods of 2004. The increases in both periods were the result of higher investment margin and contract charges and fees, partially offset by lower benefit margin.

Investment margin is a component of gross margin, both of which are non-GAAP measures. Investment margin represents the excess of net investment income and periodic settlements and accruals on non-hedge derivative instruments over interest credited to contractholder funds and the implied interest on life-contingent immediate annuities included in the reserve for life-contingent contract benefits. Amortization of DSI is excluded from interest credited to contractholder funds for purposes of calculating investment margin. We use investment margin to evaluate Allstate Financial's profitability related to the difference between investment returns on assets supporting certain products and amounts credited to customers ("spread") during a fiscal period.

Investment margin by product group is shown in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004 (1)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004 (1)
Annuities	$ 171	$ 161	$ 504	$ 467
Life insurance	51	50	168	162
Institutional products	32	32	89	92
Bank and other	2	4	9	11
Total investment margin	$ 256	$ 247	$ 770	$ 732

(1) The prior period has been restated to conform to the current period presentation.

Investment margin increased 3.6% in the third quarter of 2005 and 5.2% in the first nine months of 2005 compared to the same periods of 2004 due to higher average contractholder funds, partially offset by lower weighted average investment spreads on interest-sensitive life and fixed annuities. As of September 30, 2005, 73% of our interest-sensitive life and fixed annuity contracts, excluding market value adjusted annuities and equity indexed annuities, have a guaranteed crediting rate of 3% or higher. Of these contracts, 80% have crediting rates that are at the minimum as of September 30, 2005. For all interest-sensitive life and fixed annuity contracts, excluding market value adjusted annuities and equity indexed annuities, the approximate difference between the weighted average crediting rate and the average guaranteed crediting rate was 48 basis points as of September 30, 2005 compared to 49 basis points as of June 30, 2005.

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the three months ended September 30.

	Weighted Average Investment Yield 2005	Weighted Average Investment Yield 2004	Weighted Average Interest Crediting Rate 2005	Weighted Average Interest Crediting Rate 2004	Weighted Average Investment Spreads 2005	Weighted Average Investment Spreads 2004
Interest-sensitive life	6.2%	6.4%	4.8%	4.7%	1.4%	1.7%
Fixed annuities – deferred annuities	5.4	5.8	3.8	4.1	1.6	1.7
Fixed annuities – immediate annuities with and without life contingencies	7.3	7.6	6.7	6.8	0.6	0.8
Institutional	5.0	3.1	3.9	2.1	1.1	1.0
Investments supporting capital, traditional life and other products	5.8	6.4	N/A	N/A	N/A	N/A

The following table summarizes the annualized weighted average investment yield, interest crediting rates and investment spreads for the nine months ended September 30.

	Weighted Average Investment Yield 2005	Weighted Average Investment Yield 2004	Weighted Average Interest Crediting Rate 2005	Weighted Average Interest Crediting Rate 2004	Weighted Average Investment Spreads 2005	Weighted Average Investment Spreads 2004
Interest-sensitive life	6.3%	6.5%	4.8%	4.6%	1.5%	1.9%
Fixed annuities – deferred annuities	5.5	5.9	3.8	4.1	1.7	1.8
Fixed annuities – immediate annuities with and without life contingencies	7.4	7.6	6.7	6.9	0.7	0.7
Institutional	4.4	3.0	3.4	2.0	1.0	1.0
Investments supporting capital, traditional life and other products	6.0	6.3	N/A	N/A	N/A	N/A

The following table summarizes the liabilities for these contracts and policies.

(in millions)	September 30, 2005	September 30, 2004
Fixed annuities – immediate annuities with life contingencies	$ 7,853	$ 7,623
Other life contingent contracts and other	4,537	3,938
Reserve for life-contingent contract benefits	$ 12,390	$ 11,561
Interest-sensitive life	$ 8,930	$ 8,071
Fixed annuities – deferred annuities	33,422	29,612
Fixed annuities – immediate annuities without life contingencies	3,433	3,115
Institutional	11,827	11,276
Allstate Bank	894	826
Market value adjustments related to derivative instruments and other	446	578
Contractholder funds	$ 58,952	$ 53,478

Benefit margin is a component of gross margin, both of which are non-GAAP measures. Benefit margin represents life and life-contingent immediate annuity premiums, cost of insurance contract charges and variable annuity contract charges for contract guarantees less contract benefits. Benefit margin excludes the implied interest on life-contingent immediate annuities, which is included in the calculation of investment margin. We use the benefit margin to evaluate Allstate Financial's underwriting performance, as it reflects the profitability of our products with respect to mortality or morbidity risk during a fiscal period.

Benefit margin by product group is shown in the following table.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004(1)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004(1)
Life insurance	$ 132	$ 144	$ 398	$ 419
Annuities	(16)	(18)	(55)	(37)
Total benefit margin	$ 116	$ 126	$ 343	$ 382

(1) The prior period has been restated to conform to the current period presentation.

Benefit margin declined 7.9% in the third quarter of 2005 and 10.2% in the first nine months of 2005 compared to the same periods of 2004. The decline in the third quarter was due primarily to the absence of margin on certain products resulting from the disposal of our direct response distribution business in the prior year and $6 million of losses on our credit business related to Hurricane Katrina, partially offset by improved mortality experience on immediate annuities with life contingencies. The decline for the nine month period was primarily driven by the disposal of our direct response business and unfavorable mortality experience on immediate annuities with life contingences, partially offset by growth of our in-force business. In addition, the nine-month period was unfavorably impacted by an increase in the reserve for guarantees related to variable contracts of $9 million that resulted from our annual comprehensive evaluation of the assumptions used in our valuation models, partially offset by better than anticipated equity market performance. The evaluation resulted in a refined measurement of exposure. There was no comparable 2004 adjustment to reserves for variable contract guarantees, because the reserves were established in the first quarter of 2004 as part of the cumulative effect of the change in accounting for such guarantees.

Upon the adoption of Statement of Position No. 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts", on January 1, 2004, reserves were established for death and income benefits provided under variable annuities and secondary guarantees on certain interest-sensitive life contracts and fixed annuities. Annuity benefit margin will continue to be adversely impacted

by certain closed blocks of life-contingent immediate annuities whose benefit payments are anticipated to extend beyond their original pricing expectations. The annuity benefit margin in future periods will fluctuate based on the timing of annuitant deaths on these life-contingent immediate annuities and the annual evaluation of assumptions used in our valuation models for variable and fixed annuity guarantees.

Amortization of DAC and DSI, excluding amortization related to realized capital gains and losses, increased 15.8% or $19 million in the three months ended September 30, 2005 and 6.1% or $23 million in the first nine months of 2005 compared to the same periods of 2004 as a result of higher gross margin. DAC and DSI amortization related to realized capital gains and losses, after-tax, decreased $13 million in the third quarter and increased $78 million in the first nine months of 2005 compared to the same periods in the prior year. The increase in the nine-month period was due to increased realized capital gains on investments supporting certain fixed annuities.

In the first quarter of 2005, we performed our annual comprehensive evaluation of the assumptions used in our valuation models for all investment products, including variable and fixed annuities and interest-sensitive and variable life products, which resulted in net DAC and DSI amortization acceleration of $7 million (commonly referred to as "DAC and DSI unlocking"). The DAC and DSI unlocking includes amortization acceleration on fixed annuities of $62 million and $3 million on interest-sensitive and variable life products, partially offset by amortization deceleration on variable annuities of $58 million. The amortization acceleration on fixed annuities was primarily due to higher than expected lapses on market value adjusted annuities and faster than anticipated investment portfolio yield declines. The amortization deceleration on variable annuities was mostly attributable to better than anticipated equity market performance and persistency.

In the prior year, the comparable DAC and DSI unlocking was a net acceleration of amortization of $0.5 million, which included deceleration of amortization related to interest-sensitive life and acceleration of amortization related to fixed annuities.

Operating costs and expenses remained consistent in the three months ended September 30, 2005 compared to the same period in 2004 and increased 3.7% in the first nine months of 2005 compared to the same period in 2004. The following table summarizes operating costs and expenses.

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Non-deferrable acquisition costs	$ 65	$ 54	$ 187	$ 192
Other operating costs and expenses	77	89	295	273
Total operating costs and expenses	$ 142	$ 143	$ 482	$ 465

Non-deferrable acquisition costs for the third quarter of 2005 increased 20.4% compared to the same period in the prior year as a result of higher premium taxes and non-deferrable commissions. For the first nine months of 2005, non-deferrable acquisition costs declined 2.6% compared to the same period in the prior year primarily as a result of a $15 million charge related to loss experience on certain credit insurance policies that was recorded in the third quarter of 2004. The decline in other operating costs and expenses in the third quarter of 2005 compared to the same period in the prior year was attributable to lower employee and technology expenses. The increase in total operating costs and expenses for the nine-month period was primarily attributable to an increase in a liability for future benefits of a previously discontinued benefit plan.

Net realized capital gains and losses are presented in the following table.

	Three Months Ended September 30,	Nine Months Ended September 30,

(in millions)	2005	2004	2005	2004
Write-downs	$ (10)	$ (27)	$ (23)	$ (73)
Dispositions	24	3	122	(9)
Valuation of derivative instruments	(32)	(23)	(101)	(49)
Settlement of derivative instruments	45	(4)	54	(4)
Realized capital gains and losses, pretax	27	(51)	52	(135)
Income tax (expense) benefit	(10)	18	(19)	45
Realized capital gains and losses, after-tax	$ 17	$ (33)	$ 33	$ (90)

For further discussion of realized capital gains and losses, see the Investments section of MD&A.

INVESTMENTS

An important component of our financial results is the return on our investment portfolios. Investment portfolios are segmented between the Property-Liability, Allstate Financial and Corporate and Other operations. The investment portfolios are managed based upon the nature of each respective business and its corresponding liability structure. The composition of the investment portfolios at September 30, 2005 is presented in the table below.

(in millions)	Property-Liability	Percent to total	Allstate Financial(3)	Percent to total	Corporate and Other(3)	Percent to total	Total	Percent to total
Fixed income securities(1)	$ 33,383	81.4%	$ 64,247	84.7%	$ 2,077	82.5%	$ 99,707	83.5%
Equity securities(2)	5,728	14.0	304	0.4	63	2.5	6,095	5.1
Mortgage loans	501	1.2	7,984	10.5	—	—	8,485	7.1
Short-term	1,385	3.4	1,511	2.0	378	15.0	3,274	2.7
Other	10	—	1,835	2.4	—	—	1,845	1.6
Total	$ 41,007	100.0%	$ 75,881	100.0%	$ 2,518	100.0%	$ 119,406	100.0%

(1) Fixed income securities are carried at fair value. Amortized cost basis for these securities was $32.32 billion, $61.68 billion and $1.93 billion for Property-Liability, Allstate Financial and Corporate and Other, respectively.
(2) Equity securities are carried at fair value. Cost basis for these securities was $4.41 billion, $296 million, and $63 million for Property-Liability, Allstate Financial and Corporate and Other, respectively.
(3) Balances reflect the elimination of related party investments between Allstate Financial and Corporate and Other.

Total investments increased to $119.41 billion at September 30, 2005 from $115.53 billion at December 31, 2004, primarily due to positive cash flows from operating activities and increased funds primarily associated with securities lending, partially offset by decreased net unrealized gains on fixed income securities.

The Property-Liability investment portfolio increased to $41.01 billion at September 30, 2005 from $40.27 billion at December 31, 2004, primarily due to positive cash flows from operating activities, partially offset by dividends paid by AIC to The Allstate Corporation.

The Allstate Financial investment portfolio increased to $75.88 billion at September 30, 2005 from $72.53 billion at December 31, 2004, primarily due to positive cash flows from operating and financing activities and increased funds associated with securities lending.

The Corporate and Other investment portfolio decreased to $2.52 billion at September 30, 2005 from $2.73 billion at December 31, 2004. This decrease is primarily due to the liquidation of an investment management variable interest entity ("VIE") in the third quarter, partially offset by additional investments made in the portfolio of

Kennett Capital, Inc. ("Kennett Capital"), a wholly owned subsidiary of The Allstate Corporation, the source of which was dividends from AIC.

Total investments at amortized cost related to collateral due to securities lending and other security repurchase and resale transactions increased to $5.59 billion at September 30, 2005, from $4.85 billion at December 31, 2004.

At September 30, 2005, 94.3% of the consolidated fixed income securities portfolio was rated investment grade, which is defined as a security having a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from S&P, Fitch or Dominion; or a comparable internal rating if an externally provided rating is not available.

The unrealized net capital gains on fixed income and equity securities at September 30, 2005 were $5.10 billion, a decrease of $1.29 billion since December 31, 2004. The net unrealized gain for the fixed income portfolio totaled $3.77 billion, comprised of $4.25 billion of unrealized gains and $482 million of unrealized losses at September 30, 2005. This is compared to a net unrealized gain for the fixed income portfolio totaling $5.06 billion at December 31, 2004, comprised of $5.29 billion of unrealized gains and $228 million of unrealized losses.

Of the gross unrealized losses in the fixed income portfolio at September 30, 2005, $406 million or 84.2% were related to investment grade securities and are believed to be primarily a result of a rising interest rate environment. Of the remaining $76 million of losses in the fixed income portfolio, $57 million or 75.0% were in the corporate fixed income portfolio, $10 million or 13.2% were in the municipal bond portfolio and $9 million or 11.8% were in the asset-backed securities portfolio. The $57 million of corporate fixed income gross unrealized losses were primarily comprised of securities in the consumer goods, financial services, communications, and transportation sectors. The gross unrealized losses in these sectors were primarily company specific and interest rate related. Approximately $32 million of the total gross unrealized losses in the corporate fixed income portfolio were associated with the automobile industry, which includes direct debt issuances of automobile manufacturers, captive automotive financing companies and automobile parts and equipment suppliers, which are reported in the consumer goods and financial services sectors. Values in the automobile industry were primarily depressed due to company specific conditions. Additionally, approximately $7 million of the total gross unrealized losses in the corporate fixed income portfolio and $7 million of the total gross unrealized losses in the asset-backed securities portfolio were associated with the airline industry for which values were depressed due to company or issue specific conditions and economic issues, including fuel costs. We expect eventual recovery of these securities. Every security was included in our portfolio monitoring process.

The net unrealized gain for the equity portfolio totaled $1.33 billion, comprised of $1.35 billion of unrealized gains and $23 million of unrealized losses at September 30, 2005. This is compared to a net unrealized gain for the equity portfolio totaling $1.33 billion at December 31, 2004, comprised of $1.34 billion of unrealized gains and $14 million of unrealized losses. Within the equity portfolio, the losses were primarily concentrated in the consumer goods, financial services and technology sectors. The losses in these sectors were company and sector specific. We expect eventual recovery of these securities and the related sectors. Every security was included in our portfolio monitoring process.

Our portfolio monitoring process identifies and evaluates fixed income and equity securities whose carrying value may be other than temporarily impaired. The process includes a quarterly review of all securities using a screening process to identify those securities whose fair value compared to amortized cost for fixed income securities or cost for equity securities is below established thresholds for certain time periods, or which are identified through other monitoring criteria such as ratings downgrades or payment defaults. We also recognize impairment on securities in an unrealized loss position for which we do not have the intent and ability to hold until recovery.

We also monitor the quality of our fixed income portfolio by categorizing certain investments as “problem”, “restructured” or “potential problem.” Problem fixed income securities are securities in default with respect to principal or interest and/or securities issued by companies that have gone into bankruptcy subsequent to our acquisition of the security. Restructured fixed income securities have rates and terms that are not consistent with market rates or terms prevailing at the time of the restructuring. Potential problem fixed income securities are current with respect to contractual principal and/or interest, but because of other facts and circumstances, we have concerns regarding the borrower’s ability to pay future principal and interest, which causes us to believe these securities may be classified as problem or restructured in the future.

The following table summarizes problem, restructured and potential problem fixed income securities.

	September 30, 2005			December 31, 2004		
(in millions)	Amortized cost	Fair value	Percent of total Fixed Income portfolio	Amortized cost	Fair value	Percent of total Fixed Income portfolio
Problem	$ 182	$ 197	0.2%	$ 150	$ 153	0.1%
Restructured	30	30	—	75	75	0.1
Potential problem	190	205	0.2	265	269	0.3
Total net carrying value	$ 402	$ 432	0.4%	$ 490	$ 497	0.5%
Cumulative write-downs recognized(1)	$ 342			$ 351		

(1) Cumulative write-downs recognized only reflects write-downs related to securities within the problem, potential problem and restructured categories.

We have experienced an increase in the amortized cost of fixed income securities categorized as problem as of September 30, 2005 compared to December 31, 2004. The increase was primarily related to the addition of securities to the problem category as a result of company specific issues, including the third quarter bankruptcy filings of certain airlines. The decrease in the amortized cost of fixed income securities categorized as restructured and potential problem as of September 30, 2005 compared to December 31, 2004 was primarily related to dispositions. Dispositions included sales, where specific developments caused a change in our outlook and intent to hold the security, and calls.

We also evaluated each of these securities through our portfolio monitoring process at September 30, 2005 and recorded write-downs when appropriate. We further concluded that any remaining unrealized losses on these securities were temporary in nature and that we have the intent and ability to hold until recovery. While these balances may increase in the future, particularly if economic conditions are unfavorable, management expects that the total amount of securities in these categories will remain low relative to the total fixed income securities portfolio.

Net Realized Capital Gains and Losses The following table presents the components of realized capital gains and losses and the related tax effect.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2005	2004	2005	2004
Write-downs	$ (16)	$ (46)	$ (43)	$ (108)
Dispositions	158	192	518	511
Valuation of derivative instruments	(9)	(43)	(105)	(73)
Settlement of derivative instruments	66	(53)	78	(69)
Realized capital gains and losses, pretax	199	50	448	261
Income tax expense	(78)	(13)	(160)	(81)
Realized capital gains and losses, after-tax	$ 121	$ 37	$ 288	$ 180

Dispositions in the above table include sales, losses recognized in anticipation of dispositions and other transactions such as calls and prepayments. We may sell securities during the period in which fair value has declined below amortized cost for fixed income securities or cost for equity securities. In certain situations new factors such as negative developments, subsequent credit deterioration, relative value opportunities, market liquidity concerns and portfolio reallocations can subsequently change our previous intent to continue holding a security.

A changing interest rate environment will also drive changes in our portfolio duration targets at a tactical level. A duration target and range is established with an economic view of liabilities relative to a long-term portfolio view. Tactical duration adjustments within management’s approved ranges are accomplished through both cash market transactions and derivative activities that generate realized gains and losses and through new purchases. As a component of our approach to managing portfolio duration, realized gains and losses on derivative instruments are most appropriately considered in conjunction with the unrealized gains and losses on the fixed income portfolio. This approach mitigates the impacts of general interest rate changes to the overall financial condition of the corporation.

Because of the level of catastrophe losses experienced during the third quarter of 2005 and the possibility that we may need to have additional cash available to pay claims, we identified a portfolio of approximately $13.2 billion of securities from which we would consider selecting specific securities to sell to meet these needs. Approximately $2.0 billion of these securities were in an unrealized loss position, and, therefore, with the change in our intention to hold these investments, we recognized $15 million of anticipated disposition write-downs during the third quarter of 2005.

Because of changes in existing market conditions and asset return assumptions, certain changes are planned within various investment portfolios impacting approximately $492 million of securities at the end of the third quarter of 2005. These changes result from continued asset-liability management strategies, on-going comprehensive reviews of our portfolios, and changes being made to our strategic asset allocations. Approximately $215 million of these securities were in an unrealized loss position, and, therefore, with the change in our intent to hold these investments, we recognized $14 million of anticipated disposition write-downs during the quarter.

In the first quarter of 2005, because of an anticipated rise in interest rates, as well as changes in existing market conditions and long-term asset return assumptions, certain changes were planned within various portfolios. These included continued asset-liability management strategies; on-going comprehensive reviews of our portfolios; and changes being made to our strategic asset allocations, including Property-Liability duration, and we decided to pursue yield enhancement strategies for the Allstate Financial portfolio. At that time, we identified, in total, approximately $12.6 billion of securities we would consider selling to achieve these objectives. Of that $12.6 billion, approximately $4.3 billion of securities were in an unrealized loss position, for which we recognized $100 million of write-downs due to a change in intent to hold these securities until recovery. Of the $4.3 billion of securities with write-downs in the first quarter, $764 million with write-downs of $24 million have been sold and we continue to consider selling approximately $72 million with write-downs of $8 million. The remaining $3.5 billion of securities with write-downs of $68 million have been re-designated as being held to recovery within the available-for-sale category, primarily as a consequence of a lower than expected interest rate environment and market conditions that allowed for the intended achievement of the changes to the various portfolios with fewer dispositions. The difference between the current carrying value and par value of the re-designated securities will be recognized in net investment income over the remaining life of the securities, pursuant to the guidance in Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer".

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources consist of shareholders' equity and debt, representing funds deployed or available to be deployed to support business operations or for general corporate purposes. The following table summarizes our capital resources.

(in millions)	September 30, 2005	December 31, 2004
Common stock, retained earnings and other shareholders' equity items	$ 17,483	$ 19,208
Accumulated other comprehensive income	1,936	2,615
Total shareholders' equity	19,419	21,823
Debt	4,892	5,334
Total capital resources	$ 24,311	$ 27,157
Ratio of debt to shareholders' equity	25.2%	24.4%
Ratio of debt to capital resources	20.1%	19.6%

Shareholders' equity declined in the first nine months of 2005 when compared to December 31, 2004, due to share repurchases, decreases in unrealized net capital gains on investments and dividends paid to shareholders. In January 2005, we commenced a $4.00 billion share repurchase program. As of September 30, 2005, this program had $1.78 billion remaining and is expected to be completed in 2006.

Debt decreased in the first nine months of 2005 compared to December 31, 2004 primarily due to decreases in debt and commercial paper borrowings. In May 2005, we issued $800 million of 5.55% Senior Notes due 2035, utilizing the registration statement filed with the SEC in August 2003. The proceeds of this issuance were used for general corporate purposes including to fund the repayment of a portion of the $900 million of 7.875% Senior Notes due 2005, which were repaid at their scheduled maturity, May 1, 2005. In July 2005, we liquidated our consolidated investment management variable interest equity ("VIE"). As a result of the liquidation, long-term debt decreased by $279 million.

Financial Ratings and Strength Our ratings are influenced by many factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), exposure to risks such as catastrophes and the current level of operating leverage. There have been no changes to our debt, commercial paper and insurance financial strength ratings since December 31, 2004.

As a result of the catastrophe losses incurred in the third quarter of 2005, we remain engaged in discussions with A.M. Best about our financial condition and capital management plans. In October 2005, Standard & Poor's affirmed the A+ senior debt rating of The Allstate Corporation and the AA insurance financial strength ratings of AIC, ALIC and their rated affiliates, with a revised rating outlook of 'Negative' (from 'Stable'). Also in October 2005, Moody's affirmed the A1 senior debt rating of The Allstate Corporation and the Aa2 insurance financial strength ratings of AIC, ALIC and their rated affiliates.

We have distinct groups of subsidiaries licensed to sell property and casualty insurance in New Jersey and Florida. These groups maintain separate group ratings and are not reinsured by other Allstate subsidiaries that are not part of these respective groups. Allstate New Jersey Insurance Company and Encompass Insurance Company of New Jersey are rated A- by A.M. Best. Allstate New Jersey Insurance Company also has a Demotech rating of A". During the second quarter of 2005, A.M. Best affirmed its B+ ratings with a negative outlook for Allstate Floridian Insurance Company and Allstate Floridian

Indemnity Company. These companies have Demotech ratings of A'. During the third quarter of 2005, A.M. Best assigned B+ ratings with a negative outlook to Encompass Floridian Insurance Company and Encompass Floridian Indemnity Company. These companies have Demotech ratings of A.

Allstate's domestic property-liability and life insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Statutory surplus is a measure that is often used as a basis for determining dividend paying capacity, operating leverage and premium growth capacity, and it is also reviewed when determining financial ratings. As of September 30, 2005, AIC's statutory surplus is approximately $14.8 billion compared to $16.9 billion at December 31, 2004. This decline is primarily due to the estimated catastrophe losses related to Hurricanes Katrina and Rita.

Liquidity Sources and Uses The following table summarizes consolidated cash flow activities by business unit for the first nine months ended September 30.

	Property-Liability		Allstate Financial		Corporate and Other		Consolidated	
(in millions)	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Net cash provided by (used in):								
Operating activities	$ 3,288	$ 3,738	$ 1,639	$ 1,310	$ 342	$ (219)	$ 5,269	$ 4,829
Investing activities	(873)	(2,855)	(3,541)	(5,871)	220	(365)	(4,194)	(9,091)
Financing activities	(43)	100	1,944	4,870	(2,982)	(704)	(1,081)	4,266
Net (decrease) increase in consolidated cash							$ (6)	$ 4

Property-Liability Lower operating cash flows of the Property-Liability business in the first nine months of 2005 when compared to the first nine months of 2004 were primarily due to increased claim payments, partially offset by increased premiums. Cash used in investing activities decreased in the first nine months of 2005 primarily as a result of increased proceeds from sales of securities and lower operating cash flows, partially offset by increased investment purchases and higher dividends paid by AIC to its parent. These dividends totaled $2.43 billion in the first nine months of 2005 compared to $1.25 billion in the first nine months of 2004.

We expect that AIC will have sufficient liquidity to pay estimated catastrophe claims and claims expenses from existing sources of funds including operating cash flows, proceeds from the issuance of commercial paper and maturities and sales of investments.

Allstate Financial Higher operating cash flows for Allstate Financial in the first nine months of 2005 when compared to the first nine months of 2004 primarily related to higher investment income, partially offset by higher policy benefits and lower life and annuity premiums. Cash flows used in investing activities decreased in the first nine months of 2005 due to increased proceeds from sales of securities and higher investment collections, partially offset by the investment of higher operating cash flows.

Lower cash flow from financing activities during the first nine months of 2005 when compared to the first nine months of 2004 reflect lower institutional and fixed annuity contractholder fund deposits, higher fixed annuity withdrawals including increased surrenders of market value adjusted annuities and institutional product maturities. For quantification of the changes in contractholder funds, see the Allstate Financial Segment section of the MD&A.

Corporate and Other Higher operating cash flows of the Corporate and Other segment in the first nine months of 2005 when compared to the first nine months of 2004 were primarily due to the timing of intercompany settlements. Financing cash flows of the Corporate and Other segment reflect actions such as repayment of debt, fluctuations in short-term debt, proceeds from the issuance of debt, dividends to shareholders of The Allstate Corporation and share repurchases; therefore, financing cash flows are affected when we increase or decrease the level of these activities. We expect that The Allstate Corporation will have sufficient liquidity in 2005 and 2006 to fund shareholder dividends, debt service and the remainder of the current share repurchase program. The sources of liquidity for The Allstate Corporation include but are not limited to dividends from AIC and $2.29 billion of total investments at a subsidiary, Kennett Capital, Inc.

We have access to additional borrowing to support liquidity as follows:

- A commercial paper program with a borrowing limit of $1.00 billion to cover short-term cash needs. As of September 30, 2005, there were no balances outstanding and therefore the remaining borrowing capacity was $1.00 billion; however, the outstanding balance fluctuates daily.
- A five-year revolving credit facility expiring in 2009 totaling $1.00 billion to cover short-term liquidity requirements. This facility contains an increase provision that would make up to an additional $500 million available for borrowing provided the increased portion could be fully syndicated at a later date among existing or new lenders. Although the right to borrow under the facility is not subject to a minimum rating requirement, the costs of maintaining the facility and borrowing under it are based on the ratings of our senior, unsecured, nonguaranteed long-term debt. There were no borrowings during the first nine months of 2005. The total amount outstanding at any point in time under the combination of the commercial paper program and the credit facility cannot exceed the amount that can be borrowed under the credit facility.
- The capacity to issue up to an additional $1.35 billion of debt securities, equity securities, warrants for debt and equity securities, trust preferred securities, stock purchase contracts and stock purchase units utilizing the shelf registration statement filed with the Securities and Exchange Commission ("SEC") in August 2003.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This document contains "forward-looking statements" that anticipate results based on our estimates, assumptions and 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. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, product development, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. Factors which could cause actual results to differ materially from those suggested by such forward-looking statements include but are not limited to those discussed or identified in this document (including the risks described below) and are incorporated in this Part I, Item 2 by reference to the information set forth in our Annual Report on Form 10-K, Part II, Item 7, under the caption "Forward-Looking Statements and Risk Factors".

Our third quarter hurricane loss estimate is subject to uncertainty.

Management believes the estimated impacts of Hurricanes Katrina and Rita, including net loss reserves, are appropriately established and recorded based on available facts, information, laws and regulations. However, actual results may differ materially from the amounts recorded for a variety of reasons, including the following:

- These hurricanes occurred near the end of the quarter, with Rita following relatively soon after Katrina.
- Our policyholders' ability to report and our ability to adjust claims have been impeded by the extent of the devastation, the size of the area affected, and the fact that some communities were hit by both storms.
- Extensive and widespread floods in the New Orleans area and related government restrictions on access to the area have lengthened the claims adjusting process, complicating our ability to estimate losses.
- It is particularly difficult to assess the extent of damage in the initial stages of adjusting residential property losses.
- Our estimate for the ultimate costs of repairs may not prove to be correct because of increased demand for services and supplies in the areas affected by a hurricane.
- The number of IBNR claims may be greater or less than anticipated.
- The large number and nature of the claims and the need to have more claims adjusters to handle claims has increased pressure on our catastrophe claims settlement management process.
- Litigation has been filed by several parties including policyholders and state attorneys general, which if ultimately decided against us, could lead to a material increase in our catastrophe claims and claims expense estimate.

The nature and level of catastrophes in any period cannot be predicted. Although the industry and we use models developed by third party vendors in assessing our personal lines homeowners exposure to catastrophe losses, which assume various conditions and probability scenarios, such models do not necessarily accurately predict future losses or accurately measure losses currently incurred.

Catastrophe models use historical information about hurricanes and earthquakes and also utilize detailed information about our in-force business. These models have been evolving since the early 1990s. While we use this information in connection with our pricing and risk management activities, there are limitations with respect to their usefulness in predicting losses in any reporting period. These limitations are evidenced by significant variation in estimates between models and modelers; material increases and decreases in model results over time due to changes in the models and refinement of the underlying data elements and assumptions; questionable predictive capability over time intervals, and post event measurements that have provided ranges of estimates that have not been well understood or proven to be sufficiently reliable. In addition, the models are not necessarily reflective of company or state-specific policy language, demand surge and loss adjustment expenses, which are subject to wide variation by storm, and to mold losses which also vary significantly by storm.

We are subject to assessments from state insurance facilities.

We are currently monitoring developments with respect to various state facilities such as guaranty funds, LA Citizens, the Mississippi Windstorm Underwriting Association, the Mississippi Residential Underwriting Association, the Alabama Insurance Underwriting Association, the Texas FAIR Plan Association and the Texas Windstorm Insurance Association. The ultimate impact of Hurricanes Katrina and Rita on these facilities is currently uncertain, but could result in the facilities recognizing a financial deficit or a financial deficit greater than the level currently estimated. They may, in turn, have the ability to assess participating insurers when financial deficits occur, adversely affecting our results of operations. These facilities are generally designed so that the ultimate cost is borne by policyholders, however the exposure to assessments and the availability of recoupments or premium rate increases may not offset each other in our financial statements. Moreover, even if they do offset each other, they may not offset each other in the financial statements for the same fiscal period due to the ultimate timing of the assessments and recoupments or premium rate increases, as well as the possibility that affected policies will not be renewed in subsequent years.

Impacts of catastrophes and our catastrophe management strategy may affect premium growth.

We expect the productivity of our Allstate agents and independent agents in portions of the states of Louisiana, Mississippi, Alabama and Texas, to be severely affected by the catastrophes that occurred in the quarter. In addition, while we believe that the actions we are taking to support continued growth in the homeowners business in a profitable and prudent manner will be successful over the long term, it is possible that they will have a negative

impact on near-term growth and earnings. Homeowners premium growth rates and retention could be adversely impacted by adjustments to our business structure, size and underwriting practices in markets with significant catastrophe risk exposure. In addition, due to the elimination of cross-selling opportunities, new business growth in our auto lines could be lower than expected.

A decrease in our financial strength ratings may have an adverse effect on our competitive position.

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company's business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital; a change in a rating agency's determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer's investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. The insurance financial strength ratings of both AIC and ALIC are A+, AA and Aa2 from A.M. Best, Standard and Poor's and Moody's, respectively. Several other affiliates have been assigned their own financial strength ratings by one or more rating agencies. Because all of these ratings are subject to continuous review, the retention of these ratings cannot be assured. A multiple level downgrade in any of these ratings could have a material adverse effect on our sales, our competitiveness, the marketability of our product offerings, and our liquidity, operating results and financial condition.

We continue to be exposed to catastrophe losses that may be material.

We may continue to incur catastrophe losses in our homeowners insurance business in amounts in excess of those experienced this year, in excess of those that management projects would be incurred based on hurricane and earthquake losses which have a one percent probability of occurring on an annual aggregate countrywide basis, and in excess of those that modelers estimate would be incurred based on other levels of probability.

Reserve reestimates may impact future cash flows.

The declaration of dividends, the completion of the $4 billion stock repurchase program that we announced in November 2004, and our ability to service debt are subject to the impact of reserve reestimates on net income and cash flows. In addition, the declaration of dividends is subject to the discretion of our board of directors and its assessment of alternative uses of available funds. The completion of the stock repurchase program is subject to management discretion and their assessment of alternative uses of funds and the market price of Allstate's common stock from time to time.

Actions taken to simplify our Allstate Financial business model and improve profitability may not be successful and may result in losses and costs.

Allstate Financial is pursuing strategies intended to improve its return on equity. Actions that we have taken and may continue to take include changing the number and selection of products being marketed, terminating underperforming distribution relationships, merging or disposing of unnecessary and/or non-strategic legal entities, reducing policy administration software systems, and other actions that we may determine are appropriate to successfully execute our business strategies. The actions that we have taken and may take in the future may not achieve their intended outcome and could result in lower premiums and contract charges, restructuring costs, losses on disposition or losses related to the discontinuance of individual products or distribution relationships.

Changes in market interest rates may lead to a significant decrease in the sales and profitability of Allstate Financial's spread-based products.

Our ability to manage the Allstate Financial investment margin for spread-based products is dependent upon maintaining profitable spreads between investment yields and interest crediting rates. As interest rates decrease or remain at low levels, proceeds from investments that have matured or that have been prepaid or sold may be reinvested at lower yields, reducing investment margin. Lowering interest-crediting rates can offset decreases in investment margin on some products. However, these changes could be limited by market conditions, regulatory or contractual minimum rate guarantees on many contracts and may not match the timing or magnitude of changes in asset yields. Decreases in the rates offered on products in the Allstate Financial segment could make those products less attractive, leading to lower sales and/or changes in the level of surrenders and withdrawals for these products. Non-parallel shifts in interest rates, such as increases in short-term rates without accompanying increases in

medium- and long-term rates, can influence customer demand for fixed annuities, which could impact the level and profitability of new customer deposits. Increases in market interest rates can also have negative effects on Allstate Financial, for example by increasing the attractiveness of other investments, which can lead to higher surrenders at a time when the segment's investment asset values are lower as a result of the increase in interest rates. For certain products, principally fixed annuity and interest-sensitive life products, the earned rate on assets could lag behind market yields. We may react to market conditions by increasing crediting rates, which could narrow spreads. Unanticipated surrenders could result in DAC unlocking or affect the recoverability of DAC and thereby increase expenses and reduce profitability.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the fiscal quarter ended September 30, 2005, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information required for Part II, Item 1 is incorporated by reference to the discussion under the heading "Regulation" and under the heading "Legal and regulatory proceedings and inquiries" in Note 6 of the Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares (or Units) Purchased(1)		Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)		Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1, 2005 - July 31, 2005	5,015,572	$	61.3025	4,910,700	$	2.2 billion
August 1, 2005 - August 31, 2005	5,364,477	$	58.7885	5,164,900	$	1.9 billion
September 1, 2005 - September 30, 2005	2,053,000	$	54.3369	2,053,000	$	1.8 billion
Total	12,433,049	$	59.0676	12,128,600		

(1) July: In accordance with the terms of its equity compensation plans, Allstate acquired 104,872 shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise.

August: In accordance with the terms of its equity compensation plans, Allstate acquired 199,577 shares in connection with stock option exercises by employees and/or directors. The stock was received in payment of the exercise price of the options and in satisfaction of withholding taxes due upon exercise.

September: None.

(2) On November 9, 2004, Allstate announced the approval of a new repurchase program for $4.00 billion, which is expected to be completed in 2006. Repurchases under the program are, from time to time, executed under the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934.

Item 6. Exhibits

(a) Exhibits

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

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 1, 2005

By /s/ Samuel H. Pilch
Samuel H. Pilch
Controller
(chief accounting officer and duly authorized officer of Registrant)

Exhibit No.	Description
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.
10.1	Class Action Settlement Agreement re: *William Sekly vs. Allstate Insurance Company.*
15	Acknowledgment of awareness from Deloitte & Touche LLP, dated November 1, 2005, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer
32	Section 1350 Certification

CLASS ACTION SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (hereinafter "Agreement") is entered into and effective upon its execution by all parties hereto. It is entered into by and between all members of the "Plaintiff Class," part of which has previously been certified (as identified and defined in paragraph 3 below), including the court-approved "Named Plaintiff" (as identified hereafter), on the one hand, and ALLSTATE INSURANCE COMPANY (hereafter referred to as "Defendant" or "Allstate"), on the other hand, with reference to the following recitals and provisions:

RECITALS

A. Certain claims, demands and differences have existed heretofore between the Plaintiff Class and Defendant, including Plaintiff Class' contention that Defendant failed to pay members of the Plaintiff Class ("Class Members") overtime pay and/or to provide them paid rest breaks and/or unpaid meal periods (collectively, "Breaks") as required by law and Defendant's contention that the Class Members are exempt from such requirements.

B. The Plaintiff Class and Defendant are parties to a civil action, bearing case number BC 240 813 pending in the Superior Court of the State of California for the County of Los Angeles ("the "Court"), entitled *William Sekly vs. Allstate Insurance Company*, and filed on or about November 27, 2000 ("the Lawsuit").

C. The operative complaint in the Lawsuit shall be the amended complaint (the "Class Complaint") referred to in paragraph 5 below, which alleges, among other things, that Defendant improperly classified the Class Members as exempt employees, misrepresented that such Class Members were exempt employees, and failed to pay overtime compensation and/or to provide Breaks to such Class Members. Defendant denied said allegations in their entirety and alleged that the Class Members were properly classified as exempt employees and that any and all compensation and/or Breaks due to such Class Members was paid and/or provided according to law.

D. The matter has been litigated before the Hon. Anthony Mohr, Judge of the Court.

E. On August 23, 2002, the Court, over Defendant's objection, certified this matter as a class action for the determination of the issue of liability, and on January 19, 2005, the Court, again over Defendant's objection, further certified this matter as a class action for the determination of damages.

F. The Court has approved the following law firms as "Class Counsel" for the Plaintiff Class:

Marlin & Saltzman
The R. Rex Parris Law Firm
Mazursky, Schwartz, Daniels & Bradley

G. The Court appointed the following individuals as representative plaintiffs:

Dani Bednar
William Sekly

Thereafter, on or about March 17, 2005, Ms. Bednar was permitted to withdraw as a class representative, but she remains a Class Member. Prior to that time, she executed all of the duties of a class representative.

H. Throughout the prosecution of this litigation, Defendant has been represented by:

Latham & Watkins LLP
Seyfarth Shaw, LLP

I. On April 21, 2004, the Court entered its order granting the motion by the Plaintiff Class for summary adjudication of the issue of liability, determining that the members of the then-certified Plaintiff Class were non-exempt production workers entitled to overtime compensation.

J. On or about January 1, 2005, Defendant commenced classifying all members of the Plaintiff Class as non-exempt employees. It is the position of Class Counsel that the action brought by plaintiffs herein was a significant factor, along with other events, in causing Allstate to change its policy. Defendant disputes this and asserts in this regard that, at the same time it changed that classification, it reclassified as non-exempt other job classifications that are specifically excluded from the Plaintiff Class.

K. The parties have conducted substantial formal discovery and investigation, and have researched and briefed the legal and factual issues relating to the claims and defenses of the action, and of all the claims contained in the Class Complaint.

L. The parties have engaged in substantial negotiations over the course of several months. During that time, they have engaged the services of an independent mediator, Justice Edward Panelli, who is a retired justice of the California Supreme Court.

M. The mutual costs and risks and hazards of continuing to prosecute and defend the litigation have led the parties to resolve the case by way of settlement.

N. Allstate has denied and continues to deny each of the claims and contentions alleged by the Class Complaint. Allstate has repeatedly asserted and continues to assert defenses thereto, and has expressly denied and continues to deny any wrongdoing or legal liability arising out of any of the facts or conduct alleged in the Class Complaint. Allstate also has denied and continues to deny, *inter alia*, the allegations that the Class Members have suffered damage; that Allstate mis-classified any Class Members as exempt employees; that Allstate failed to provide any Class Members Breaks to which they were entitled; that Allstate failed to pay any Class Members waiting time penalties and/or any other penalties to which they claim to be entitled; that Allstate unlawfully converted wages due Class Members; that Allstate engaged in any unlawful, unfair or fraudulent business practices; that Allstate engaged in any wrongful conduct as alleged in the Class Complaint; or that any Class Members were harmed by any conduct alleged in, or that

could have been alleged in, the Class Complaint. Neither this Agreement, nor any document referred to or contemplated herein, nor any action taken to carry out this Agreement, is, may be construed as, or may be used as an admission, concession or indication by or against Allstate of any fault, wrongdoing or liability whatsoever.

O. It is the intention of the parties to this Agreement to settle and dispose of, fully and completely, any and all claims, demands and causes of action set forth in the Class Complaint as described hereafter and any related claims, as between the Plaintiff Class and Defendant, as more fully set forth in paragraphs 15 through 18 of this Agreement.

PROVISIONS

1. COOPERATION BY THE PARTIES

The Plaintiff Class, Defendant and their counsel agree to cooperate fully with each other to promptly execute all documents and take all steps necessary to effectuate the terms and conditions of this Agreement.

2. APPOINTMENT OF REFEREE

The parties have stipulated to, and have obtained the Court's order approving of, the appointment of the Hon. Edward Panelli (Ret.) as the Referee in this matter. Said appointment shall be to assist the Court in effectuating the settlement of this case. In that regard, the Referee shall perform the following:

(a) Meet and confer with the parties and mediate any disputes concerning this Agreement.

(b) Conduct a hearing concerning preliminary approval of the terms and conditions of the settlement. Said hearing shall be conducted in public.

(c) Report, in writing, to the Court concerning preliminary approval of the terms and conditions of the proposed settlement and make a recommendation to the Court as to the granting or denial of preliminary approval.

(d) If at the time the Referee reports to the Court concerning preliminary approval of the settlement it is the Referee's recommendation that preliminary approval should be granted, the Referee shall also present to the Court a form of class notice approved by the parties, and a method of distribution of notice approved by the parties, which the Referee believes meets due process requirements.

(e) If the Court grants preliminary approval of the terms and conditions of the settlement and approves the proposed form and method of class notice, the Referee shall hold a final fairness hearing. Said hearing shall be conducted in a public courtroom and shall not commence prior to 10:00 a.m. on October 24, 2005, or on such date thereafter as set by the Referee. At the conclusion of that hearing, the Referee shall report his findings to the Court. Included in this report shall be a summary of any timely and proper objections received, the

Referee's recommendation as to the granting of final approval, and such other matters as the Referee deems appropriate to bring to the Court's attention.

(f) After final approval by the Court, the Referee shall determine the timeliness of Claim Forms (as set forth in paragraph 7 below) and shall resolve any dispute by any Class Member as to any factor or issue regarding the computation of that Class Member's Individual Settlement Award (as defined below), and the Referee's decision on any such issue or dispute shall be final and binding.

3. DEFINITION OF THE PLAINTIFF CLASS

(a) For purposes of this settlement only, the parties agree that the "Plaintiff Class" is defined as follows:

(1) All persons who, at any time between November 27, 1996 and December 31, 2004 (the "Class Period") were employed by Allstate in California as claims adjusters. As used in this definition, the term "claims adjuster" refers to any individual whose primary assigned duties as an employee of Allstate included or currently include, but were not limited to, the adjustment and/or investigation and/or analysis and/or evaluation of the monetary worth of any claim made to Allstate for any bodily injury, property damage, and/or monetary damage of every nature and type and who were paid as exempt employees during the Class Period as the same are defined pursuant to statute and/or California or federal regulatory determination.

(2) The job titles specifically encompassed by the definition of "claims adjuster" include, from various times during the Class Period:

Claim Representative
Senior Claim Representative
Staff Claim Representative
Senior Staff Claim Representative
Staff Claim Analyst
Claim Adjuster
Senior Claim Adjuster
Staff Claim Adjuster
Senior Staff Claim Adjuster
Staff Claim Analyst

Claim Service Adjuster
Senior Claim Service Adjuster
Staff Claim Service Adjuster
Appraisers
Claims Specialist
Claims Consultant
Evaluation Consultants
Damage Evaluators
Quality Evaluators
Extra Contractual Liability Specialists

Although the Court previously ruled that claims adjusters in the Special Investigation Unit and/or as Subrogation Adjusters were not included in the Plaintiff Class, and although Evaluation Consultants, Damage Evaluators, Quality Evaluators and Extra Contractual Liability Specialists were previously excluded from the Plaintiff Class, the Plaintiffs and Allstate have expressly agreed that such persons shall be included in the Plaintiff Class in order for this settlement to be effectuated, and the negotiations specifically included and contemplated said persons being in the Plaintiff Class.

(3) Any change, modification, addition or deletion of any job titles by Defendant shall not result in a change in the persons defined as Class Members.

(b) Persons expressly excluded from the Plaintiff Class:

Persons who performed such functions while classified, employed and compensated by Allstate as supervisors, managers or officers of Allstate are not included in the Plaintiff Class during any time said persons were so employed. Persons performing work in the following job titles (as the work duties and responsibilities of said titles existed as of the date of certification) are not included in the defined class during any period of time said position was held during the Class Period: Frontline Process Experts, Frontline Performance Leaders and supervisory personnel.

(c) Previous opt-outs from the Plaintiff Class:

The parties recognize that certain persons previously elected to opt out of the Plaintiff Class either at the time notice of class certification for liability or notice of class certification for damages were served, and that, by agreement of the parties made prior to this Agreement, certain of those persons have been permitted to opt back into the Plaintiff Class. The parties have expressly agreed as part of the consideration for this Agreement, that all persons who previously opted out but have not previously opted back in shall be permitted to opt back into the Plaintiff Class by the timely submission of a Claim Form as described in paragraph 7 below, and that the negotiations specifically included and contemplated said persons being given such opportunity. Any such person who fails to submit a timely Claim Form will remain excluded from the Plaintiff Class.

(d) Allstate’s waiver of objections to the Plaintiff Class:

Solely for the purposes of implementing this Agreement and effectuating the settlement, Allstate stipulates that the Court may enter an order preliminarily certifying the Plaintiff Class and appointing the Named Plaintiff as representative of the Plaintiff Class. Allstate expressly reserves its rights to challenge the propriety of the previous orders of class certification issued by the Court for any purpose should this Agreement not be approved or become effective.

4. CONSIDERATION BY DEFENDANT

In consideration for the releases and dismissals set forth in paragraphs 15, 16 and 17 below, Defendant agrees to (1) payment to Class Members pursuant to the payment procedure as described in paragraphs 7 and 8 herein; (2) the payment of attorneys’ fees, costs and expenses, as

set forth herein and as awarded by the Court; and (3) the payment of the cost of administration of the settlement, including all fees of the Referee and of the third party claims administrator selected by Class Counsel (hereinafter, the “Administrator”), all subject to the limitations contained in sub-paragraphs (a) and (b) hereafter.

(a) “Potential Maximum Consideration” to be paid by Defendant:

The “Potential Maximum Consideration” to be paid by Defendant is the total sum of One Hundred Twenty Million Dollars ($120,000,000). The payment by Defendant shall be “all inclusive,” including, but not limited to: unpaid overtime pay, and any penalties, premium pay or damages associated with or related to such alleged violations, including possible penalties under the Private Attorneys General Act of 2004 (“PAGA”); pay for Breaks, and any penalties, premium pay or damages associated with or related to such alleged violations, including possible penalties under the PAGA; interest, costs, attorneys’ fees, class administration costs, referee costs, incentive payments to class representatives (both current and former), employee-paid and employer-paid withholding and payroll taxes (including, without limitation, state and federal income taxes, social security contributions and unemployment taxes) and all other settlement-related payments and costs. However, any costs (independent of costs incurred by the Administrator) incurred as a result of Defendant issuing settlement payments to Class Members and/or Class Counsel shall be borne by Defendant. In the event Defendant elects to have the Administrator distribute settlement proceeds, such costs shall be borne by Defendant.

(b) Attorneys’ fees and costs:

Defendant acknowledges that Class Counsel will apply to the Court for an award of attorneys’ fees and reimbursement of costs and expenses incurred in the prosecution of this matter for the benefit of the Plaintiff Class. The parties agree that, subject to the approval of the Referee and the Court as set forth hereafter, Class Counsel will seek attorneys' fees as a percentage, not to exceed 33-1/3% of the total Potential Maximum Consideration. Any attorneys' fees, costs and expenses approved by the Court shall be subtracted from the Potential Maximum Consideration.

5. FILING OF CLASS COMPLAINT

On or before August 31, 2005, Class Counsel shall file an amended complaint, hereinabove and hereafter referred to as the "Class Complaint," asserting various allegations on behalf of the Plaintiff Class (as defined in paragraph 3 above), which have been included in the ongoing negotiations, including meal and rest period violations; for all penalties, premium pay or damages associated with or related to alleged overtime violations or meal and rest period violations, including possible penalties under the PAGA; overtime violations under the federal Fair Labor Standards Act ("FLSA"); and for all other remedies or penalties which may or may not be available under the PAGA, the California Labor Code, or the wage orders issued by the California Industrial Welfare Commission ("Wage Orders"). Defendant shall stipulate to allow the filing of the Class Complaint in compliance with this provision. All the material allegations of the Class Complaint are deemed denied without the necessity of Allstate filing an Answer to the Class Complaint.

6. FILING OF STIPULATION TO CERTIFY PLAINTIFF CLASS

Contemporaneous with the filing of the Class Complaint, the parties shall file a joint stipulation to certify the Plaintiff Class as defined herein for purposes of settling the Lawsuit.

7. NOTICE OF SETTLEMENT AND CLAIM FORM; TIME TO SUBMIT CLAIMS

(a) Notice of Settlement ("Notice")

Class Members will be provided with notice of the terms and conditions of this settlement in a form of notice approved by the Referee and the Court and attached hereto as Exhibit "A". The Notice shall be accompanied by a "Claim Form/FLSA Consent Form" ("Claim Form") approved by the Court and attached hereto as Exhibit "B", an "Exclusion Request Form" approved by the Court and attached hereto as Exhibit "C" and a postage paid envelope pre-addressed to the Administrator, and shall inform Class Members of

(1) the terms of the settlement;

(2) the fact that persons previously excluded or not previously included in the Plaintiff Class may elect to exclude themselves from participation by executing and returning the Exclusion Request Form within thirty (30) days of the date Notice is mailed;

(3) the fact that a Class Member who previously elected to exclude himself or herself from the Plaintiff Class may, by submitting a timely and valid Claim Form (as described hereafter), be included in the Plaintiff Class for settlement purposes (and that if he or she fails to submit a Claim Form, he or she will remain excluded and will not be a Class Member);

(4) that Class Members shall have until the seventy-fifth (75th) day after mailing of the Notice (the "Submission Date") to submit their Claim Form, or a copy thereof, to the Administrator; and

(5) the name and address to which the Claim Form must be returned and that the enclosed postage paid and pre-addressed envelope may be used to return the Claim Form to the Administrator.

(b) Claim Form

The Claim Form shall inform each Class Member

(1) that by submitting a Claim Form, the Class Member agrees to participate in the settlement for FLSA purposes and thereby waive any additional rights the Class Member may have pursuant to the FLSA;

(2) that the Class Member is shown by Allstate's records to have worked in the Plaintiff Class for a specified number of months and for a specified number of days as a catastrophe ("CAT") adjuster in each year in the Class Period, and that the Class Member

has the right to dispute any such information and to submit documentation in support of such dispute;

(3) that to submit a valid claim the Class Member must declare under penalty of perjury that he or she worked overtime for Allstate as a Class Member during the Class Period, and that the Class Member may be asked to provide certain identifying information;

(4) that the failure to make this declaration or to provide accurate identifying information upon request shall make the Class Member's Claim Form defective; and

(5) that the Class Member shall have until the Submission Date to submit his or her Claim Form, or a copy thereof, to the Administrator.

Class Counsel shall also post a blank copy of the Claim Form on their website and Class Members may download the same for use in presenting their claim.

(c) Mailing of Notice and Claim Form

The Administrator shall send the Notice, Claim Form, Exclusion Request Form and return envelope to all Class Members via first class U.S. Mail. The Administrator shall perform one skip trace as to any Notices and Claim Forms that are returned by the post office for invalid addresses. Those

Class Members who receive notice pursuant to the one skip trace shall be informed (via an insert in the notice) that his or her time to submit a claim shall be the later of (i) thirty (30) days from the date notice is mailed to the updated address, or (ii) the Submission Date. Class Counsel and Defendant's counsel shall be advised by the Administrator of the identity of all Class Members who were sent notice as a result of a skip trace and whose notice was again returned within seven (7) days of receipt of same by the Administrator.

(d) Time for Submission of Claim Forms

(1) Except as set forth in paragraphs 7(e) and 7(f) below, to be considered timely, a Claim Form must be submitted to the Administrator on or before the Submission Date.

(2) Those Class Members who receive notice pursuant to the one skip trace shall have until the later of (i) thirty (30) days from the date notice is mailed to the updated address, or (ii) the Submission Date to submit a claim.

(3) The submission of a claim will be deemed completed on the earlier of the date of receipt by the Administrator or the postmark date on the envelope containing the Claim Form.

(4) A Class Member who submits a timely and properly completed Claim Form shall be a "Settlement Class Member."

(e) Defective Claim Forms

A Claim Form shall be defective if a Class Member fails to make the required declaration or fails to provide accurate identifying information upon request. If the Administrator receives a defective Claim Form, the Administrator shall return the Claim Form to the Class Member via first class mail and instruct the Class Member that he or she has until the later of (i) thirty (30) days or (ii) the Submission Date within which to correct and/or complete the Claim Form and/or provide the requested information and return it via first class mail. If a completed Claim Form is not received within said time frame, the Claim Form shall be considered defective and invalid for purposes of this settlement. The Administrator will provide the identity of Class Members who submitted defective Claim Forms to Class Counsel and Defendant's counsel at the same time a Class Member is notified that his or her Claim Form is defective. Class Counsel shall be notified of the identity of Class Members who do not correct defective claims forms within the time allowed therefore. Class Counsel may then contact those Class Members, and if a correct Claim Form is received within twenty (20) days after the Administrator has so notified Class Counsel, it shall be accepted as timely.

(f) Late Claims

Any claim submitted after the applicable time limits described in paragraph 7(e) shall be handled as follows:

(1) Class Members submitting late claims shall be informed by the Administrator that their claims are late and shall have an opportunity to present the Referee with a written statement, under penalty of perjury, within ten (10) days of being so informed as to the basis for their claim being late.

(2) The Referee shall have the sole discretion to approve or disapprove all such claims in accordance with the following:

[a] If the claim was initially submitted on or before January 31, 2006, the Referee shall determine whether the claim was submitted late due to an invalid mailing address. If so, the claim shall be considered as having been submitted on time and the person submitting such claim shall be a Settlement Class Member. If the claim was submitted late for any other reason, the Referee shall determine whether the reason is appropriate and if so, it shall be considered a "Late Claim" and shall be computed and paid separately from timely claims as set forth in paragraph 8(f) below and the person submitting such claims shall be a "Late Claim Settlement Class Member." If the Referee determines that the reason is inappropriate, the claim shall be rejected as untimely.

[b] Any claim that is submitted later than February 28, 2006 (the "Final Submission Date"), regardless of the reason, shall be rejected as untimely.

(3) All determinations made by the Referee under this paragraph (f) shall be final and binding.

(g) Retention of Claim Forms

The Claim Forms shall be maintained by the Administrator until the Final Submission Date. At that time, the forms shall be provided to Defendant for use in distributing the settlement proceeds. However, at no time shall any such form (1) be used in any proceeding or action regarding the potential discipline of any individual employee, (2) be placed (or a copy placed) in any individual employee's personnel file, or (3) be provided to any manager or supervisor at the claims office level or below. The purpose of the previous sentence is to ensure that no current or former employee could, in any way, be negatively impacted by the fact of filing a claim.

8. PAYMENT TO CLASS MEMBERS AND CLAIMS PROCEDURE

(a) Potential Gross Individual Settlement Proceeds.

The "Potential Gross Individual Settlement Proceeds" shall equal the Potential Maximum Consideration minus the total of (i) Court-approved attorneys' fees; (ii) Court-approved reimbursement of costs and expenses; (iii) Court-approved expenses incurred by the Referee; (iv) Court-approved incentive awards to the current and former named class representatives; (v) all administrative costs relating to the claims process, (except those costs resulting from Defendant's election to have the Administrator issue settlement checks); and (vi) the Late Claim Reserve described in paragraph 8(f) below.

(b) Annual Percentage; Potential Annual Gross Settlement Proceeds

Each calendar year during the Class Period shall be assigned an "Annual Percentage." That percentage shall equal (i) the total compensation to all Class Members during that year plus imputed interest calculated at seven percent (7%) per annum simple interest through December 31, 2004, divided by (ii) the sum of all such compensation and all such imputed interest for all calendar years in the Class Period. As used herein, a Class Member's total compensation for a calendar year shall be the amount reported in Box 1 of the member's W-2 form for that year, (prorated to the nearest full month for any year in which a Class Member was not actively employed in the Plaintiff Class for the entire year). The Annual Percentage shall then be multiplied by the Potential Gross Individual Settlement Proceeds to determine the "Potential Annual Gross Settlement Proceeds" allocable to that calendar year. Of the total amount so allocated, the percentage allocable to imputed interest shall be interest and the remainder shall be, in the appropriate percentages, wages (subject to withholding) and employer-paid payroll taxes on such wages.

(c) Individual Percentage

Each Class Member's "Individual Percentage" of each Potential Annual Gross Settlement Proceeds shall equal (i) the gross compensation earned by that Class Member for the months in each calendar year that such Class Member worked as a Class Member divided by (ii) the total gross compensation paid to all Class Members for all of the months worked by Class Members during such year of the Class Period. For purposes of this calculation, every Class Member who was employed as a CAT adjuster at any time during such year shall have his or her annual gross compensation for that year increased by a factor equal to sixty percent (60%) times the ratio of the number of days that Class Member worked as a CAT adjuster that year over 365. It is

understood that Individual Percentages for Class Members who worked as CAT adjusters in any year will be increased, and the Individual Percentages for Class Members who did not work as CAT adjusters shall be correspondingly reduced. For purposes of 1996 only, any person who was a Class Member for at least two weeks between November 27 and December 31, 1996 shall be credited with one (1) month, and CAT adjuster duty shall not be considered.

Example: If a Class Member worked during a year in the Class Period and earned a total of $1, and the total gross compensation paid out to Class Members during that year, after adjustments for CAT duty, was $100, that Class Member's Individual Percentage would be 1 percent (1/100) of the Potential Annual Gross Settlement Proceeds for that year.

(d) Individual Settlement Award

Each Class Member's "Individual Settlement Award" shall equal the sum of his or her Individual Percentages of each Potential Annual Gross Settlement Proceeds and shall be comprised of interest, wages (subject to withholding) and employer-paid payroll taxes on such wages in the same appropriate percentages as the respective Potential Annual Gross Settlement Proceeds. The portion of each Individual Settlement Award that is not interest shall be divided by the appropriate divisor to determine the Class Member's gross wages (subject to withholding) and the balance shall be the employer-paid payroll taxes with respect to such gross wages.

(e) Claimed Settlement Amount; Unclaimed Amount

The total of Individual Settlement Awards claimed by Settlement Class Members shall be the "Claimed Settlement Amount." If each and every Class Member is a Settlement Class Member, then the Claimed Settlement Amount shall equal the Potential Maximum Consideration and all Individual Settlement Awards shall be distributed to all Settlement Class Members. If any Class Member does not become either a Settlement Class Member or a Late Claim Settlement Class Member, the following shall apply:

The value of the Individual Settlement Award for a Class Member who is not a Settlement Class Member or a Late Claim Settlement Class Member shall be determined by the Claims Administrator and allocated to the "Unclaimed Amount." The first Six Million Dollars ($6 million) plus one-half (1/2) of any amount over Six Million Dollars ($6 million) in the Unclaimed Amount shall be distributed to Settlement Class Members on a pro rata basis where the numerator equals each Settlement Class Member's Individual Settlement Award and the denominator equals the sum of the Individual Settlement Award for all Settlement Class Members. Each allocation shall be interest, wages (subject to withholding) and employer-paid payroll taxes on such wages in the same proportions as each Settlement Class Member's Individual Settlement Award. The balance of the Unclaimed Amount (one-half (1/2) of any amount over Six Million Dollars($6 million)) shall be retained by Allstate.

(f) Late Claim Settlement Members; Late Claim Reserve

A total of Five Hundred Thousand Dollars ($500,000) (the "Late Claim Reserve") shall be held aside from the Potential Maximum Consideration to cover the payment of Late Claims as defined in paragraph 7(f). Any Late Claim Settlement Class Member shall be entitled to

payment of an Individual Settlement Award as if such claim had not been late, and computed on the same basis as if it represented a share from the Potential Gross Individual Settlement Proceeds, except that (i) all such claims paid to Late Claim Settlement Class Members shall be paid solely from the Late Claim Reserve; (ii) the total of all such claims shall not exceed such reserve; and (iii) Late Claim Settlement Class Members shall not participate in the distribution of the Unclaimed Amount under paragraph 8(e). If the total of the claims made by Late Claim Settlement Class Members exceeds the Late Claim Reserve, all such claims shall be reduced proportionately so that the total paid does not exceed $500,000. If the total of the claims by Late Claim Settlement Class Members is less than $500,000, the unused portion of the Late Claim Reserve shall be retained by Allstate.

(g) Tax Liability and Net Payments

The payment by Defendant pursuant to this Agreement is for alleged failure to pay overtime compensation, interest on said sum, and all other claims as set forth in the operative Class Complaint (as described in paragraph 5 herein). In accordance with both State and Federal tax laws, Defendant shall withhold such sums from each Class Member's Individual Settlement Award as is required in order to comply with the same. Portions of any Individual

Settlement Award not subject to withholding will be issued with a 1099 form. After appropriate tax withholding, the net payment to be received by each Settlement Class Member shall be designated as the "Net Payment," and said sum shall be paid as provided in paragraph 13 below. Defendant shall report the taxes withheld from the wages of each Class Member as required via a W-2 form, and shall pay over all such withheld funds, plus the employer's contribution, to the appropriate State and Federal taxing authority as required by law. Defendant shall provide each Class Member with appropriate documentation setting forth the amount of any tax or other payment withheld, and employer contribution made, in accordance with State and Federal tax requirements. In addition, Defendant shall provide such information to the Administrator and to Class Counsel. Class Members shall be responsible for remitting to State and/or Federal taxing authorities any other applicable taxes due and shall hold Allstate harmless and indemnify it for any liabilities, costs and expenses, including attorney fees, caused by any such taxing authority relating in any way to the tax treatment of the payments made pursuant to this Agreement.

(h) Challenges to Number of Months or CAT Days Allocated to Each Employee by Allstate and/or to Computation of Individual Settlement Awards

(1) If a Class Member disagrees with Allstate's calculation as to his or her number of months of employment or the number of CAT days worked which are used to determine the Class Member's share of the Claimed Settlement Amount, said disagreement must be set forth in writing and returned to the Administrator at the time that the Class Member's Claim Form is submitted. Allstate will have ten (10) days from notice of such dispute from the Administrator within which it may respond in writing to the Class Member, the Administrator and Class Counsel or the Class Member's challenge shall be deemed correct. The Class Member shall then have fifteen (15) days to provide a reply to Allstate's response, if he or she so desires. Thereafter, the Referee shall decide the number of months to be allocated to that Class Member and the Referee's decision shall be final and binding.

(2) If a Class Member disagrees in any way with the computation of his or her Individual Settlement Award, such dispute must be communicated in writing to the Administrator within ten (10) days of the notice of such award. Thereafter, Allstate and/or the Administrator will have ten (10) days to respond in writing to the Class Member. Thereafter, the Referee shall decide the amount of such Individual Settlement Award and the Referee's decision shall be final and binding.

9. ADMINISTRATION OF POTENTIAL MAXIMUM CONSIDERATION

(a) At no time shall Allstate have the obligation to segregate the funds comprising the Potential Maximum Consideration from its other assets. Allstate will retain exclusive authority over, and responsibility for, those funds until paid.

(b) The Administrator, will calculate the net amounts to be paid to the Settlement Class Members and Late Claim Settlement Class Members from the Potential Maximum Consideration in accordance with the terms and provisions of this Agreement. In the event Allstate requests that the Administrator pay the net amounts to be paid to Settlement Class Members, Allstate shall bear all costs and expenses incurred in employing the Administrator in this manner. Class Counsel will be provided access to all calculations and all data forming the basis for such determinations. The Court shall retain jurisdiction over the correctness of such calculations and the amount of payment due, and the parties shall submit any disagreements regarding these issues to the Referee for determination.

(c) No person shall have any claim against Allstate, Allstate's Counsel, the Named Plaintiffs, the Plaintiff Class, Class Counsel or the Administrator based on distributions and payments made in accordance with this Agreement.

(d) The maximum amount Allstate can be required to pay under this Settlement for any purpose is One Hundred Twenty Million Dollars ($120,000,000), with the exception of the cost involved with having the Administrator issue settlement checks if so requested by Allstate.

10. PRELIMINARY APPROVAL

The parties shall jointly seek preliminary approval of this settlement from the Referee via ex parte application made in public. The Referee shall be asked to approve the terms of the settlement, the Notice, the method of notice, the Claim Form, the procedure for the calculation of claims, and the attorneys' fees and costs and expenses sought by Class Counsel, all as part of preliminary approval. The Referee shall report his findings concerning preliminary approval in writing to the Court. The Court will be asked to adopt the findings of the Referee and issue an order granting preliminary approval.

11. FINAL APPROVAL

The Notice shall contain a date, time and location for a "Final Approval (Final Fairness) Hearing" to be conducted by the Referee. Said hearing shall be held in a courtroom in Los Angeles County and shall be held on a date approved by the Court on or after October 24, 2005 at a time no earlier than 10:00 a.m.

If, after receiving the Referee's written report concerning the Final Approval Hearing (and if that report recommends final approval), the Court is in agreement with the recommendation of the Referee, the Court will grant final approval of the settlement. If the Court is not in agreement with the Referee's findings, the Court will refer the matter back to the Referee for such other proceedings as may be appropriate.

If final approval is granted by the Court, the Referee shall be empowered to hear any remaining disputes between the parties, to resolve administrative and or procedural problems, etc. Except as set forth in paragraph 2(f), all such actions shall be subject to ratification by the Court.

12. PROCEDURE FOR OBJECTIONS TO SETTLEMENT

The Notice shall provide that Class Members who wish to object to the Settlement must file with the Referee and serve on counsel for the parties a written statement objecting to the settlement. Such written statement must be filed with the Referee and served on counsel for the parties no later than thirty

(30) days after the date the Notice is first mailed (the "Objection Deadline Date"). No Class Member shall be entitled to be heard at the Final Approval Hearing (whether individually or through separate counsel) or to object to the settlement, and no written objections or briefs submitted by any Class Member shall be received or considered by the Referee at the Final Approval Hearing, unless written notice of the Class Member's intention to appear at the Final Approval Hearing, and copies of any written objections or briefs, shall have been filed with the Referee and served on counsel for the Parties on or before the Objection Deadline Date. Class Members who fail to file and serve timely written objections in the manner specified above shall be deemed to have waived any objections and shall be foreclosed from making any objection (whether by appeal or otherwise) to the settlement, or any aspect of the settlement.

13. PAYMENT OF SETTLEMENT PROCEEDS

(a) As used in this Agreement, "Effective Date" means the date by which this settlement is finally approved as provided herein and the Court's Final Judgment and Order of Dismissal with Prejudice ("Final Judgment" or "Judgment") becomes final. For purposes of this Agreement, the Court's Final Judgment "becomes final" upon the latter of (i) the date of final affirmance of an appeal of the Final Judgment; (ii) the expiration of the time for a petition for a writ of certiorari to review the Final Judgment; (iii) the date of final dismissal of any appeal from the Final Judgment or the final dismissal of any appeal or proceeding on certiorari to review the Final Judgment; or (iv) if no appeal is filed, the expiration date of the time for the filing or noticing of any appeal from the Court's Final Judgment.

(b) Defendant shall make payments of Net Payments to Settlement Class Members by the latest of (i) thirty (30) days of the Effective Date, or (ii) thirty (30) days after the resolution of the final challenge as set forth in paragraph 7(b)(2) above, or (iii) sixty (60) days after the Final Submission Date.

(c) Defendant shall make payments of Net Payments to Late Claim Settlement Class members by the later of (i) sixty (60) days after the Final Submission Date, or (ii) thirty (30) days after the resolution of the final challenge by a Late Claim Settlement Class Member.

(d) The Class Members acknowledge that the claims process may take longer than described above due to (1) the length of the claims period, and (2) the reasonable time necessary to calculate the Individual Settlement Award due each Class Member. Defendant will employ all due speed to distribute the Individual Settlement Awards to Settlement Class Members and Late Claim Settlement Class Members at the earliest reasonable date.

(e) Defendant, or the Administrator if Defendant so desires, shall make payments to Class Counsel for judicially approved attorney fees and costs, and any incentive awards to current or former representative plaintiffs by the later of (i) ten (10) days after the Effective Date as defined above, or (ii) January 2, 2006.

14. COSTS

Defendant shall bear its own costs, expenses and attorneys' fees incurred in connection with or arising out of the lawsuit. Plaintiff Class' attorneys' fees and costs as approved by the Court shall be paid from the Potential Maximum Consideration to be paid by Defendant.

15. RELEASE BY ALL CLASS MEMBERS

(a) As of the Effective Date, the Class Members, including the Named Plaintiff, release Allstate and each of its subsidiaries, affiliated and parent corporations, and, as the case may be, each of their respective past, present or future owners, stockholders, officers, directors, shareholders, employees, agents, principals, heirs, representatives, accountants, auditors, consultants, insurers and reinsurers, and its and their respective successors and predecessors in interest and attorneys, and each of their company-sponsored employee benefit plans and all of their respective officers, directors, employees, administrators, fiduciaries, trustees and agents (the "Released Parties"), from the "Released Claims." For purposes of this Agreement, the "Released Claims" are defined as:

(1) All claims, demands, rights, liabilities, and causes of action of every nature and description whatsoever, known or unknown, asserted or that might have been asserted, whether in tort, contract, or for violation of any state or federal constitution, statute, rule or regulation, including state wage and hour laws, whether for economic damages, non-economic damages, restitution, penalties or liquidated damages, arising out of:

[a] any and all facts, transactions, events, policies, occurrences, acts, disclosures, statements, omissions or failures to act alleged, or related to acts alleged, in the Class Complaint, including but not limited to claims: (i) that Allstate did not pay the Class Members all overtime they were owed for work performed as Class Members in California; (ii) that Allstate failed to provide Breaks to the Class Members while they performed work as Class Members in the State of California; and/or (iii) that Allstate owes wages, waiting-time penalties, penalties, including any penalties which may be available pursuant to the PAGA,

interest, attorneys' fees or other damages of any kind related to the claims alleged in the Class Complaint, at any time on or before the last day of the Class Period (whether based on California state wage and hour law, contract, or otherwise); and/or

[b] the causes of action asserted in the Class Complaint, including but not limited to any and all claims for alleged failure to pay overtime, for alleged failure to provide Breaks, for alleged failure to maintain and furnish records of hours worked, for alleged unlawful conversion of wages, for failure to timely pay wages, for alleged minimum wage and pay stub violations and related violations of Wage Orders, for waiting time penalties, and, as related to the foregoing, for alleged unlawful, unfair and/or fraudulent business practices under California Business and Professions Code section 17200, et seq.

(2) The Released Claims include any unknown claims that the Class Members do not know or suspect to exist in their favor at the time of the release, which, if known by them, might have affected their settlement with, and release of, the Released Parties or might have affected their decision not to object to this settlement. With respect to the Released Claims, the Class Members stipulate and agree that, upon the Effective Date, the Class Members shall be deemed to have, and by operation of the Final Judgment shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights and benefits of Section 1542 of the California Civil Code, or any other similar provision under federal or state law, which section provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(b) The Class Members may hereafter discover facts in addition to or different from those they now know or believe to be true with respect to the subject matter of the Released Claims, but upon the Effective Date, shall be deemed to have, and by operation of the Final Judgment shall have, fully, finally, and forever settled and released any and all of the Released Claims, whether known or unknown, suspected or unsuspected, contingent or non-contingent, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

(c) The Class Members, on behalf of themselves and their respective assigns, agree not to sue or otherwise make a claim against any of the Released Parties that is in any way related to the Released Claims.

16. ADDITIONAL RELEASE BY ALL SETTLEMENT CLASS MEMBERS

(a) As of the Effective Date, the Settlement Class Members, including the Named Plaintiff, and any Late Claim Settlement Class Members in addition to releasing the Released Parties from the Released Claims as outlined above in paragraph 15, release the Released Parties from the "Released Federal Claims." For purposes of this Agreement, the "Released Federal Claims" are defined as:

(1) All claims, demands, rights, liabilities, and causes of action of every nature and description whatsoever, known or unknown, asserted or that might have been asserted, whether in tort, contract, or for violation of any state or federal constitution, statute, rule or regulation, including federal wage and hour laws, whether for economic damages, non-economic damages, restitution, penalties or liquidated damages, arising out of:

[a] any and all facts, transactions, events, policies, occurrences, acts, disclosures, statements, omissions or failures to act alleged, or related to acts alleged, in the Class Complaint, including all federal claims pursuant to the FLSA, including claims: (a) that Allstate did not pay the Class Members all overtime they were owed for work performed as Class Members in the State of California; (b) that Allstate failed to provide Breaks to the Class Members while they performed work as Class Members within the State of California; and/or (c) that Allstate owes wages, waiting-time penalties, penalties, including any penalties which may be available pursuant to the PAGA, interest, attorneys' fees or other damages of any kind related to the claims alleged in the Class Complaint, at any time on or before the last day of the Class Period (whether based on federal wage and hour law, contract, or otherwise); and/or

[b] the causes of action asserted in the Class Complaint, including any and all federal claims arising from the Fair Labor Standards Act for alleged failure to pay overtime, for alleged failure to provide Breaks, for alleged failure to maintain and furnish records of hours worked, and for alleged unlawful conversion of wages due to Class Members for hours worked as Class Members within the State of California.

(2) The Released Federal Claims include any unknown claims that the Settlement Class Members and any Late Claim Settlement Class Members do not know or suspect to exist in their favor at the time of the release, which, if known by them, might have affected their settlement with, and release of, the Released Parties or might have affected their decision not to object to this settlement. With respect to the Released Federal Claims, the Settlement Class Members and any Late Claim Settlement Class Members stipulate and agree that, upon the Effective Date, the Settlement Class Members and any Late Claim Settlement Class Members shall be deemed to have, and by operation of the Final Judgment shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights and benefits of Section 1542 of the California Civil Code, or any other similar provision under federal or state law, which section provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(b) The Settlement Class Members and any Late Claim Settlement Class Members may hereafter discover facts in addition to or different from those they now know or believe to be true with respect to the subject matter of the Released Federal Claims, but upon the Effective Date, shall be deemed to have, and by operation of the Final Judgment shall have fully, finally, and forever settled and released any and all of the Released Federal Claims, whether known or unknown, suspected or unsuspected, contingent or non-contingent, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

(c) The Settlement Class Members and any Late Claim Settlement Class Members, on behalf of themselves and their respective assigns, agree not to sue or otherwise make a claim against any of the Released Parties that is in any way related to the Released Federal Claims. The Released Federal Claims are limited to Settlement Class Members and any Late Claim Settlement Class Members claims arising from working in or being based from (during CAT duty) California claims offices.

17. WAIVER OF FUTURE PENSION, RETIREMENT AND/OR 401(K) RIGHTS BY ALL SETTLEMENT CLASS MEMBERS

As of the Effective Date, the Settlement Class Members and any Late Claim Settlement Class Members, including the Named Plaintiff, in addition to releasing the Released Parties from the Released Claims as outlined above in paragraphs 15 and 16, expressly, knowingly and voluntarily

(a) acknowledge that none of the amounts paid under this Agreement constitute either "annual compensation" or "eligible annual compensation" under the Allstate Retirement Plan or "eligible compensation" under the Savings and Profit Sharing Fund of Allstate Employees; and

(b) waive any and all claims for additional contributions to and/or benefits under any pension, retirement and/or 401(k) plan maintained or sponsored by Allstate based on any amount paid under this Agreement.

Nothing in this provision or this Agreement shall in any other way affect the rights of any Class Member to any benefits under any such plan to which such Class Member may otherwise be entitled in accordance with the terms of any such plan.

18. WAIVER OF RIGHTS

(a) Defendant waives any right it may have to further appeal or contest, in any manner, the order certifying this matter as a class action or the order granting plaintiffs' motion for summary adjudication.

(b) Class Members waive any right they may have to overtime pay or any other matter alleged in or related to allegations in the Class Complaint except as provided for in this Agreement.

(c) The parties hereto, including the Plaintiff Class, stipulate and agree that the consideration paid to the Class Members pursuant to this Agreement compensates the Plaintiff Class for all overtime compensation due to them, all penalties, all liability for Breaks and any compensation to which they may be entitled pursuant to the California Labor Code, or the applicable Wage Order, and any related penalties and as such, the Class Members are not "aggrieved employees" for purposes of the PAGA, and, therefore, Defendant is not liable for any penalties pursuant to the PAGA.

(d) The parties hereto, including the Plaintiff Class, further stipulate and agree that even if any Class Member is considered or determined to be an "aggrieved employee" for purposes of the PAGA, said Class Member waives any potential right to any penalty prescribed by the PAGA, the California Labor Code or the applicable Wage Order.

(e) The Parties hereto, including the Plaintiff Class, further stipulate and agree that Defendant has taken reasonable steps to insure that Breaks are taken as required by law and that Defendant is in compliance with the California Labor Code and applicable Wage Order and that Class Counsel has conducted a reasonable investigation and determined that Defendant is currently in compliance with the California Labor Code and applicable Wage Order and Breaks are being provided as required by law.

(f) The Referee and the Court have reviewed this Agreement and concluded that the Plaintiff Class has been adequately compensated for all violations alleged in the Class Complaint and to which they otherwise may be entitled and that any additional penalties pursuant to the PAGA would be an unjust and oppressive award. Accordingly, to the extent any PAGA penalties could potentially be awarded to the Plaintiff Class, the Court hereby determines that no PAGA penalties should be awarded. The parties to this Agreement concur with this determination.

19. NO ADMISSION BY THE PARTIES

Allstate and the Released Parties deny any and all claims alleged in the Lawsuit and in the Class Complaint and deny all wrongdoing whatsoever. Allstate continues to assert that it properly classified its adjusters as administrative employees exempt from California and federal overtime regulations. This Agreement is neither a concession nor an admission, and shall not be used against Allstate or any of the Released Parties as an admission or indication with respect to any claim of any fault, concession or omission by Allstate or any of the Released Parties. Whether or not the settlement is finally approved, neither the settlement, nor any document,

statement, proceeding or conduct related to this Agreement, nor any reports or accounts thereof, shall in any event be:

(a) construed as, offered or admitted in evidence as, received as, or deemed to be evidence for any purpose adverse to the Released Parties, including, but not limited to, evidence of a presumption, concession, indication or admission by any of the Released Parties of any liability, fault, wrongdoing, omission, concession or damage; or

(b) disclosed, referred to or offered or received in evidence against any of the Released Parties, in any further proceeding in the Lawsuit, or any other civil, criminal or administrative action or proceeding, except for purposes of settling the Lawsuit pursuant to this Agreement.

20. NULLIFICATION OF AGREEMENT

In the event: (i) the Court does not enter the order specified herein and attached hereto as Exhibit "D"; (ii) the Court does not finally approve the settlement as provided herein; (iii) the Court does not enter a Final Judgment as provided herein and attached hereto as Exhibit "E" which becomes final as a result of the occurrence of the Effective Date; or (iv) the settlement does not become final for any other reason, this Agreement shall be null and void and any order or judgment entered by the Court in furtherance of this settlement shall be treated as void *ab initio*. In such a case, the parties and any funds to be awarded under this Settlement shall be returned to their respective statuses as of the date and time immediately prior to the execution of this Agreement, and the parties shall proceed in all respects as if this Agreement had not been executed.

21. PRIVACY OF DOCUMENTS AND INFORMATION

The Plaintiff Class and Class Counsel agree that none of the documents and information provided to them by Allstate shall be used for any purpose other than prosecution of the Lawsuit. Within ten (10) days of the Effective Date of this Agreement if so requested by Defendant, the Plaintiff Class and Class Counsel shall return all copies of all documents marked as "confidential" which were produced to them during this litigation.

22. REPRESENTATIONS AND WARRANTIES

Each party represents and warrants that he, she or it has not heretofore assigned or transferred, or purported to assign or transfer, any of the claims released pursuant to this Agreement to any other person not a party hereto and that he, she or it is fully entitled to compromise and settle same.

23. CALIFORNIA LAW

All questions with respect to the construction of this Agreement and the rights and liabilities of the parties hereto shall be governed by the laws of the State of California applicable to agreements to be wholly performed within the State of California.

24. OWN COUNSEL

Each party acknowledges that he, she or it has been represented by counsel of his, her or its own choice throughout all of the negotiations which preceded the execution of this Agreement and in connection with the preparation and execution of this Agreement.

25. FURTHER ACTS AND DOCUMENTS

The parties agree to do such acts and execute all such documents necessary to effectuate the intent of this Agreement.

26. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

27. HEADINGS

The headings contained in this Agreement are for reference only and are not to be construed in any way as a part of the Agreement.

28. ENTIRE AGREEMENT

This Agreement represents the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior contemporaneous oral and written agreements and discussions. Each of the parties covenants that he, she or it has not entered in this Agreement as a result of any representation, agreement, inducement, or coercion, except to the extent specifically provided herein. Each party further covenants that the consideration recited herein is the only consideration for entering into this Agreement and that no promises or representations of another or further consideration have been made by any person. This Agreement may be amended only by an agreement in writing duly executed by all parties hereto.

29. BINDING EFFECT

This Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective heirs, assigns and successors-in-interest.

30. DRAFTING

Each party has cooperated in the drafting and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against any party as drafter of this Agreement.

31. SEVERABILITY

In the event any covenant or other provision herein is held to be invalid, void or illegal, the same shall be deemed severed from the remainder of this Agreement and shall in no way affect, impair or invalidate any other covenant, condition or other provision herein. If any

covenant, condition or other provision herein is held to be invalid due to its scope or breadth, such covenant, condition or other provision shall be deemed valid to the extent of the scope or breadth permitted by law.

32. INCORPORATION OF EXHIBITS

All exhibits attached hereto are hereby incorporated by reference as though set forth fully herein and are a material part of this Agreement. Any notice, order, judgment or other exhibit that requires approval of the Referee and/or the Court must be approved without material alteration from its current form in order for this Agreement to become effective.

33. AUTHORITY

Each party warrants and represents that each of the persons/or entities executing this Agreement is duly empowered and authorized to do so.

34. NAMED PLAINTIFF'S WAIVER OF RIGHT TO OBJECT

The Named Plaintiff agrees to sign this Agreement and by signing this Agreement is bound by the terms herein stated and further agrees not to request to be excluded from the Plaintiff Class and agrees not to object to any of the terms of this Agreement. Non-compliance by the Named Plaintiff with this paragraph shall be void and of no force or effect. Any such request for exclusion or objection shall therefore be void and of no force or effect.

35. ADMINISTRATION OF SETTLEMENT AND COMPLIANCE

The Referee and/or the Court shall further have continuing jurisdiction to resolve any dispute which may arise with regard to the terms and conditions of this Agreement, subject to approval by the Court and/or the Referee as set forth herein.

36. FINAL ORDER AND JUDGMENT OF SETTLEMENT

Upon final approval of the settlement, a final order and judgment shall be entered by the Court in the form of an order attached hereto as Exhibit "D" which shall, inter alia:

(a) Grant final approval to the settlement as fair, reasonable, adequate, in good faith and in the best interests of the Plaintiff Class, as a whole, and order the parties to carry out the provisions of this Agreement.

(b) Dismiss with prejudice all actions, complaints and claims and any lawsuit as against Allstate and/or the Released Parties arising out of or related to any of the actions or events complained of in the Class Complaint herein.

(c) Adjudge that Class Members are conclusively deemed to have released Allstate and the Released Parties of and from any and all rights, claims, demands, liabilities, causes of action, liens and judgments arising out of or in any way related to the matters set forth, or that could have been set forth, in the Class Complaint.

(d) Bar and permanently enjoin each Class Member from prosecuting against the Released Parties any and all of the settled claims which the Class Members or any of them had, have or may have in the future, arising out of, based upon, or otherwise related to any of the settled claims, or any of the allegations contained in the operative complaint or in the Class Complaint.

(e) Bar and permanently enjoin each person in the Plaintiff Class who opted not to participate in the settlement (or who having previously opted out, chose not to submit a Claim Form) from participating in any future class action regarding the claims raised in the Class Complaint.

(f) Reserve continuing jurisdiction as provided herein above.

37. NOTICE

After the Court enters its order granting final approval of this Agreement, all notices, requests, demands and other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be delivered personally, telecopied or mailed postage pre-paid by first class mail to the following persons at their addresses set forth as follows:

Class Counsel:

Louis Marlin, Esq. **Marlin & Saltzman** 2400 E. Katella Ave. Suite 1030 Anaheim, CA 92806	R. Rex Parris, Esq. **The R. Rex Parris Law Firm** 963 West Avenue J Lancaster, CA 93534
Stanley D. Saltzman, Esq. **Marlin & Saltzman** 28229 Canwood St. Suite 208 Agoura Hills, CA 91301	Arnold Schwartz, Esq. **Mazursky, Schwartz, Daniels & Bradley** 10990 Wilshire Blvd. Suite 1200 Los Angeles, CA 90024-3927

Defendant's Counsel

Joel E. Krischer **Latham & Watkins LLP** Suite 4000 633 West Fifth Street Los Angeles, CA 90071-2007	Andrew M. Paley, Esq. **Seyfarth Shaw LLP** 2029 Century Park East Suite 3300 Los Angeles, CA 90067

WHEREFORE, the Named Plaintiff on his own behalf and on behalf of the Plaintiff Class, and Defendant, by their duly authorized agents or counsel, have executed this Agreement as of the dates set forth below.

<u>Class Representative</u>

Dated: 8/29/05

/s/ William Sekly
William Sekly

Defendant:

Dated: 8/30/05

Allstate Insurance Company

By: /s/ Mary McGinn
Vice President and Deputy General Counsel

Approval As To Form And Content By Counsel

On Behalf of the Plaintiff Class:

Dated: 8/29/05

MARLIN & SALTZMAN

By /s/ Louis M. Marlin
Louis M. Marlin

Dated: 8/29/05

THE R. REX PARRIS LAW FIRM

By /s/ R. Rex Parris
R. Rex Parris

Dated: 8/29/05

MAZURSKY, SCHWARTZ, DANIELS & BRADLEY

By /s/ Arnold Schwartz
Arnold Schwartz

On Behalf of Defendant:

Dated: 8/29/05

LATHAM & WATKINS LLP

By /s/ Joel E. Krischer
Joel E. Krischer

Dated: 8/30/05

SEYFARTH SHAW LLP

By /s/ Andrew M. Paley
Andrew M. Paley

EXHIBIT A

SUPERIOR COURT OF CALIFORNIA
COUNTY OF LOS ANGELES

WILLIAM SEKLY, et al., **Plaintiffs,** **v.** **ALLSTATE INSURANCE COMPANY,** **Defendant.**	**Case Number: BC 240813** **NOTICE OF CLASS ACTION SETTLEMENT**

TO: All persons who, between November 27, 1996 and December 31, 2004, have been employed in California as claims adjusters by the defendant Allstate Insurance Company. As used in the class definition, the term "claims adjuster" refers to any individual whose assigned duties as an employee of the defendant included or currently include, but were not limited to, the adjustment and/or investigation and/or

analysis and/or evaluation of the monetary worth of any claim made to Allstate for any bodily injury, property damage, and/or monetary damage of every nature and type and who have been or currently are paid as exempt employees as the same are defined pursuant to statute and/or California or federal regulatory determination.

On ____________, the Court granted preliminary approval of the proposed settlement in this Action. If the settlement is granted final approval, the Action will be dismissed and Allstate will be released of all claims related to this case. This Notice is to advise you of the proposed settlement, your rights to object to the terms of the proposed settlement, and how to obtain more information about the settlement.

PLEASE READ THIS ENTIRE NOTICE CAREFULLY.
YOUR RIGHTS MAY BE AFFECTED BY THE PROPOSED SETTLEMENT DESCRIBED BELOW.

I. SUMMARY OF THE LITIGATION

On November 27, 2000, a lawsuit was filed against Allstate Insurance Company (and related entities) on behalf of former and current claims adjusters of those companies who have worked in California in connection with the adjusting of property damage and/or bodily injury claims. The case seeks recovery of overtime pay and penalties which plaintiffs contend are owed to all present and former claims adjusters who adjusted claims in California from November 27, 1996 to December 31, 2004. The matter has been litigated before the Hon. Anthony J. Mohr, Judge of the Superior Court of the State of California for the County of Los Angeles (hereafter, the "Court").

On August 23, 2002, the Court certified this matter as a class action over the objection of Allstate. Class notice was sent to all potential class members at their last known address (as provided by Allstate) via first class U.S. Mail. Thereafter, on April 21, 2004, the Court entered its order granting the plaintiff class' motion for summary adjudication of liability and determining that the members of the plaintiff class were and are non-exempt employees entitled to overtime compensation. That decision of the Court could have been the subject of an appeal if the matter was litigated through trial. On January 19, 2005, again over the objection of Allstate, the Court further certified this matter as a class action for the determination of damages.

During the course of this litigation, attorneys for the plaintiff class and attorneys for the defendant have engaged in mediation with an experienced mediator who is a former justice of the California Supreme Court. In addition, counsel for the parties have engaged in numerous discussions in an attempt to resolve this matter. The parties have reached an agreement to settle this matter, subject to the approval of the Court.

As part of the settlement process, the Court has appointed the Hon. Edward Panelli (Ret.), a retired justice of the California Supreme Court, to act as the Referee in this matter. Justice Panelli will conduct the Fairness Hearing described later in this Notice and shall report his findings to the Court. Justice Panelli will also resolve any disputes involving the settlement process, with certain of his recommendations being presented to the Court for approval and other determinations being final, binding and non-appealable.

II. CLASS DEFINITION

A. Settlement Class Defined

The certified settling class ("Class") is defined as follows (members of the Class are sometimes referred to in this Notice as "Class Members"):

> The Class is comprised of all persons who, between November 27, 1996 and December 31, 2004 were employed in California as claims adjusters by Allstate. As used in the Class definition, the term "claims adjuster" refers to any individual whose assigned duties as an employee of Allstate included, but were not limited to, the adjustment and/or investigation and/or analysis and/or evaluation of the monetary worth of any claim made to Allstate for any bodily injury, property damage, and/or monetary damage of every nature and type and who have been or currently are paid as exempt employees as the same are defined pursuant to statute and/or California or federal regulatory determination.

As of the date of the settlement, Allstate has represented that the job titles which comprise the Class Members who work at Allstate claims offices in California are as follows:

Claim Representative	Claim Adjuster	Claim Service Adjuster
Senior Claim Representative	Senior Claim Adjuster	Senior Claim Service Adjuster
Staff Claim Representative	Staff Claim Adjuster	Staff Claim Service Adjuster
Senior Staff Claim Representative	Staff Claim Analyst	SIU Adjuster
Subrogation Adjuster	Appraisers	Claims Specialist
Claims Consultant	Evaluation Consultant	Damage Evaluator
Quality Evaluator	Extra Contractual Liability Specialist	

Any change, modification, addition or deletion of any job titles by Allstate shall not result in a change in the persons defined as Class Members, whose entitlement to the same is based upon the duties they perform as set forth in this Notice.

Persons who performed such functions while classified, employed and compensated by Allstate as supervisors, managers or officers of said Allstate are not included in the Class during any time said persons were so employed. Persons performing work in the following job titles (as the work duties and responsibilities of said titles existed as of the date of certification) are not included in the defined Class during any period of time said position was or is held during the class period: Frontline Process Experts, Frontline Performance Leaders and supervisory personnel.

B. Information For Persons Who Previously Excluded Themselves From The Class

Persons who elected to opt out of the Class at the time notice of class certification for liability or notice of class certification for damages were served may rejoin the Class by filing a timely and complete Claim Form as set forth in section IV hereafter.

If you continue to elect not to participate in the recovery obtained through this settlement, you will be entitled to prosecute an individual lawsuit or an individual claim with the California Labor Commissioner, in accordance with California law, but you may not pursue any such claim as part of a class action. *If you fail to submit a timely Claim Form, you will remain excluded from the Class.*

C. Information For Special Investigative Unit Adjusters, Subrogation Adjusters, Evaluation Consultants, Damage Evaluators, Quality Evaluators and Extra Contractual Liability Specialists

Previously, Special Investigative Unit Adjusters, Subrogation Adjusters, Evaluation Consultants, Damage Evaluators, Quality Evaluators and Extra Contractual Liability Specialists were not included in the Class. As part of the settlement between the parties, these job classifications will now be included in the Class. If you wish, the Court will exclude you from the Class if you so request. If you wish to be excluded from the Class, you must fill out and send the enclosed Exclusion Request Form to the Claims Administrator
by ________ [30 from mailing]:

Gilardi & Company

____
____

If you timely request exclusion from the Class, you will: (1) not participate in the recovery obtained through this settlement, and (2) be entitled to prosecute an individual lawsuit, or an individual claim with the Labor Commissioner, in accordance with California law, but you may not pursue any such claim as part of a class action.

If you do not choose to exclude yourself from the Class, you may file a Claim Form and participate with all other Class Members. You may, if you so desire, enter an appearance through counsel of your choice.

III. CLASS REPRESENTATIVES AND CLASS COUNSEL

The Court appointed plaintiffs Dani Bednar and William Sekly to represent the Class. Recently, Ms. Bednar withdrew as a representative. The Court appointed the following attorneys to represent the Class as "Class Counsel:"

Marlin & Saltzman
Louis M. Marlin
2400 E. Katella Ave., Suite 1030
Anaheim, CA 92806

R. Rex Parris Law Firm
R. Rex Parris
Robert Parris
963 W. Avenue J
Lancaster, CA 93534

Marlin & Saltzman
Stanley D. Saltzman
29229 Canwood St., Suite 208
Agoura Hills, CA 91301

Mazursky, Schwartz, Daniels & Bradley
Arnold Schwartz
Marcus Bradley
10990 Wilshire Blvd., Suite 1200
Los Angeles, CA 90024

IV. SUMMARY OF SETTLEMENT TERMS AND CLAIMS PROCESS

The following is a summary of the proposed settlement contained in the Settlement Agreement ("Settlement Agreement") that is on file with the Clerk of the Central Civil West division of the Court. The complete Agreement may be inspected during normal business hours at the offices of the Clerk or online at www.overtimelawsuit.com under the heading of "Allstate Insurance Company."

A. Monetary Award.

The proposed settlement obligates the defendant to pay a potential maximum settlement amount (called the "Potential Maximum Consideration" in the Agreement) of One Hundred Twenty Million Dollars ($120,000,000). This payment is "all inclusive," including, but not limited to, unpaid overtime pay, pay for meal and rest break violations, any and all associated penalties, interest, employer tax contributions, costs, attorneys' fees, class administration costs, referee costs, incentive payments to the named plaintiffs, etc. These settlement proceeds will be paid to Class Members as described in Section VI later in this Notice.

B. The Claims Process.

Enclosed with this Notice you will find a Claim Form. THIS CLAIM FORM MUST BE COMPLETED, SIGNED UNDER PENALTY OF PERJURY, AND RETURNED TO THE CLAIMS ADMINISTRATOR WITHIN 75 DAYS OF THE MAILING OF THE SAME. THEREFORE, FOR YOUR CLAIM TO BE CONSIDERED TIMELY, IT MUST BE POSTMARKED NO LATER
THAN __________. Claims postmarked after that date will be considered as late claims and may be subject to rejection. Please
follow the directions on the Claim Form carefully. If you require assistance, you may contact Class counsel as identified at the end of this notice. As used

herein and in the Settlement Agreement, a Class Member who submits a timely Claim Form is called a "Settlement Class Member," and a Class Member who submits a late claim that is not rejected by the Referee is called a "Late Claim Settlement Class Member."

The Claim Forms shall be maintained by an independent claims administrator ("Administrator") chosen by the Class Counsel until the claims period has been completed. At that time, the forms shall be provided to Allstate for use in distributing the settlement proceeds. However, at no time shall any such form (1) be used in any proceeding, action, etc. in regard to any individual employee, (2) be placed (or a copy placed) in any individual employee's personnel file, or (3) be provided to any manager or supervisor at the claims office level or below. The purpose of this procedure is to ensure that no current or former employee could, in any way, be negatively impacted by filing a claim.

C. Notice and Administration.

The settlement process will be administered by the Administrator. The costs of administration shall be subtracted from the potential maximum settlement amount to be paid by Allstate, except that if Allstate elects to have the claims administrator disburse settlement proceeds to Class Members, the cost of those activities will be paid by Allstate.

D. Release and Waiver.

The scope of the release and waiver that Class Members are providing Allstate is important, and the full text of that release is attached as an Appendix to this Notice. In summary, if the settlement is approved by the Court, the scope of the release and waiver upon the Effective Date of the settlement is as follows:

1. All Class Members, including those who do not submit a Claim Form, shall be deemed to have agreed that, except for the obligations imposed by this settlement, Allstate shall be forever released and discharged from all "Released Claims" (including, without limitation, that Allstate failed to pay Class Members overtime or to provide them with rest breaks and meal periods, or otherwise violated California law with respect to the payment of wages or the maintenance of records) and that the Class representatives and all Class Members shall be barred and enjoined from suing the Released Parties for any liability in any way related to or arising out of any Released Claim. The Released Claims also include any and all claims, of every kind and nature, known or unknown, that were or could have been asserted against Allstate by the Class representatives or Class Members in any type of proceeding, for unpaid overtime compensation and/or statutory penalties, or any other relief sought in the Complaint,or in the Amended Complaint filed on ________________ in this matter for the period November 27, 1996 through the effective date of the settlement.

2. Any Class Member who submits a timely or late Claim Form (late claims are described in paragraph 6 of section VI, below) will also release the Released Parties from the "Released Federal Claims." For purposes of the settlement, "Released Federal Claims" includes all "Released Claims" plus any claims under federal law, including under the Fair Labor Standards Act, for failure to pay overtime, to maintain records or for any other claim regarding the payment of wages under federal law. Released Federal Claims also means any and all claims, of every kind and nature, known or unknown, that were or could have been asserted against Allstate by the Class representatives or Class Members in any type of proceeding, for unpaid overtime compensation and/or statutory penalties, or any other relief sought in the Complaint, or in the Amended Complaint filed on ________________ in this matter for the period November 27, 1996 through the effective date of the settlement.

3. Any Class Member who submits a timely or late Claim Form will also (a) acknowledge that none of the amounts paid under this settlement will constitute compensation under the Allstate Retirement Plan or the Savings and Profit Sharing Fund of Allstate Employees, and will waive any and all claims for additional contributions to and/or benefits under any pension, retirement and/or 401(k) plan maintained or sponsored by Allstate based on any amount paid under the settlement.

This summary is for your convenience only. The full scope of the release and waiver will be governed by the terms of the Settlement Agreement.

E. Attorneys' Fees.

Class Counsel has litigated this matter since September 2000. The three law firms representing the Class have devoted substantial time, effort and expenses in prosecuting this matter, including taking approximately 400 depositions, reviewing over 75,000 pages of documents produced by Allstate, obtaining class certification, obtaining summary adjudication, etc. It is customary for courts to award attorneys' fees based upon a percentage of the potential maximum settlement amount for the benefit of a class in amounts ranging from 25% to 40% of that amount. In this case, each of the three firms representing the Class will request an award equal to 11 1/9% of the potential maximum settlement amount, for a total attorneys' fee award of 33 l/3%. Class Counsel will also seek reimbursement of the costs and expenses they have incurred on behalf of the Class, estimated to be approximately $800,000.

V. INCENTIVE AWARD

The Class representative (Ms. Bednar and Mr. Sekly) will seek an incentive award from the potential maximum settlement amount not to exceed ¾ of the average individual settlement award for a Class Member who was in the Class for the full Class Period for the time and effort they have expended in bringing this action.

VI. CALCULATION OF PAYMENTS TO CLASS MEMBERS

The settlement administrative costs, incentive awards to each of the Class representatives, Referee costs, attorneys' fees and costs and other associated expenses and a reserve for "Late Claims" (discussed below) shall be subtracted from the potential maximum settlement amount. The funds remaining after payment of these expenses are designated as the Potential Gross Individual Settlement Proceeds, which is the amount available for distribution among Class Members who submit timely claims. The calculation of each Class Member's share of the funds available for distribution is as follows:

1. The Potential Gross Individual Settlement Proceeds will first be allocated among the calendar years in the Class Period (from November 27, 1996 through December 31, 2004). Each year's allocation shall be a percentage equal to (i) the total compensation to all Class Members during that year plus imputed interest calculated at 7% per annum simple interest through December 31, 2004, divided by (ii) the sum of all such compensation and all such imputed interest for all calendar years in the Class Period.

2. A Class Member's total compensation for a calendar year shall be the amount reported in Box 1 of the member's W-2 form for that year (prorated to the nearest full month for any year in which a Class Member was not actively employed in the Class for the entire year). Every Class Member who was employed as a catastrophe ("CAT") adjuster at any time during each year shall have his or her annual gross compensation for that year adjusted as set forth in paragraph 3.

3. Each Class Member shall be entitled to an "Individual Percentage" of each calendar year's allocation on a year-by-year basis based on that Class Member's compensation as a Class Member during each year. That percentage shall equal (i) the gross compensation earned by that Class Member for the months in each calendar year that such Class Member worked as a Class Member divided by (ii) the total gross compensation paid to all Class Members for all of the months worked by Class Members during such year of the Class Period. Every Class Member who was employed as a CAT adjuster at any time during each year shall have his or her annual gross compensation for that year increased by a factor equal to 60% times the ratio of the number of days that Class Member worked as a CAT adjuster that year over 365. It is

understood that Individual Percentages for Class Members who worked as CAT adjusters in any year will be increased, and the Individual Percentages for Class Members who did not work as CAT adjusters for that year shall be correspondingly reduced. (For purposes of 1996 only, any person who was a Class Member for at least two weeks between November 27 and December 31, 1996 shall be credited with one month, and CAT adjuster duty shall not be considered.) The Individual Percentage so determined for each Class Member shall then be multiplied by the Potential Gross Individual Settlement Proceeds allocated to that calendar year to determine the allocations to Class Members for that calendar year. Of the total amount so allocated, the percentage allocable to imputed interest shall be interest and the remainder shall be, in the appropriate percentages, wages (subject to withholding) and employer-paid payroll taxes on such wages.

> *Example*: If a Class Member worked during a year in the Class Period and earned a total of $1, and the total gross compensation paid out to Class Members during that year, after adjustments for CAT duty, was $100, that Class Member would be entitled to 1% (1/100) of the Potential Gross Individual Settlement Proceeds allocated to that year.

4. The amount that each Class Member is entitled to receive – the "Individual Settlement Award" – equals the sum of his or her Individual Percentages of each year's allocation. The proportion of each year's allocation that represents imputed interest shall be interest income to the Class Member. The portion of each Class Member's Individual Settlement Award that is not interest shall be divided by the appropriate factor to determine the Class Member's gross wages (subject to withholding) and the balance shall be the employer-paid payroll taxes with respect to such gross wages.

5. The total of Individual Settlement Awards claimed by Settlement Class Members shall be the "Claimed Settlement Amount." If each and every Class Member submits a timely and properly completed Claim Form, then the Claimed Settlement Amount shall equal the Potential Gross Individual Settlement Proceeds and all Individual Settlement Awards shall be distributed to all Settlement Class Members. If all Class Members do not submit timely and properly completed Claim Forms, Allstate may pay less than the Potential Gross Individual Settlement Proceeds, as follows:

> The value of the Individual Settlement Award for a Class Member who does not submit a timely Claim Form shall be determined by the Administrator and allocated to the "Unclaimed Amount." The first $6 million plus one-half of any amount over $6 million in the Unclaimed Amount shall be distributed to Class Members who submitted timely Claim Forms on a pro rata basis where the numerator equals each Settlement Class Member's Individual Settlement Award and the denominator equals the sum of the Individual Settlement Award for all Settlement Class Members. Each allocation shall be interest, wages (subject to withholding) and employer-paid payroll taxes on such wages in the same proportions as each Settlement Class Member's Individual Settlement Award. The balance of the Unclaimed Amount (one-half of any amount over $6 million) shall be retained by Allstate.

6. **TO PARTICIPATE IN THE SETTLEMENT TO THE FULL EXTENT POSSIBLE, YOU MUST SUBMIT A VALID AND TIMELY CLAIM FORM.** For any Claim Form submitted after [date] – the "Submission Date" – the Referee shall determine whether the Claim Form should be deemed as timely (due to an inaccurate address for the Class Member), considered an approved "Late Claim," or rejected. For any Claim Form submitted after January 31, 2006, the Referee shall determine whether the Claim Form should be approved as a Late Claim (regardless of the reason the Claim Form was submitted late) or rejected. Any Claim Form submitted after February 28, 2006, regardless of the reason, shall be rejected. The Referee's decisions in this regard shall be final, binding and non-appealable.

7. A total of $500,000 (the "Late Claim Reserve") shall be held aside from the Potential Maximum Consideration to cover the payment of Late Claims. The Individual Settlement Award for a Late Claim shall be computed as if such claim had not been late, except that (i) all such claims shall be paid separately from the Late Claim Reserve; (ii) the total of all such claims shall not exceed such reserve; and (iii) Class Members submitting Late Claims shall not participate in the distribution of the Unclaimed Amount. If the total of the Late Claims exceeds the Late Claim Reserve, all such claims shall be reduced proportionately

so that the total paid does not exceed $500,000. If the total of Late Claims is less than $500,000, the unused portion of the Late Claim Reserve shall be retained by Allstate.

8. Class Members shall have the right to challenge Allstate's position as to the number of months a Class Member was employed during the Class Period and/or the number of days of CAT duty worked. The Class Member's basis for this challenge, along with copies of any supporting documents, must be provided to the Claims Administrator with the Class Member's Claim Form. Allstate will have the opportunity to respond to the Class Member's position in writing, and the Class Member will be permitted to reply to the same. Thereafter, the Referee will decide the issue based upon the written information provided, and the Referee's decision shall be final, binding and non-appealable.

9. Allstate will withhold from settlement payments federal and state withholding amounts as required by federal and state tax laws.

VII. SETTLEMENT APPROVAL HEARING

A hearing has been scheduled on ____________, 2005 at 10:00 a.m. before the Honorable Edward Panelli (Ret.) at Los Angeles Superior Court, Central Civil West Courthouse, Department 309, 600 S. Commonwealth Avenue, Los Angeles, CA 90005 at which time the Referee will determine: (1) whether the proposed settlement should be approved as fair, reasonable and adequate to Class Members; and (2) whether the application of Class Counsel for an award of attorneys' fees and expenses should be approved and in what amount. The Referee will thereafter report his findings to the Court and, if those findings are favorable and approved by the Court, an order granting final approval will be entered.

You are not required to attend the settlement approval hearing.

VIII. RIGHT TO OBJECT TO THE SETTLEMENT

If you fall within the Class definition and are a Class Member, you will be bound by any Final Judgment related to this settlement. If you do not properly complete and mail in a Claim Form in a timely manner you will not receive any award under the settlement. All Class Members will be bound by a final judgment in this Action.

At the settlement hearing, any Class Member may appear in person or by counsel of his or her own choosing and at his or her own expense. To the extent allowed by the Court, such a Class Member may be heard in opposition to the fairness, reasonableness and adequacy of the settlement, or to the application for an award of attorneys' fees and reimbursement of expenses and costs. However, no objector shall be heard in opposition to the settlement and/or the application for attorneys fees and expenses, nor shall any paper or brief submitted by the Objector be accepted or considered by the Court, unless, on or before __________, 2005 (the "Objection Deadline"), the objector (a) files with the Referee, the Hon. Edward Panelli (Ret.), at Judicial Arbitration & Mediation, 707 Wilshire Blvd., 46th Floor, Los Angeles, CA 90017 written notice of such person's intention to appear, together with a written notice of objection and a statement providing the basis for the objection, along with any and all documentation in support of such objection, and (b) simultaneously serves copies of such notice, statement, and documentation, together with copies of any other papers or briefs filed with the Referee, upon Class Counsel and Defendant's Counsel as follows:

Class Counsel:	**Defendant's Counsel:**
Louis M. Marlin Marlin & Saltzman 2400 E. Katella Ave. Suite 1030 Anaheim, CA 92806	Joel E. Krischer Latham & Watkins LLP Suite 4000 633 West 5th Street Los Angeles, CA 90071

Any objector who does not object in the manner provided above shall be deemed to have waived such objection, and shall forever be foreclosed from objecting to the fairness, reasonableness or adequacy of the proposed settlement, or any award of attorneys' fees or reimbursement of costs and expenses.

IX. REMINDER OF IMPORTANT SETTLEMENT DATES AND DEADLINES

The following are important dates and deadlines under the proposed settlement:

Objection Deadline: ____________________
Settlement Hearing: ____________________
Proof of Claim Deadline: ____________________

X. ADDITIONAL INFORMATION

For more detailed information concerning the matters involved in this Action, reference is made to the pleadings, to the Settlement Agreement, to the Orders entered by the Court and the Referee, and to the other papers filed in this Action, which may be inspected at the Clerk of Central Civil West division of the Court, during regular business hours. In addition, the Settlement Agreement can be viewed online at www.overtimelawsuit.com under the "Allstate" tab.

Any questions concerning the matters contained in this Notice may be directed to any of the Class Counsel identified above in writing, via e-mail links at www.overtimelawsuit.com, or by calling Class Counsel at:

888-587-7100

You may also seek the advice and counsel of your own attorney, at your own expense, if you desire. **DO NOT CONTACT THE COURT OR THE REFEREE.**

APPENDIX TO NOTICE OF CLASS ACTION SETTLEMENT
IN
SEKLY v. ALLSTATE

The full scope of the release and waiver that Class Members are providing to Allstate is set forth in paragraphs 15 through 18 of the Settlement Agreement. Those provisions are as follows:

15. RELEASE BY ALL CLASS MEMBERS

(a) As of the Effective Date, the Class Members, including the Named Plaintiff, release Allstate and each of its subsidiaries, affiliated and parent corporations, and, as the case may be, each of their respective past, present or future owners, stockholders, officers, directors, shareholders, employees, agents, principals, heirs, representatives, accountants, auditors, consultants, insurers and reinsurers, and its and their respective successors and predecessors in interest and attorneys, and each of their company-sponsored employee benefit plans and all of their respective officers, directors, employees, administrators, fiduciaries, trustees and agents (the "Released Parties"), from the "Released Claims." For purposes of this Agreement, the "Released Claims" are defined as:

(1) All claims, demands, rights, liabilities, and causes of action of every nature and description whatsoever, known or unknown, asserted or that might have been asserted, whether in tort, contract, or for violation of any state or federal constitution, statute, rule or regulation, including state wage and hour laws, whether for economic damages, non-economic damages, restitution, penalties or liquidated damages, arising out of:

[a] any and all facts, transactions, events, policies, occurrences, acts, disclosures, statements, omissions or failures to act alleged, or related to acts alleged, in the Class Complaint, including but not limited to claims: (i) that Allstate did not pay the Class Members all overtime they were owed for work performed as Class Members in California; (ii) that Allstate failed to provide Breaks to the Class Members while they performed work as Class Members in the State of California; and/or (iii) that Allstate owes wages, waiting-time penalties, penalties, including any penalties which may be available pursuant to the PAGA, interest, attorneys' fees or other damages of any kind related to the claims alleged in the Class Complaint, at any times on or before the last day of the Class Period (whether based on California state wage and hour law, contract, or otherwise); and/or

[b] the causes of action asserted in the Class Complaint, including but not limited to any and all claims for alleged failure to pay overtime, for alleged failure to provide Breaks, for alleged failure to maintain and furnish records of hours worked, for alleged unlawful conversion of wages, for failure to timely pay wages, for alleged minimum wage and pay stub violations and related violations of Wage Orders, for waiting time penalties, and, as related to the foregoing, for alleged unlawful, unfair and/or fraudulent business practices under California Business and Professions Code section 17200, et seq.

(2) The Released Claims include any unknown claims that the Class Members do not know or suspect to exist in their favor at the time of the release, which, if known by them, might have affected their settlement with, and release of, the Released Parties or might have affected their decision not to object to this settlement. With respect to the Released Claims, the Class Members stipulate and agree that, upon the Effective Date, the Class Members shall be deemed to have, and by operation of the Final Judgment shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights and benefits of Section 1542 of the California Civil Code, or any other similar provision under federal or state law, which section provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(b) The Class Members may hereafter discover facts in addition to or different from those they now know or believe to be true with respect to the subject matter of the Released Claims, but upon the Effective Date, shall be deemed to have, and by operation of the Final Judgment shall have, fully, finally, and forever settled and released any and all of the Released Claims, whether known or unknown, suspected or unsuspected, contingent or non-contingent, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

(c) The Class Members, on behalf of themselves and their respective assigns, agree not to sue or otherwise make a claim against any of the Released Parties that is in any way related to the Released Claims.

16. ADDITIONAL RELEASE BY ALL SETTLEMENT CLASS MEMBERS

(a) As of the Effective Date, the Settlement Class Members, including the Named Plaintiff, and any Late Claim Settlement Class Members, in addition to releasing the Released Parties from the Released Claims as outlined above in paragraph 15, release the Released Parties from the "Released

Federal Claims." For purposes of this Agreement, the "Released Federal Claims" are defined as:

(1) All claims, demands, rights, liabilities, and causes of action of every nature and description whatsoever, known or unknown, asserted or that might have been asserted, whether in tort, contract, or for violation of any state or federal constitution, statute, rule or regulation, including federal wage and hour laws, whether for economic damages, non-economic damages, restitution, penalties or liquidated damages, arising out of:

[a] any and all facts, transactions, events, policies, occurrences, acts, disclosures, statements, omissions or failures to act alleged, or related to acts alleged, in the Class Complaint, including all federal claims pursuant to the FLSA, including claims: (a) that Allstate did not pay the Class Members all overtime they were owed for work performed as Class Members in the State of California; (b) that Allstate failed to provide Breaks to the Class Members while they performed work as Class Members within the State of California; and/or (c) that Allstate owes wages, waiting time penalties, penalties, including any penalties which may be available pursuant to the PAGA, interest, attorneys' fees or other damages of any kind related to the claims alleged in the Class Complaint, at any time on or before the last day of the Class Period (whether based on federal wage and hour law, contract, or otherwise); and/or

[b] the causes of action asserted in the Class Complaint, including any and all federal claims arising from the FLSA for alleged failure to pay overtime, for alleged failure to provide Breaks, for alleged failure to maintain and furnish records of hours worked, and for alleged unlawful conversion of wages due to Class Members for hours worked as Class Members within the State of California.

(2) The Released Federal Claims include any unknown claims that the Settlement Class Members and any Late Claim Settlement Class Members do not know or suspect to exist in their favor at the time of the release, which, if known by them, might have affected their settlement with, and release of, the Released Parties or might have affected their decision not to object to this settlement. With respect to the Released Federal Claims, the Settlement Class Members and any Late Claim Settlement Class Members stipulate and agree that, upon the Effective Date, the Settlement Class Members and any Late Claim Settlement Class Members shall be deemed to have, and by operation of the Final Judgment shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights and benefits of Section 1542 of the California Civil Code, or any other similar provision under federal or state law, which section provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(b) The Settlement Class Members and any Late Claim Settlement Class Members may hereafter discover facts in addition to or different from those they now know or believe to be true with respect to the subject matter of the Released Federal Claims, but upon the Effective Date, shall be deemed to have, and by operation of the Final Judgment shall have, fully, finally, and forever settled and released any and all of the Released Federal Claims, whether known or unknown, suspected or unsuspected, contingent or non-contingent, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

(c) The Settlement Class Members and any Late Claim Settlement Class Members, on behalf of themselves and their respective assigns, agree not to sue or otherwise make a claim against any of the Released Parties that is in any way related to the Released Federal Claims. The Released Federal Claims are limited to Settlement Class Members and any Late Claim Settlement Class Members claims arising from working in or being based from (during CAT duty) California claims offices.

17. WAIVER OF FUTURE PENSION, RETIREMENT AND/OR 401(K) RIGHTS BY ALL SETTLEMENT CLASS MEMBERS

As of the Effective Date, the Settlement Class Members and any Late Claim Settlement Class Members, including the Named Plaintiff, in addition to releasing the Released Parties from the Released Claims as outlined above in paragraph 14 and 15, expressly, knowingly and voluntarily

(a) acknowledge that none of the amounts paid under this Agreement constitute either "annual compensation" or "eligible annual compensation" under the Allstate Retirement Plan or "eligible compensation" under the Savings and Profit Sharing Fund of Allstate Employees; and

(b) waive any and all claims for additional contributions to and/or benefits under any pension, retirement and/or 401(k) plan maintained or sponsored by Allstate based on any amount paid under this Agreement.

Nothing in this provision or this Agreement shall in any other way affect the rights of any Class Member to any benefits under any such plan to which such Class Member may otherwise be entitled in accordance with the terms of any such plan.

18. WAIVER OF RIGHTS

(a) Defendant waives any right it may have to further appeal or contest, in any manner, the order certifying this matter as a class action or the order granting Plaintiffs' motion for summary adjudication.

(b) Class Members waive any right they may have to overtime pay or any other matter alleged in or related to allegations in the Class Complaint except as provided for in this Agreement.

(c) The parties hereto, including the Plaintiff Class, stipulate and agree that the consideration paid to the Class Members pursuant to this Agreement compensates the Plaintiff Class for all overtime compensation due to them, all penalties, all liability for Breaks and any compensation to which they may be entitled pursuant to the California Labor Code, or the applicable Wage Order, and any related penalties and as such, the Class Members are not "aggrieved employees" for purposes of the PAGA, and, therefore, Defendant are not liable for any penalties pursuant to the PAGA.

(d) The parties hereto, including the Plaintiff Class, further stipulate and agree that even if any Class Member is considered or determined to be an "aggrieved employee" for purposes of the PAGA, said Class Member

waives any potential right to any penalty prescribed by the PAGA, the California Labor Code or the applicable Wage Order.

(e) The parties hereto, including the Plaintiff Class, further stipulate and agree that Defendant has taken reasonable steps to insure that Breaks are taken as required by law and that Defendant is in compliance with the California Labor Code and applicable Wage Order and that Class Counsel has conducted a reasonable investigation and determined that Defendant is currently in compliance with the California Labor Code and applicable Wage Order and Breaks are being provided as required by law.

(f) The Referee and the Court have reviewed this Agreement and concluded that Plaintiff Class has been adequately compensated for all violations alleged in the Class Complaint and to which they otherwise may be entitled and that any additional penalties pursuant to the PAGA would be an unjust and oppressive award. Accordingly, to the extent any PAGA penalties could potentially be awarded to the Plaintiff Class, the Court hereby determines that no PAGA penalties should be awarded. The parties to this Agreement concur with this determination.

EXHIBIT B

SEKLY (formerly BEDNAR) vs. ALLSTATE OVERTIME LITIGATION
CLAIM FORM /FLSA CONSENT FORM

INSTRUCTIONS: To share in the monetary recovery resulting from this settlement, and to consent to join the federal overtime (FLSA) portion of this action, **you must complete, sign and mail this form by first class U.S. mail, postage paid, postmarked on or before [date], and addressed as follows:**

SEKLY (formerly BEDNAR) vs. ALLSTATE
c/o Gilardi & Co. LLC, Claims Administrator
P.O. Box xxxx, San Rafael, CA 94912-8060

If your pre-printed address is incorrect, please provide your correct address, below.

////////////////-ALLSTATE [CLAIM #]	**Name/Address Change:**
[First] [Middle] [Last]	______________________________
[Address]	______________________________
[City], [State] [Zip]	______________________________

Phone Number (Work): (___) ______________ Phone Number (Home): (___) ________________
Phone Number (Cell): (___) ______________ Social Security Number: ______-____-______

Allstate's records indicate that you were employed as a Class Member in California and, if applicable, that you worked the number of days for catastrophe ("CAT") duty indicated below for each of the following years in the Class Period (for 1996 only the maximum number of months is 1 and CAT days are not applicable):.

Calendar Year	Months in Class	CAT Days worked
1996		N/A
1997		
1998		
1999		
2000		
2001		
2002		
2003		
2004		

If you believe that this information is incorrect, please provide a written explanation of your basis for disputing Allstate's records together with this Claim Form. Please enclose your written statement, along with copies of any relevant documents, in the same envelope in which you return this claim form. Allstate will respond to your position in writing and you will thereafter be given the opportunity to reply to that response. Thereafter, the Referee assigned to this case, the Hon. Edward Panelli (Ret.) will rule upon this dispute and his decision will be final and non-appealable. BY SUBMITTING THIS CLAIM FORM, YOU ARE GIVING UP YOUR RIGHT TO CHALLENGE THIS INFORMATION **UNLESS YOU INCLUDE YOUR WRITTEN EXPLANATION FOR THE CHALLENGE WITH THIS CLAIM FORM**. HOWEVER, THIS CLAIM FORM MUST BE COMPLETED AND SUBMITTED IN

ORDER TO PARTICIPATE IN THE SETTLEMENT.

Please be aware that Allstate will withhold taxes from the portion of any settlement award attributed to wages, and a 1099 form will be issued for the portion attributed to interest and/or penalties.

If your wages are subject to supplemental tax withholding as a result of a lien or outstanding debt, please indicate so by checking this box: [_____]

DECLARATION

By signing this Claim Form, I am declaring under penalty of perjury that at some time while working as a Class Member (as defined in the Class Notice) during this class period, I worked overtime[1]. Further, by signing and submitting this Claim Form I agree to participate in this settlement. By doing so, I agree that the settlement represents a full and final settlement of any and all claims I may have or could have against Allstate for overtime compensation, and any other related claims as described in, and subject to, the Settlement and Class Notice.

I have reviewed the Class Notice and this Claim Form and I also consent to join in the Federal Fair Labor Standards Act ("FLSA") portion of this action and have the Named Plaintiffs and their counsel represent me in this action pursuant to 29 USC § 216(b).

X ______________________________ ______________________________
(Sign Your Name Here) Date

1 Overtime is defined as time worked over 8 hours in one work day or over 40 hours in one work week, for the period from November 27, 1996 through 1997, and from January 1, 2000 through the present. For the period of 1998 and 1999, overtime is defined as time worked over 40 hours in one work week.

EXHIBIT C

SEKLY (formerly BEDNAR) vs. ALLSTATE OVERTIME LITIGATION

EXCLUSION REQUEST FORM

**SUBMIT THIS FORM IF YOU WISH TO BE EXCLUDED
FROM PARTICIPATING IN THE CLASS ACTION SETTLEMENT**

By signing and returning this form, I represent that it is my intent to exclude myself from participating in the settlement of the class action entitled *Sekly (formerly Bednar) vs. Allstate Insurance Company, et.al.*, Los Angeles Superior Court Case No. BC 240813. I have read the Notice of Class Action Settlement, and I represent that the information set forth below is accurate.

Name: ____
(Please Print)

Address: ____

____

Telephone No.: ____

Dated: ____ Signature: ____

Send this form postmarked by ______________________________, 2005 [30 days] to:

SEKLY (formerly BEDNAR) vs. ALLSTATE
c/o Gilardi & Co. LLC, Claims Administrator
P.O. Box xxxx, San Rafael, CA 94912-8060

EXHIBIT D

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF LOS ANGELES, CENTRAL CIVIL WEST

WILLIAM SEKLY, an individual; each on his own behalf and on behalf of all others similarly situated, Plaintiffs, v. ALLSTATE INSURANCE COMPANY, an Illinois corporation, Defendant.	CASE NO. BC240813 **CLASS ACTION** Assigned To: Honorable Anthony J. Mohr Department 309 **[Proposed] ORDER GRANTING FINAL APPROVAL OF CLASS SETTLEMENT, AWARD OF ATTORNEYS' FEES AND COSTS, AND RELEASE OF ALL CLAIMS BY CLASS MEMBERS**

The Court has received, reviewed and considered the report by the Court-appointed Referee, the Hon. Edward Panelli (Ret.) concerning final approval of the settlement of this class action and final approval of the application by Class Counsel for an award of attorneys' fees and reimbursement of costs. In addition the Court has received and reviewed the Report of Class Counsel Re: Final Approval of Class Settlement and has received and reviewed the proposed Class Action Settlement Agreement ("Settlement Agreement") itself.

GOOD CAUSE APPEARING THEREFORE, this Court makes the following ORDER:

1. The Plaintiff Class covered by this Order is defined as follows:

(a) Plaintiff Class Defined

All persons who, at any time between November 27, 1996 and December 31, 2004 (the "Class Period") were employed by Allstate in California as claims adjusters. As used in this definition, the term "claims adjuster" refers to any individual whose primary assigned duties as an employee of Allstate included or currently include, but were not limited to, the adjustment and/or investigation and/or analysis and/or evaluation of the monetary worth of any claim made to Allstate for any bodily injury, property damage, and/or monetary damage of every nature and type and who were paid as exempt employees during the Class Period as the same are defined pursuant to statute and/or California or federal regulatory determination.

(b) Job Titles Specifically Included in the Plaintiff Class

The job titles specifically encompassed by the definition of "claims adjuster" include, from various times during the Class Period:

Claim Representative

Senior Claim Representative

Staff Claim Representative

Senior Staff Claim Representative

Staff Claim Analyst

Claim Adjuster

Senior Claim Adjuster

Staff Claim Adjuster

Senior Staff Claim Adjuster

Staff Claim Analyst

Claim Service Adjuster

Senior Claim Service Adjuster

Staff Claim Service Adjuster

Appraisers

Claims Specialist

Claims Consultant

Evaluation Consultants

Damage Evaluators

Quality Evaluators

Extra Contractual Liability Specialists

Although the Court previously ruled that claims adjusters in the Special Investigation Unit and/or as Subrogation Adjusters were not included in the Plaintiff Class, and although Evaluation Consultants, Damage Evaluators, Quality Evaluators and Extra Contractual Liability Specialists were previously excluded from the Plaintiff Class, the Plaintiffs and Allstate have expressly agreed that such persons shall be included in the Plaintiff Class in order for this settlement to be effectuated, and the negotiations specifically included and contemplated said persons being in the Plaintiff Class.

(c) Persons expressly excluded from the Plaintiff Class:

Persons who performed such functions while classified, employed and compensated by Allstate as supervisors, managers or officers of Allstate are not included in the Plaintiff Class during any time said persons were so employed. Persons performing work in the following job titles (as the work duties and responsibilities of said titles existed as of the date of certification) are not included in the defined class during any period of time said position was or is held during the Class Period: Frontline Process Experts, Frontline Performance Leaders and supervisory personnel.

(d) Previous Opt Outs from the Plaintiff Class:

The parties recognize that certain persons previously elected to opt-out of the Plaintiff Class either at the time notice of class certification for liability or notice of class certification for damages were served, and that, by agreement of the parties made prior to this Agreement, certain of those persons have been permitted to opt back into the Plaintiff Class. The parties have expressly agreed as part of the consideration for this Agreement, that all persons who previously opted out but have not previously opted back in shall be permitted to opt back into the Plaintiff Class by the timely presentation submission of a Claim Form as described more in the Settlement Agreement, and that the negotiations

specifically included and contemplated said persons being given such opportunity. Any such person who fails to submit a timely Claim Form will remain excluded from the Plaintiff Class.

2. The Settlement Agreement is granted final approval. It appears, and this Court finds, that the Settlement Agreement has no obvious defects, is fair, reasonable and adequate, was negotiated in good faith and at arms' length and is in the best interests of the Plaintiff Class as a whole. This Court further orders the parties to carry out the provisions of the Settlement Agreement.

3. The Court hereby grants and approves the application presented by Class Counsel for an award of attorneys fees in the amount of 33-1/3% of the Potential Maximum Consideration (as defined in the Settlement Agreement), for a total of Forty Million Dollars ($40 million).

4. The Court hereby grants and approves the application presented by Class Counsel for reimbursement of expenses in the sum of Eight Hundred Thousand Dollars ($800,000). The Court notes and understands that a portion of this sum represents an estimate of future costs, and orders that any such costs not incurred shall remain as a portion of the "Potential Gross Individual Settlement Proceeds" as defined in paragraph 8(a) of the Settlement Agreement and shall be available for distribution to Class Members in accordance with the terms of the Settlement Agreement.

5. The Court hereby grants and approves the application for payment of the costs of administration of the Settlement Agreement (including the Referee's fee and the Claims Administrator's fee) in the sum of Eight Hundred Thousand Dollars ($800,000). The Court notes and understands that a portion of this sum represents an estimate of future costs and orders that any such costs not incurred shall remain as a portion of the Potential Gross Individual Settlement Proceeds and shall be available for distribution to Class Members in accordance with the terms of the Settlement Agreement.

6. The Referee is empowered to hear any remaining disputes between the parties, to determine the timeliness of Claim Forms, to resolve administrative and/or procedural issues that

may arise and to take other actions contemplated by and/or necessary to the implementation of the Settlement Agreement. Except as to such actions that are expressly made final and binding by the terms of the Settlement Agreement, all such actions of the Referee shall be subject to ratification by the Court

7. As of the "Effective Date" (as defined in paragraph 13(a) of the Settlement Agreement), the Court hereby dismisses with prejudice all actions, complaints and claims and any lawsuit as against Allstate and/or the "Released Parties" (as defined in paragraph 15(a) of the Settlement Agreement) arising out of or related to any of the actions or events complained of in the Amended Complaint filed herein on or about ____________ (the "Class Complaint").

8. As of the Effective Date, the Court adjudges that

(a) all Class Members are conclusively deemed to have released the Released Parties from the "Released Claims" (as defined in paragraph 15(a) of the Settlement Agreement); and

(b) all Settlement Class Members and any Late Claim Settlement Class Members (as those terms are defined in paragraphs 7(d)(4) and 7(f)(2), respectively, of the Settlement Agreement) in addition to releasing the Released Parties from the Released Claims, are conclusively deemed to have (i) released the Released Parties from the "Released Federal Claims" as defined in paragraph 16(a) of the Settlement Agreement, and (ii) acknowledged that none of the amounts paid under the Settlement Agreement constitute either "annual compensation" or "eligible annual compensation" under the Allstate Retirement Plan or "eligible compensation" under the Savings and Profit Sharing Fund of Allstate Employees, and waived any and all claims for additional contributions to and/or benefits under any pension, retirement and/or 401(k) plan maintained or sponsored by Allstate based on any amount paid under the Settlement Agreement.

9. The Court bars and permanently enjoins each Class Member from prosecuting against the Released Parties any and all of the settled claims which the Class Members or any of them had, have or may have in the future, arising out of, based upon, or otherwise related to any

of the settled claims, or any of the allegations contained in the Class Complaint.

10. The Court bars and permanently enjoins each person in the Plaintiff Class who opted not to participate in the settlement (or who having previously opted out, chose not to submit a Claim Form) from participating in any future class action regarding the claims raised in the Class Complaint.

11. The Court reserves continuing jurisdiction as provided hereinabove.

____

Hon. Anthony Mohr
Judge of the Superior Court

Dated: ____________________

EXHIBIT E

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF LOS ANGELES, CENTRAL CIVIL WEST

WILLIAM SEKLY, an individual;
each on his own behalf and on behalf
of all others similarly situated,

Plaintiffs,

v.

ALLSTATE INSURANCE COMPANY,
an Illinois corporation,

Defendant.

CASE NO. BC240813

CLASS ACTION

Assigned To: Honorable Anthony J. Mohr
Department 309

[Proposed] JUDGMENT

The Court, on ____________ 2005, issued its Order Granting Final Approval of Class Settlement, Award of Attorneys' Fees and Costs, and Release of All Claims by Class Members, ("Order Granting Final Approval") granting approval to the Class Action Settlement Agreement ("Settlement Agreement") in this matter.

Pursuant to Rule of Court 1859(h) the Court ORDERS ENTRY OF JUDGMENT as follows:

1. The Plaintiff Class as to whom this judgment applies is defined as follows:

(a) Plaintiff Class Defined

All persons who, at any time between November 27, 1996 and December 31, 2004 (the "Class Period") were employed by Allstate in California as claims adjusters.

As used in this definition, the term “claims adjuster” refers to any individual whose primary assigned duties as an employee of Allstate included or currently include, but were not limited to, the adjustment and/or investigation and/or analysis and/or evaluation of the monetary worth of any claim made to Allstate for any bodily injury, property damage, and/or monetary damage of every nature and type and who were paid as exempt employees during the Class Period as the same are defined pursuant to statute and/or California or federal regulatory determination.

(b) Job Titles Specifically Included in the Plaintiff Class

The job titles specifically encompassed by the definition of “claims adjuster” include, from various times during the Class Period:

Claim Representative

Senior Claim Representative

Staff Claim Representative

Senior Staff Claim Representative

Staff Claim Analyst

Claim Adjuster

Senior Claim Adjuster

Staff Claim Adjuster

Senior Staff Claim Adjuster

Staff Claim Analyst

Claim Service Adjuster

Senior Claim Service Adjuster

Staff Claim Service Adjuster

Appraisers

Claims Specialist

Claims Consultant

Evaluation Consultants

Damage Evaluators

Quality Evaluators

Extra Contractual Liability Specialists

Although the Court previously ruled that claims adjusters in the Special Investigation Unit and/or as Subrogation Adjusters were not included in the Plaintiff Class, and although Evaluation Consultants, Damage Evaluators, Quality Evaluators and Extra Contractual Liability Specialists were previously excluded from the Plaintiff Class, the Plaintiffs and Allstate have expressly agreed that such persons shall be included in the Plaintiff Class in order for this settlement to be effectuated, and the negotiations specifically included and contemplated said persons being in the Plaintiff Class.

(c) Persons expressly excluded from the Plaintiff Class:

Persons who performed such functions while classified, employed and compensated by Allstate as supervisors, managers or officers of Allstate are not included in the Plaintiff Class during any time said persons were so employed. Persons performing work in the following job titles (as the work duties and responsibilities of said titles existed as of the date of certification) are not included in the defined class during any period of time said position was or is held during the Class Period: Frontline Process Experts, Frontline Performance Leaders and supervisory personnel.

(d) Previous Opt Outs from the Plaintiff Class:

The parties recognize that certain persons previously elected to opt-out of the Plaintiff Class either at the time notice of class certification for liability or notice of class certification for damages were served, and that, by agreement of the parties made prior to this Agreement, certain of those persons have been permitted to opt back into the Plaintiff Class. The parties have expressly agreed as part of the consideration for this Agreement, that all persons who previously opted out but have not previously opted back in shall be permitted to opt back into the Plaintiff Class by the timely presentation submission of a Claim Form as described more in the Settlement Agreement, and that the negotiations specifically included and contemplated said persons being given such opportunity. Any such person who fails to submit a timely Claim Form will remain excluded from the

Plaintiff Class.

2. Persons who requested exclusion and/or remain excluded from the Plaintiff Class (a) will not participate in the recovery obtained through the Settlement Agreement and (b) are entitled to prosecute an individual lawsuit, or an individual claim with the California Labor Commissioner, in accordance with California law, but may not pursue any claim as part of a class action.

3. The parties shall comply with the terms and conditions of the Settlement Agreement and of the Order Granting Final Approval. Upon such compliance, and in accordance with the terms of the Order Granting Final Approval, the matter and the First Amended Complaint on file herein shall be dismissed in its entirety, with prejudice. The Court retains jurisdiction over the parties to enforce the terms of this judgment.

____
Hon. Anthony Mohr
Judge of the Superior Court

Dated: ____________________

EXHIBIT 15

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

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of The Allstate Corporation and subsidiaries for the three-month and nine-month periods ended September 30, 2005 and 2004, as indicated in our report dated November 1, 2005; because we did not perform an audit, we expressed no opinion on such financial information.

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, 2005, is incorporated by reference in the following Registration Statements:

Forms S-3 Registration Nos.	Forms S-8 Registration Nos.
333-34583	33-77928
333-39640	33-93762
333-108253	33-99132
	33-99136
	33-99138
	333-04919
	333-16129
	333-40283
	333-40285
	333-40289
	333-49022
	333-60916
	333-73202
	333-100405
	333-100406
	333-105632
	333-120343
	333-120344

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.

/s/ Deloitte & Touche LLP

Chicago, Illinois
November 1, 2005

EXHIBIT 31.1

CERTIFICATIONS

I, Edward M. Liddy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2005

/s/ Edward M. Liddy

Edward M. Liddy
Chairman of the Board, President and Chief Executive Officer

I, Danny L. Hale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Allstate Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15(d)-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2005

/s/ Danny L. Hale

Danny L. Hale
Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS PURSUANT TO 18 UNITED STATES CODE §1350

Each of the undersigned hereby certifies that to his knowledge the quarterly report on Form 10-Q for the fiscal period ended September 30, 2005 of The Allstate Corporation filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and result of operations of The Allstate Corporation.

November 1, 2005

/s/ Edward M. Liddy
Edward M. Liddy
Chairman of the Board, President and Chief Executive Officer

/s/ Danny L. Hale
Danny L. Hale
Vice President and Chief Financial Officer