
**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 JUNE 30, 2000

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

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

36-3871531
(I.R.S. Employer Identification No.)

2775 Sanders Road
Northbrook, Illinois
(Address of principal executive offices)

60062
(Zip Code)

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

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

YES NO

AS OF JULY 31, 2000, THE REGISTRANT HAD 734,225,699 COMMON SHARES, \$.01 PAR VALUE, OUTSTANDING.

**THE ALLSTATE CORPORATION
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JUNE 30, 2000**

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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 June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(Unaudited)		(Unaudited)	
Revenues				
Property-liability insurance premiums earned	\$ 5,481	\$ 4,903	\$ 10,952	\$ 9,755
Life and annuity premiums and contract charges	511	369	1,052	754
Net investment income	1,129	1,014	2,219	1,985
Realized capital gains and losses	62	306	246	905
	<u>7,183</u>	<u>6,592</u>	<u>14,469</u>	<u>13,399</u>
Costs and expenses				
Property-liability insurance claims and claims expense	4,198	3,531	8,336	6,852
Life and annuity contract benefits	742	598	1,487	1,204
Amortization of deferred policy acquisition costs	860	797	1,750	1,590
Operating costs and expenses	682	525	1,332	1,077
Restructuring and related charges	5	—	33	—
Interest expense	58	28	105	58
	<u>6,545</u>	<u>5,479</u>	<u>13,043</u>	<u>10,781</u>
Gain on disposition of operations	—	10	—	10
Income from operations before income tax expense and dividends on preferred securities	638	1,123	1,426	2,628
Income tax expense	168	343	384	804
	<u>470</u>	<u>780</u>	<u>1,042</u>	<u>1,824</u>
Dividends on preferred securities of subsidiary trusts	(11)	(10)	(22)	(19)
	<u>\$ 459</u>	<u>\$ 770</u>	<u>\$ 1,020</u>	<u>\$ 1,805</u>
Earnings per share:				
Net income per share—basic	\$ 0.62	\$ 0.96	\$ 1.35	\$ 2.23
	<u>742.3</u>	<u>807.2</u>	<u>755.0</u>	<u>810.4</u>
Weighted average shares—basic				
	<u>\$ 0.61</u>	<u>\$ 0.95</u>	<u>\$ 1.34</u>	<u>\$ 2.22</u>
Net income per share—diluted				
	<u>747.8</u>	<u>810.5</u>	<u>760.0</u>	<u>813.7</u>

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ In millions except par value data)	June 30, 2000	December 31, 1999
	(Unaudited)	

Assets		
Investments		
Fixed income securities, at fair value (amortized cost \$57,608 and \$55,293)	\$ 57,985	\$ 55,286
Equity securities, at fair value (cost \$4,640 and \$4,565)	6,436	6,738
Mortgage loans	4,359	4,068
Short-term	2,709	2,422
Other	1,166	1,131
	<hr/>	<hr/>
Total investments	72,655	69,645
Cash	238	254
Premium installment receivables, net	3,962	3,927
Deferred policy acquisition costs	4,295	4,119
Reinsurance recoverables, net	2,262	2,209
Accrued investment income	850	812
Deferred income taxes	88	211
Property and equipment, net	989	916
Other assets	3,177	2,169
Separate Accounts	14,894	13,857
	<hr/>	<hr/>
Total assets	\$ 103,410	\$ 98,119
	<hr/>	<hr/>
Liabilities		
Reserve for property-liability insurance claims and claims expense	\$ 17,386	\$ 17,814
Reserve for life-contingent contract benefits	7,990	7,597
Contractholder funds	27,224	25,199
Unearned premiums	7,639	7,671
Claim payments outstanding	880	860
Other liabilities and accrued expenses	6,997	4,705
Short-term debt	213	665
Long-term debt	3,098	2,186
Separate Accounts	14,894	13,857
	<hr/>	<hr/>
Total liabilities	86,321	80,554
	<hr/>	<hr/>
Commitments and Contingent Liabilities (Notes 3 and 5)		
Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	964	964
Shareholders' equity		
Preferred stock, \$1 par value, 25 million shares authorized, none issued	—	—
Common stock, \$.01 par value, 2 billion shares authorized and 900 million issued, 734 million and 787 million shares outstanding	9	9
Additional capital paid-in	2,646	2,664
Retained income	17,492	16,728
Deferred ESOP expense	(186)	(216)
Treasury stock, at cost (166 million and 113 million shares)	(5,083)	(3,929)
Accumulated other comprehensive income:		
Unrealized net capital gains	1,281	1,369
Unrealized foreign currency translation adjustments	(34)	(24)
	<hr/>	<hr/>
Total accumulated other comprehensive income	1,247	1,345
	<hr/>	<hr/>
Total shareholders' equity	16,125	16,601
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 103,410	\$ 98,119
	<hr/>	<hr/>

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)	Six months ended June 30,	
	2000	1999
	<hr/>	
	(Unaudited)	
Cash flows from operating activities		
Net income	\$ 1,020	\$ 1,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	(13)	(7)
Realized capital gains and losses	(246)	(905)

Gain on disposition of operations	—	(10)
Interest credited to contractholder funds	705	660
Changes in:		
Policy benefit and other insurance reserves	(579)	(245)
Unearned premiums	(33)	109
Deferred policy acquisition costs	(175)	(88)
Premium installment receivables, net	(35)	(119)
Reinsurance recoverables, net	38	(23)
Income taxes payable	322	243
Other operating assets and liabilities	(11)	(289)
	<u>993</u>	<u>1,131</u>
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	15,181	8,775
Equity securities	4,288	5,225
Investment collections		
Fixed income securities	1,285	3,375
Mortgage loans	186	173
Investment purchases		
Fixed income securities	(18,989)	(14,140)
Equity securities	(3,917)	(4,571)
Mortgage loans	(473)	(453)
Change in short-term investments, net	1,017	785
Change in other investments, net	(61)	(12)
Purchases of property and equipment, net	(172)	(104)
	<u>(1,655)</u>	<u>(947)</u>
Cash flows from financing activities		
Change in short-term debt, net	(452)	(174)
Proceeds from issuance of long-term debt	912	2
Contractholder fund deposits	4,366	2,439
Contractholder fund withdrawals	(2,755)	(1,712)
Dividends paid	(250)	(233)
Treasury stock purchases	(1,233)	(551)
Other	58	41
	<u>646</u>	<u>(188)</u>
Net decrease in cash	<u>(16)</u>	<u>(4)</u>
Cash at beginning of period	254	258
	<u>238</u>	<u>254</u>
Cash at end of period	<u>\$ 238</u>	<u>\$ 254</u>

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of The Allstate Corporation and its wholly owned subsidiaries, primarily Allstate Insurance Company ("AIC"), a property-liability insurance company with various property-liability and life and savings subsidiaries, including Allstate Life Insurance Company (collectively referred to as the "Company" or "Allstate").

The condensed consolidated financial statements and notes as of June 30, 2000, and for the three month and six month periods ended June 30, 2000 and 1999 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Appendix A of the 2000 Notice of Annual Meeting and Proxy Statement and the Annual Report on Form 10-K for 1999. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Pending accounting standards

In June 1999, the Financial Accounting Standards Board ("FASB") delayed the effective date of Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 replaces existing pronouncements and practices with a single,

integrated accounting framework for derivatives and hedging activities. This statement requires that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Additionally, the change in fair value of a derivative which is not effective as a hedge will be immediately recognized in earnings.

The delay was effected through the issuance of SFAS No. 137, which extends the SFAS No. 133 requirements to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities. As such, the Company expects to adopt the provisions of SFAS No. 133 and SFAS No. 138 as of January 1, 2001. The impact of these statements is dependent upon the Company's derivative positions and market conditions existing at the date of adoption. Based on existing interpretations of the requirements of SFAS No. 133, the impact of adoption is not expected to be material to the results of operations or financial position of the Company.

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 the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of outstanding stock options and shares issuable under its mandatorily redeemable preferred securities.

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

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Numerator:				
Net income applicable to common shareholders	\$ 459	\$ 770	\$ 1,020	\$ 1,805
Denominator:				
Weighted average common shares outstanding	742.3	807.2	755.0	810.4
Effect of potential dilutive securities:				
Stock options	2.3	3.3	2.0	3.3
Shares issuable under FELINE PRIDES contract	3.2	—	3.0	—
	5.5	3.3	5.0	3.3
Weighted average common and dilutive potential common shares outstanding	747.8	810.5	760.0	813.7
Earnings per share:				
Basic	\$.62	\$.96	\$ 1.35	\$ 2.23
Diluted	.61	.95	1.34	2.22

Options to purchase 15.8 million Allstate common shares, with exercise prices ranging from \$25.88 to \$50.72, were outstanding at June 30, 2000 but were not included in the computation of diluted earnings per share for the three month period ended June 30, 2000 since inclusion of these options would have an anti-dilutive effect as the options' exercise prices exceeded the average market price of Allstate common shares in the three month period ended June 30, 2000. For the six month period ended June 30, 2000, options to purchase 16.1 million Allstate common shares, with exercise prices ranging from \$23.72 to \$50.72, were outstanding at June 30, 2000 and not included in the six month period computation of diluted earnings per share due to anti-dilutive effects. At June 30, 1999, 3.2 million outstanding stock options were excluded from both the three month and six month periods ended June 30, 1999 diluted earnings per share computations due to anti-dilutive effects.

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

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretation of circumstances, including the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes. The effects of inflation are implicitly considered in the reserving process.

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

Catastrophes are an inherent risk of the property-liability insurance business which have contributed, and will continue to contribute, to material year-to-year fluctuations in the Company's results of operations and financial position. The level of catastrophe losses experienced in any year cannot be predicted and could be material to the results of operations, liquidity and financial position.

Reserves for environmental, asbestos and other mass tort exposures comprise reserves for reported claims, incurred but not reported claims and related expenses. Establishing net loss reserves for these types of claims is subject to uncertainties that are greater than those presented by other types of claims. Among the complications are a lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved

legal issues regarding policy coverage, availability of reinsurance and the extent and timing of any such contractual liability. The legal issues concerning the interpretation of various insurance policy provisions and whether these losses are, or were ever intended to be covered, are complex. Courts have reached different and sometimes inconsistent conclusions as to when losses are deemed to have occurred and which policies provide coverage; what types of losses are covered; whether there is an insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether environmental and asbestos clean-up costs represent insured property damage. Management believes these issues are not likely to be resolved in the near future.

In 1986, the general liability policy form used by Allstate and others in the property-liability industry was amended to introduce an "absolute pollution exclusion," which excluded coverage for environmental damage claims and added an asbestos exclusion. Most general liability policies issued prior to 1987 contain annual aggregate limits for product liability coverage, and policies issued after 1986 also have an annual aggregate limit on all coverages. Allstate's experience to date is that these policy form changes have effectively limited its exposure to environmental and asbestos claim risks. Allstate's reserves for environmental and asbestos claims were \$1.23 billion and \$1.26 billion at June 30, 2000 and December 31, 1999, net of reinsurance recoverables of \$428 million and \$448 million, respectively.

Management believes its net loss reserves for environmental, asbestos and other mass tort claims are appropriately established based on available facts, technology, laws and regulations. However, due to the inconsistencies of court coverage decisions, plaintiffs' expanded theories of liability, the risks inherent in major litigation and other uncertainties, the ultimate cost of these claims may vary materially from the amounts currently recorded, resulting in an increase in the loss reserves. In addition, while the Company believes that improved actuarial techniques and databases have assisted in its ability to estimate environmental, asbestos and other mass tort net loss reserves, these refinements may subsequently prove to be inadequate indicators of the extent of probable loss. 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.

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 June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Property-liability premiums	\$ 68	\$ 100	\$ 135	\$ 202
Life and annuity premiums and contract charges	89	56	174	95

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 June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Property-liability insurance claims and claims expense	\$ 27	\$ 73	\$ 141	\$ 171
Life and annuity contract benefits	48	31	114	66

5. Regulation and Legal Proceedings

Regulation

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

Legal proceedings

Allstate and plaintiffs' representatives have agreed to settle certain civil suits filed in California, including a class action, related to the 1994 Northridge, California earthquake. The settlement received final approval from the Superior Court of the State of California for the County of Los Angeles on June 11, 1999. The plaintiffs in these civil suits challenged licensing and engineering practices of certain firms Allstate retained and alleged that Allstate systematically pressured engineering firms to improperly alter their reports to reduce the loss amounts paid to some insureds with earthquake claims. Under the terms of the settlement, Allstate sent notices to approximately 11,500 homeowners insurance customers inviting them to participate in a court-administered program which may allow for review of their claims by an independent engineer and an independent adjusting firm to ensure that they have been compensated for all structural damage from the 1994 Northridge earthquake covered under the terms of their Allstate policies. It is anticipated that approximately 2,500 of these customers will ultimately participate in this independent review process. Allstate has agreed to retain an independent consultant to review, among other things, Allstate's practices and procedures for handling catastrophe claims, and has helped fund a charitable foundation devoted to consumer education on loss prevention

and consumer protection and other insurance issues. The Company does not expect that the effect of the proposed settlement will exceed the amounts currently reserved. During August 1999, a group of objectors filed an appeal from the order approving the settlement. That appeal is pending.

In April 1998, Federal Bureau of Investigation agents executed search warrants at three Allstate offices for documents relating to the handling of certain claims for losses resulting from the Northridge earthquake. Allstate is cooperating with the investigation, which is being directed by the United States Attorney's Office for the Central District of California. At present, the Company cannot determine the impact of resolving the investigation.

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

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

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

There are a number of state and nationwide putative class action lawsuits pending in various state and federal 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. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes result in a breach of the insurance policy as well as fraud. The Company denies those allegations and is vigorously defending both its processes and these lawsuits. The outcome of these disputes is currently uncertain.

Allstate is defending lawsuits, including three class actions, regarding worker classification. Two of these suits, involving certified classes of California agents, relate to the classification of California exclusive agents as independent contractors. These suits were filed after Allstate's reorganization of its California agency programs in 1996. The plaintiffs, among other things, seek a determination that they

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have been treated as employees notwithstanding agent contracts that specify that they are independent contractors for all purposes. Another suit relates to the classification of staff working in agency offices. In this putative class action, plaintiffs seek damages under the Employee Retirement Income Security Act and the Racketeer Influenced and Corrupt Organizations Act alleging that 10,000 agency secretaries were terminated as employees by Allstate and rehired by agencies through outside staffing vendors for the purpose of avoiding the payment of employee benefits. Allstate is vigorously defending these lawsuits. The outcome of these disputes is currently uncertain.

Various other legal and regulatory actions are currently pending that involve Allstate and specific aspects of its conduct of business, including some related to the Northridge earthquake, and like other members of the insurance industry, the Company is the target of an increasing number of class action law suits. These class actions are based on a variety of issues including insurance and claim settlement practices. At this time, based on their present status, it is the opinion of management that the ultimate liability, if any, in one or more of these other actions in excess of amounts currently reserved is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

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6. Business Segments

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Income from operations before income taxes and other items				
<i>Property-Liability</i>				
Underwriting income (loss)				
PP&C	\$ (49)	\$ 214	\$ (27)	\$ 581
Discontinued Lines and Coverages	(3)	30	(8)	29
Total underwriting income (loss)	(52)	244	(35)	610
Net investment income	439	439	863	859
Realized capital gains and losses	142	224	326	754
Gain on disposition of operations	—	10	—	10
Property-Liability income from operations before income taxes	529	917	1,154	2,233
<i>Life and Savings</i>				
Premiums and contract charges	511	369	1,052	754
Net investment income	665	552	1,302	1,088
Realized capital gains and losses	(66)	83	(44)	152
Contract benefits	742	598	1,487	1,204
Operating costs and expenses	225	189	475	366
Restructuring charges	(13)	—	(11)	—
Life and Savings income from operations before income taxes	156	217	359	424
<i>Corporate and Other</i>				

Net investment income	25	23	54	38
Realized capital gains and losses	(14)	(1)	(36)	(1)
Operating costs and expenses	58	33	105	66
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Corporate and Other loss from operations before income taxes and dividends on preferred securities	(47)	(11)	(87)	(29)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated income from operations before income taxes and other items	\$ 638	\$ 1,123	\$ 1,426	\$ 2,628
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Revenues				
<i>Property-Liability</i>				
Premiums earned				
PP&C	\$ 5,479	\$ 4,903	\$ 10,949	\$ 9,748
Discontinued Lines and Coverages	2	—	3	7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total premiums earned	5,481	4,903	10,952	9,755
Net investment income	439	439	863	859
Realized capital gains and losses	142	224	326	754
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Property-Liability	6,062	5,566	12,141	11,368
<i>Life and Savings</i>				
Premiums and contract charges	511	369	1,052	754
Net investment income	665	552	1,302	1,088
Realized capital gains and losses	(66)	83	(44)	152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Life and Savings	1,110	1,004	2,310	1,994
<i>Corporate and Other</i>				
Net investment income	25	23	54	38
Realized capital gains and losses	(14)	(1)	(36)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Corporate and Other	11	22	18	37
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated Revenues	\$ 7,183	\$ 6,592	\$ 14,469	\$ 13,399
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Comprehensive Income

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

(In millions)	Three Months Ended June 30,					
	2000			1999		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>Unrealized capital gains and losses:</i>						
Unrealized holding gains (losses) arising during the period	\$ (369)	\$ 129	\$ (240)	\$ (490)	\$ 171	\$ (319)
Less: reclassification adjustments	12	(4)	8	367	(129)	238
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Unrealized net capital gains (losses)	(381)	133	(248)	(857)	300	(557)
Unrealized foreign currency translation adjustments	(9)	3	(6)	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other comprehensive income (loss)	\$ (390)	\$ 136	(254)	\$ (857)	\$ 300	(557)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income			459			770
			<u> </u>			<u> </u>
Comprehensive income			\$ 205			\$ 213
			<u> </u>			<u> </u>

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Six Months Ended June 30,

(In millions)	2000			1999		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
<i>Unrealized capital gains and losses:</i>						
Unrealized holding gains (losses) arising during the period	\$ 86	\$ (30)	\$ 56	\$ (801)	\$ 280	\$ (521)
Less: reclassification adjustments	221	(77)	144	908	(318)	590
Unrealized net capital gains (losses)	(135)	47	(88)	(1,709)	598	(1,111)
Unrealized foreign currency translation adjustments	(15)	5	(10)	2	(1)	1
Other comprehensive income (loss)	\$ (150)	\$ 52	(98)	\$ (1,707)	\$ 597	(1,110)
Net income			1,020			1,805
Comprehensive income			\$ 922			\$ 695

8. Company Restructuring

On November 10, 1999, the Company announced a series of strategic initiatives to aggressively expand its selling and service capabilities. The Company also announced that it is implementing a program to reduce current annual expenses by approximately \$600 million. The reduction in expenses will come from field realignment, the reorganization of employee agents to a single exclusive agency independent contractor program, the closing of certain facilities, and from reduced employee related expenses and professional services as a result of reductions in force, attrition and consolidations. The reduction will result in the elimination of approximately 4,000 current non-agent positions, exclusive of selected hires to staff new initiatives, across all employment grades and categories by the end of 2000, or approximately 10% of the Company's non-agent work force.

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

The following table illustrates the inception to date change in the restructuring liability at June 30, 2000:

(In millions)	Employee Costs	Exit Costs	Total
Balance at December 31, 1999	\$ 59	\$ 10	\$ 69
Payments applied against the liability	(21)	(3)	(24)
Incremental post-retirement benefits classified with OPEB liability	(5)	—	(5)
Balance at June 30, 2000	\$ 33	\$ 7	\$ 40

The payments applied against the restructuring liability for employee costs primarily reflect severance and payments applied for exit costs generally have consisted of post-exit rent expenses and contract termination penalties. As of June 30, 2000, 1,303 non-agent employees have been involuntarily terminated and approximately 1,100 non-agent positions have been eliminated through net attrition pursuant to the restructuring plan. As of June 30, 2000, 1,308 exclusive agent employees have severed

their employment with the Company at their election pursuant to the plan to reorganize exclusive agents to a single independent contractor program.

An additional \$33 million of pretax restructuring related costs (\$21 million after-tax), net of related non-cash settlement and curtailment accounting gains as required under SFAS No. 88 and SFAS No. 106 on Allstate's retirement plans in the amount of \$165 million, were expensed as incurred during the first six months of 2000. The gross expenses recognized primarily consisted of agent separation and reorganization costs, retention bonuses, and employee termination costs not qualifying for accrual at the time of the restructuring plan adoption.

The non-cash retirement plans' settlement and curtailment gains, as required under financial accounting standards, were recorded in the second quarter of 2000 in connection with the reorganization of agents to a single independent contractor program, and the termination of non-agent employees. The \$165 million accounting adjustment includes a settlement gain of \$86 million resulting from the accelerated recognition of deferred net actuarial gains that arose due to favorable investment experience and demographic changes in the retirement plans. The \$165 million accounting adjustment also includes a curtailment gain of \$79 million due to the accelerated recognition of unrecognized prior service cost and the reduction in the projected benefit obligation as a result of agents separating from the Company.

As a result of agent separations through June 30, 2000 relating to the agent reorganization plan, the pension plan is making ongoing benefit payments that will total approximately \$490 million, which along with the curtailment gain and other normal pension activity, has reduced the Company's aggregate projected benefit obligation on its pension plans to approximately \$2.4 billion. The Company's total aggregate prepaid pension asset, which primarily reflects the plans' funded status and unamortized net actuarial gains, on all of its pension plans as of June 30, 2000 was approximately \$368 million. The increase in the prepaid pension asset from \$210 million reported as of December 31, 1999 primarily reflects the SFAS No. 88 settlement and curtailment gains.

The Company anticipates that additional pretax restructuring related charges including the impact of further potential non-cash pension curtailment gains or charges, may be realized throughout the remainder of 2000 as the reorganization of agents to one independent contractor program is finalized and other related

costs are estimable. The Company does not anticipate that further restructuring related charges throughout the remainder of 2000 will be material to Allstate's results of operations. All planned restructuring actions are anticipated to be completed by the end of 2000.

9. Issuance of Debt

In May 2000, the Company issued \$900 million of 7.875% senior notes due 2005, the net proceeds of which will be used for general corporate purposes including share repurchases and possible acquisitions.

In June 2000, Allstate filed a shelf registration statement with the Securities and Exchange Commission ("SEC") under which up to \$2 billion of debt securities, preferred stock, trust preferred securities or debt warrants may be issued. No securities had been issued under this registration statement as of June 30, 2000. In addition, the Company has \$350 million of capacity remaining on a shelf registration statement filed with the SEC in August 1998, under which debt securities, preferred stock, trust preferred securities or debt warrants may be issued.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying condensed consolidated statement of financial position of The Allstate Corporation and subsidiaries as of June 30, 2000, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2000 and 1999, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of The Allstate Corporation and subsidiaries as of December 31, 1999, 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 25, 2000, 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, 1999 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

Deloitte & Touche LLP

Chicago, Illinois
August 7, 2000

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2000 AND 1999

The following discussion highlights significant factors influencing results of operations and changes in financial position of The Allstate Corporation (the "Company" or "Allstate"). It should be read in conjunction with the condensed consolidated financial statements and notes thereto found under Part I. Item 1 contained herein and with the discussion, analysis, consolidated financial statements and notes thereto in Part I. Item 1 and Part II. Item 7 and Item 8 of The Allstate Corporation Annual Report on Form 10-K for 1999 and in Appendix A of the 2000 Notice of Annual Meeting and Proxy Statement.

CONSOLIDATED REVENUES

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Property-Liability insurance premiums	\$ 5,481	\$ 4,903	\$ 10,952	\$ 9,755
Life and Savings premiums and contract charges	511	369	1,052	754
Net investment income	1,129	1,014	2,219	1,985
Realized capital gains and losses	62	306	246	905
Total revenues	\$ 7,183	\$ 6,592	\$ 14,469	\$ 13,399

Consolidated revenues for the second quarter of 2000 increased 9.0% over the same period of 1999, and for the six months ended June 30, 2000 revenues increased 8.0% over the first six months of 1999. These increases reflect growth in both the Property-Liability and Life and Savings segments and increased investment income, partially offset by decreased realized capital gains and losses.

CONSOLIDATED NET INCOME

(\$ in millions except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Net income	\$ 459	\$ 770	\$ 1,020	\$ 1,805
Net income per share (Basic)	.62	.96	1.35	2.23
Net income per share (Diluted)	.61	.95	1.34	2.22
Realized capital gains and losses, net of tax	38	184	147	565

Net income for the second quarter of 2000 was \$459 million, or \$.61 per diluted share, compared with \$770 million, or \$.95 per diluted share, for the second quarter of 1999. Net income for the six months ended June 30, 2000 was \$1.02 billion, or \$1.34 per diluted share, compared to the first six months of 1999 net income of \$1.81 billion, or \$2.22 per diluted share. The decrease during both periods reflects growth in Property-Liability insurance premiums and Life and Savings premiums and contract charges being more than offset by higher catastrophe losses from multiple storms, increased auto loss costs and decreased realized capital gains and losses.

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PROPERTY-LIABILITY OPERATIONS

Overview

The Company's Property-Liability operations consist of two business segments: Personal Property and Casualty ("PP&C") and Discontinued Lines and Coverages ("Discontinued Lines and Coverages"). PP&C is principally engaged in the sale of property and casualty insurance, primarily private passenger auto and homeowners insurance to individuals in both the United States, and to a lesser extent, other countries. Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other mass tort exposures and other commercial business in run-off. This segment also included mortgage pool insurance business, which the Company exited in 1999. Such groupings of financial information are consistent with that used internally for evaluating segment performance and determining the allocation of resources.

Underwriting results for each of the Property-Liability business segments are discussed separately below. Unaudited summarized financial data and key operating ratios for Allstate's Property-Liability operations are presented in the following table.

(\$ in millions, except ratios)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Premiums written	\$ 5,581	\$ 5,027	\$ 10,960	\$ 9,866
Premiums earned	\$ 5,481	\$ 4,903	\$ 10,952	\$ 9,755
Claims and claims expense	4,198	3,531	8,336	6,852
Operating costs and expenses	1,317	1,128	2,607	2,293
Restructuring and related charges	18	—	44	—
Underwriting income (loss)	(52)	244	(35)	610
Net investment income	439	439	863	859
Realized capital gains and losses, after-tax	91	142	210	486
Loss on disposition of operations, after-tax	—	(14)	—	(14)
Income tax expense on operations	85	170	184	382
Net income	\$ 393	\$ 641	\$ 854	\$ 1,559
Catastrophe losses	\$ 367	\$ 276	\$ 749	\$ 402
Operating ratios				
Claims and claims expense ("loss") ratio	76.6	72.0	76.1	70.2
Expense ratio	24.3	23.0	24.2	23.5
Combined ratio	100.9	95.0	100.3	93.7
Effect of catastrophe losses on combined ratio	6.7	5.6	6.8	4.1

Underwriting Results

PP&C In 1999, the Company announced a series of strategic initiatives to aggressively expand selling and service capabilities to its customers. These initiatives include the creation of a platform that provides consumers with sales and service capabilities through the Internet and direct call centers, as well as through locally established Allstate agencies. Other initiatives include the introduction of new competitive pricing and underwriting techniques, new agency and claim technology and enhanced marketing and advertising. The Company has implemented these strategies in three states; Oregon, Louisiana and Colorado. As a result, residents of these states can now use the Internet and two direct call centers to obtain an auto insurance premium quote based on new competitive pricing and

underwriting techniques, to bind auto coverage and to access customer service. By year end, management expects to have initiated implementation in a total of 15 states, representing approximately 40% of the U.S. population. The remaining states will be implemented in 2001, or as the strategies receive regulatory approval in each state. The multi-access technology needed to support these initiatives will continue to be enhanced as additional states are added and as customer needs evolve in the future. The Company believes successful implementation of these initiatives will result in selling and customer service advantages in an increasingly competitive marketplace.

Unaudited summarized financial data and key operating ratios for Allstate's PP&C segment are presented in the following table.

(\$ in millions, except ratios)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Premiums written	\$ 5,580	\$ 5,027	\$ 10,959	\$ 9,859
Premiums earned	\$ 5,479	\$ 4,903	\$ 10,949	\$ 9,748
Claims and claims expense	4,196	3,565	8,330	6,883
Other costs and expenses	1,314	1,124	2,602	2,284
Restructuring and related charges	18	—	44	—
Underwriting income (loss)	\$ (49)	\$ 214	\$ (27)	\$ 581
Catastrophe losses	\$ 367	\$ 276	\$ 749	\$ 402
Operating ratios				
Claims and claims expense ("loss") ratio	76.6	72.7	76.1	70.6
Expense ratio	24.3	22.9	24.1	23.4
Combined ratio	100.9	95.6	100.2	94.0
Effect of catastrophe losses on combined ratio	6.7	5.6	6.8	4.1

PP&C sells primarily private passenger auto and homeowners insurance to individuals through the exclusive Allstate agency channel, and with the 1999 acquisition of CNA personal insurance, an expanded independent agency channel. The Company has historically separated the voluntary personal auto insurance business into two categories for underwriting purposes: the standard market and the non-standard market. Generally, standard auto customers are expected to have lower risks of loss than non-standard customers. The Company distinguishes between these risk categories using factors unique to each customer such as the driving records of the various drivers on the policy, the existence of prior insurance coverage, the type of car owned or the customer's financial stability. The Company is implementing a refined pricing program that uses its underwriting experience for these factors to price auto coverage for each customer using a unique tier-based pricing model. Tier-based pricing allows a much broader range of premiums to be offered to customers within the two existing categories of risks. As a result, management believes that tier-based pricing will allow the Company to compete more effectively and operate more profitably. The Company's ability to implement these strategies is generally subject to regulatory approval. The Company's underwriting strategy for homeowners is to target customers whose risk of loss provides the best opportunity for profitable growth. This includes managing exposure on policies in areas where the potential loss from catastrophes exceeds acceptable levels.

The Company's marketing strategy is to provide sales and service to new and existing customers in the distribution channel of their choice. With the implementation of its strategic initiatives in each state, the Company provides products in four major channels of distribution. Customers will be able to access Allstate products through exclusive agencies, direct call centers and the Internet, which will

provide consistent pricing and enhanced customer service. CNA personal insurance products will be accessible through independent agencies, as well as Allstate products which are currently available through independent agencies in certain markets. Management expects the execution of this strategy, in conjunction with the execution of new underwriting and pricing strategies, to improve the Company's opportunity for profitable growth.

PP&C premiums written for the second quarter of 2000 and the first six months of 2000 increased 11.0% and 11.2%, respectively, compared to the same periods in 1999. Excluding the acquisition of CNA personal insurance during the fourth quarter of 1999, premium written increased 1.0% during the second quarter of 2000 and 1.7% during the first six months of 2000 over the same periods in 1999. The remaining increase was due to growth in standard auto and homeowners policies in force (unit sales).

Standard auto premiums written increased 14.1% to \$3.12 billion in the second quarter of 2000, from \$2.74 billion for the same three month period in 1999. During the first six months of 2000, standard auto premiums increased 13.0% as compared to the first six months of last year. The increase in both periods was primarily due to the acquisition of CNA personal insurance during 1999 and an increase in renewal policies in force partially offset by a decrease in average premiums due to rate decreases taken in the prior year. Excluding the impact of the CNA personal insurance acquisition, standard auto premiums increased 1.8% in the second quarter and 1.3% in the first six months of 2000 compared to the same periods in 1999. Policies in force increased 2.1% at June 30, 2000 as compared to June 30, 1999 levels. Average premiums decreased 0.1% in the second quarter and 0.8% during the first six months of the year as compared to the same periods in 1999. Favorable loss trends, competitive considerations and regulatory pressures in some states have affected the Company's ability to maintain rates at historical levels. The Company has also filed rate changes in connection with the implementation of its new underwriting and pricing guidelines which are expected to adversely impact average premium growth in 2000 as compared to the prior year, while improving profitability.

Non-standard auto premiums written decreased 8.1% to \$804 million in the second quarter of 2000, from \$875 million for the same period in 1999, and 3.1% during the first six months of 2000 as compared to the first six months of 1999. These decreases were driven by decreases in new policies in force and average premiums. Policies in force decreased 0.9% at June 30, 2000 as compared to June 30, 1999 levels. Average premiums decreased 3.0% in the second quarter and 2.9% during the first six months of the year as compared to the same periods in 1999, despite rate increases during the current and prior year. Decreases in the non-standard premiums were primarily due to the Company's implementation of programs during the second quarter of 2000 to address the emergence of adverse profitability trends. These programs vary by state and include underwriting changes such as additional down payment requirements, higher rate increases, and other administrative changes. These programs began to impact results during the current quarter as policies in force decreased, and average premiums decreased as a result of policyholders selecting less coverage and the mix of premiums written during the period. These programs are expected to continue to adversely impact written premium growth in the near term while improving profitability of the non-standard business in the future.

Homeowners premiums written for the second quarter were \$1.08 billion, an increase of 21.7% over the second quarter 1999 premiums of \$891 million. For the first half of 2000, homeowners premiums written were \$1.95 billion, an increase of 22.4% compared to the same period last year. The increase was driven by the acquisition of CNA personal insurance, an increase in renewal policies in force and an increase in average renewal premium. Excluding the impacts of the CNA personal insurance acquisition, homeowners premiums written increased 9.4% during the second quarter and 9.0% for the first six months of 2000 compared to the same periods in 1999. Policies in force increased 3.0% during the year. Average premiums increased 4.4% during the quarter, and 3.9% during the first

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six months of the year as compared to the same periods last year, primarily due to increases in rates taken during 1999 and the first half of 2000.

For the second quarter of 2000, PP&C experienced an underwriting loss of \$49 million versus underwriting income of \$214 million for the second quarter of 1999. For the six month period ended June 30, 2000, PP&C experienced an underwriting loss of \$27 million compared to underwriting income of \$581 million for the first half of last year. Underwriting income decreased during both periods as earned premium growth was more than offset by higher catastrophe losses from multiple storms and by increased loss costs. Loss costs were impacted by higher auto claim frequency and increased claim severity due to inflationary pressures in medical and other repair costs. However, auto injury claim severity growth was below the growth of relevant cost indices related to medical services.

The restructuring and related charges incurred during the second quarter and first half of 2000 were the result of actions taken to further implement the cost reduction program announced on November 10, 1999. The impact on the PP&C segment was \$18 million, or \$12 million after-tax during the quarter, and \$44 million, or \$29 million after-tax during the first half of the year. See Note 8 to the consolidated financial statements for a more detailed discussion of these charges.

Catastrophe Losses and Catastrophe Management Catastrophe losses for the second quarter of 2000 were \$367 million compared with \$276 million for the same period in 1999. For the first half of 2000, catastrophe losses were \$749 million compared to \$402 million for the same period last year. The level of catastrophe losses experienced in any year cannot be predicted and could be material to results of operations and financial position. While management believes the Company's catastrophe management initiatives have reduced the potential magnitude of possible future losses, the Company continues to be exposed to catastrophes that may materially impact results of operations and financial position.

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

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

For Allstate, areas of potential catastrophe losses due to hurricanes include major metropolitan centers near the eastern and gulf coasts of the United States. Allstate Floridian Insurance Company ("Floridian") and Allstate Floridian Indemnity Company ("AFI") sell and service Allstate's Florida residential property policies, and have access to reimbursements and exposure to assessments from the Florida Hurricane Catastrophe Fund. In addition, Floridian and AFI are subject to assessments from the Florida Windstorm Underwriting Association and the Florida Property and Casualty Joint Underwriting Association, organizations created to provide coverage for catastrophic losses to property owners unable to obtain coverage in the private insurance market.

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

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Carolina. Allstate continues to evaluate alternative business strategies to more effectively manage its exposure to catastrophe losses in these and other areas.

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

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

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Underwriting income (loss)	\$ (3)	\$ 30	\$ (8)	\$ 29

Discontinued Lines and Coverages consists of business no longer written by Allstate, including results from environmental, asbestos and other mass tort exposures and other commercial business in run-off. This segment also included mortgage pool insurance business, which the Company exited in 1999.

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

Net Investment Income Net investment income was \$439 million in the second quarter of 2000, consistent with \$439 million in the second quarter of last year, as increased income from funds received in connection with the CNA acquisition were offset by the impact of dividends paid to The Allstate Corporation during the preceding twelve months and decreased income from partnership interests. During the first half of 2000, net investment income increased slightly to \$863 million, compared to \$859 million in the same period last year, as increased income from funds received in connection with the CNA acquisition and positive cash flows were partially offset by the impact of dividends paid to The Allstate Corporation during the preceding twelve months.

Realized Capital Gains and Losses, After-tax Realized capital gains, after-tax for the second quarter of 2000 were \$91 million versus \$142 million for the same period in 1999. During the first half of 2000, realized capital gains, after-tax were \$210 million compared to \$486 million in the first six months of last year. Period to period fluctuations in realized capital gains are largely the result of timing of sales decisions reflecting management's decision on positioning the investment portfolio, as well as assessments of individual securities and overall market conditions.

LIFE AND SAVINGS OPERATIONS

Overview

Life and Savings markets primarily life insurance, savings and group pension products. Life insurance products consist of traditional products, including term and whole life, interest-sensitive life, immediate annuities with life contingencies, variable life and indexed life insurance. Savings products include deferred annuities and immediate annuities without life contingencies. Group pension products include contracts with fixed or indexed rates and fixed terms, such as guaranteed investment contracts, funding agreements and deferred and immediate annuities, or retirement annuities. The segment also uses several brand identities. Generally, Allstate brand products are sold through exclusive agencies, specialized brokers and direct response marketing. Products of other brands such as Glenbrook Life and Annuity, Northbrook Life, Lincoln Benefit Life and American Heritage Life ("AHL") are sold through both exclusive and independent agencies, securities firms, banks, direct response and worksite marketing. The products offered in each brand are of similar types, with the exception of AHL, which also includes health and disability insurance in addition to life and annuity products.

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Unaudited summarized financial data for Allstate's Life and Savings segment are presented in the following table.

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30	
	2000	1999	2000	1999
Statutory premiums and deposits	\$ 3,233	\$ 2,035	\$ 6,242	\$ 3,546
Investments	\$ 37,585	\$ 32,039	\$ 37,585	\$ 32,039
Separate Accounts assets	14,894	11,248	14,894	11,248
Investments, including Separate Accounts assets	\$ 52,479	\$ 43,287	\$ 52,479	\$ 43,287
GAAP Premiums	\$ 294	\$ 186	\$ 628	\$ 400
Contract charges	217	183	424	354
Net investment income	665	552	1,302	1,088
Contract benefits	372	266	765	561
Credited interest	370	332	722	643
Operating costs and expenses	223	175	458	338
Restructuring and related charges	(13)	—	(11)	—
Operating income before tax	224	148	420	300
Income tax expense	79	49	148	102
Operating income(1)	145	99	272	198
Realized capital gains and losses, after-tax(2)	(44)	43	(40)	80
Net income	\$ 101	\$ 142	\$ 232	\$ 278

(1)

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

(2)

Net of the effect of related amortization of deferred policy acquisition costs.

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Operating Results

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

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Life products				
Interest-sensitive	\$ 260	\$ 289	\$ 496	\$ 566
Traditional	106	85	201	159
Other	143	60	276	120
Total life products	509	434	973	845
Annuity products				
Fixed	996	585	2,049	1,061
Variable	1,115	588	2,098	970
Group pension products				
	613	428	1,122	670
Total	\$ 3,233	\$ 2,035	\$ 6,242	\$ 3,546

Total statutory premiums and deposits increased to \$3.23 billion in the second quarter of 2000, an increase of 58.9% compared with the same period last year. During the first six months of the year statutory premiums and deposits increased 76.0% to \$6.24 billion over the same period of 1999. These increases were due to the acquisition of AHL during 1999, and higher sales of variable and fixed annuities. Excluding the acquisition of AHL, statutory premiums increased 48.8% during the second quarter and 65.6% during the first six months of 2000, compared to the same periods in 1999. Variable annuity sales in the second quarter of 2000 increased 89.6% over the second quarter of 1999, and sales in the first six months of 2000 increased 116.3% over the first six months of 1999. Variable annuity sales in both periods were primarily driven by \$1.00 billion of sales during the first six months of 2000 from the joint venture with Putnam Investments which began in May of 1999. Fixed annuity sales in the second quarter of 2000 increased 70.3% over the prior year second quarter, and sales in the first six months of 2000 increased 93.1% over the first six months of 1999. Fixed annuity sales in both periods increased due to growth in sales in the independent agent and banking distribution channels. Period to period fluctuations in sales of group pension products, including funding agreements, are largely due to management's actions based on the assessment of market opportunities.

GAAP Premiums and Contract Charges Under generally accepted accounting principles ("GAAP"), premiums represent revenue generated from traditional life products with significant mortality risk. Revenues for interest-sensitive life insurance and fixed and variable annuity contracts, for which deposits are treated as liabilities, are reflected as contract charges. Immediate annuities may be purchased with a life contingency whereby the mortality risk is a significant factor, therefore GAAP

revenues generated on these contracts are recognized as premiums. The following table summarizes GAAP premiums and contract charges.

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Premiums				
Traditional life	\$ 99	\$ 80	\$ 191	\$ 157
Immediate annuities with life contingencies	60	42	167	111
Other	135	64	270	132
Total premiums	294	186	628	400
Contract Charges				
Interest-sensitive life	145	121	284	245
Variable annuities	55	49	110	84
Other	17	13	30	25
Total contract charges	217	183	424	354
Total Premiums and Contract Charges	\$ 511	\$ 369	\$ 1,052	\$ 754

For the second quarter of 2000, total premiums increased 58.1% to \$294 million, and 57.0% to \$628 million for the first six months of 2000, compared to the same periods last year. Excluding the acquisition of AHL, total premiums increased 18.8% during the quarter and 21.5% during the first six months of 2000 compared to the same periods in 1999.

Total contract charges increased 18.6% during the second quarter of 2000, and 19.8% during the first six months of the year, as compared to the same periods of 1999, due to increases in variable annuity deposits, appreciation of account balances and the acquisition of AHL. Excluding the acquisition of AHL, total contract charges increased 9.3% during the second quarter and 11.0% during the first six months of 2000 compared to the same periods in 1999.

Operating Income Operating income increased 46.5% to \$145 million in the second quarter of 2000 as compared to the second quarter of 1999, and 37.4% to \$272 million during the first six months of 2000 as compared to the first half of 1999. These increases were due to increased investment and mortality margins and increased contract charges.

Investment margin, which represents the excess of investment income earned over interest credited to policyholders and contractholders, increased 21.6% during the current year second quarter as compared to the prior year second quarter, and 19.1% in the first six months of 2000 compared to the first six months of 1999. These increases were due primarily to increases in asset balances from new sales. The difference between average investment yields and interest credited during the quarter was comparable to the same period in 1999.

Mortality margin, which represents premiums and cost of insurance charges in excess of related policy benefits, increased 7.8% during the second quarter of 2000 as compared to the second quarter of 1999. During the first six months of 2000, the mortality margin improved 13.0% as compared to the first half of 1999. The increases, which positively impact operating income, were the result of increased premiums and cost of insurance charges (as noted above) and favorable mortality loss trends.

The restructuring and related charges incurred during the second quarter and first half of 2000 were the result of actions taken to further implement the cost reduction program announced on November 10, 1999. The impact on the Life and Savings segment was a credit of \$13 million, or \$9 million after-tax during the quarter, and a credit of \$11 million, or \$8 million after-tax during the first half of the year. See Note 8 to the consolidated financial statements for a more detailed discussion of these charges.

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

Net Investment Income Net investment income increased 20.5% in the second quarter of 2000 and 19.7% in the first half of 2000 as compared with the same periods last year, due to higher investment balances from increased cash flows from operations and the acquisition of AHL. Investment balances at June 30, 2000, excluding Separate Accounts and unrealized gains on fixed income securities, grew 20.4% from the same time last year.

Realized Capital Gains and Losses, After-tax For the three month period ended June 30, 2000, realized capital losses, after-tax were \$44 million compared to realized capital gains of \$43 million for second quarter of 1999. For the six months ended June 30, 2000, realized capital losses, after-tax were \$40 million, compared to realized capital gains of \$80 million for the first half of 1999. Period to period fluctuations in realized capital gains are largely the result of timing of sales decisions reflecting management's decision on positioning the investment portfolio, as well as assessments of individual securities and overall market conditions.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

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

(\$ in millions)	June 30, 2000	December 31, 1999
Common stock and retained earnings	\$ 14,878	\$ 15,256
Accumulated other comprehensive income	1,247	1,345
Total shareholders' equity	16,125	16,601
Mandatorily redeemable preferred securities	964	964
Debt	3,311	2,851
Total capital resources	\$ 20,400	\$ 20,416
Ratio of debt to total capital resources(1)	18.6%	16.3%

(1)

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

Shareholders' Equity Shareholders' equity decreased in the second quarter of 2000 when compared to year-end 1999, as net income was more than offset by the impacts of share repurchases. During the second quarter of 2000, the Company repurchased 18 million shares of its common stock at a cost of \$439 million as part of its current \$2 billion stock repurchase program. This program is 39.4% complete at June 30, 2000. For the first six months of 2000, the Company purchased a total of 55 million shares at a cost of \$1.23 billion as part of the current repurchase program, which commenced in February 2000, and to complete the preceding \$2 billion program.

Debt Debt increased in the second quarter of 2000 when compared to year-end 1999, due primarily to the issuance of \$900 million of 7.875% Senior Notes due in 2005 during May 2000, partially offset by decreased short-term debt. The debt issued in April utilized the existing shelf registration filed with the Securities and Exchange Commission ("SEC") in August 1998. The proceeds of this issuance were used for general corporate purposes, including stock repurchases.

At July 31, 2000, the Company may issue up to an additional \$350 million of debt securities, preferred stock, trust preferred securities or debt warrants utilizing the shelf registration statement filed with the SEC in August 1998. In addition, the Company filed a new shelf registration statement with

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the SEC in June 2000, under which up to \$2 billion of debt securities, preferred stock, trust preferred securities or debt warrants may be issued. No securities have been issued under this registration statement.

The Company has access to additional borrowing as follows:

- Allstate has a commercial paper program with an authorized borrowing limit of up to \$1.00 billion to cover its short-term cash needs. At June 30, 2000 the Company had outstanding commercial paper borrowings of \$213 million.

- Allstate maintains two credit facilities totaling \$1.55 billion as a potential source of funds to meet short-term liquidity requirements, including a \$1.50 billion, five-year revolving line of credit expiring in 2001 and a \$50 million, one-year revolving line of credit expiring in 2001. In order to borrow on the five-year line of credit, Allstate Insurance Company ("AIC"), a wholly owned subsidiary of the Company, is required to maintain a specified statutory surplus level, and the Company's debt to equity ratio (as defined in the agreement) must not exceed a designated level. These requirements are currently being met and management expects to continue to meet them in the future. There were no borrowings under these lines of credit during the first half of 2000. Total borrowings under the combined commercial paper program and the Allstate lines of credit are limited to \$1.55 billion.

Financial Ratings and Strength

The Company's and its major subsidiaries' debt, commercial paper and claims-paying ability ratings from Moody's, Standard & Poor's and A.M. Best rating agencies were unchanged during the second quarter of 2000 as compared to the preceding quarter. These ratings are influenced by many factors including the amount of financial leverage (i.e., debt), exposure to risks such as catastrophes, as well as the current level of operating leverage.

Liquidity

Allstate is a holding company whose principal operating subsidiaries include AIC and AHL. The Company's principal sources of funds are dividend payments from AIC, intercompany borrowings, funds from the settlement of Company benefit plans and funds that may be raised periodically from the issuance of additional debt, including commercial paper, or stock. The payment of dividends by AIC is limited by Illinois insurance law to formula amounts based on statutory net income and statutory surplus, as well as the timing and amount of dividends paid in the preceding twelve months. Based on 1999 statutory net income, the maximum amount of dividends AIC can pay at any point in time during 2000 without prior Illinois Department of Insurance approval is \$1.96 billion, less dividends paid during the preceding twelve months measured at that point in time. Based on the dividends paid during the preceding twelve months, AIC will have the capacity to pay up to \$499 million in dividends during the third quarter of 2000, of which \$276 million was paid during July, and an additional \$1.46 billion during the fourth quarter of 2000. Allstate's principal uses of funds are the payment of dividends to shareholders, share repurchases, intercompany lending to its insurance affiliates, debt service, additional investments in its subsidiaries and acquisitions.

Surrenders and withdrawals for Life and Savings during the quarter and six month periods ended June 30, 2000, were \$1.07 billion and \$1.97 billion respectively, compared to \$619 million and \$1.29 billion respectively for the same periods in 1999. As the Company's interest-sensitive life policies and annuity contracts in-force grow and age, the dollar amount of surrenders and withdrawals will likely increase. While the overall amount of surrenders may increase in the future, a significant increase in the level of surrenders relative to total contractholder account balances is not anticipated.

INVESTMENTS

The composition of the investment portfolio at June 30, 2000, is presented in the table below.

(\$ in millions)	Property-Liability		Life and Savings		Corporate and Other		Total	
		Percent to Total		Percent to Total		Percent to Total		Percent to Total
Fixed income securities(1)	\$ 26,059	77.2%	\$ 30,846	82.1%	\$ 1,080	84.0%	\$ 57,985	79.8%
Equity securities	5,794	17.1	627	1.7	15	1.2	6,436	8.9
Mortgage loans	167	0.5	4,192	11.1	—	—	4,359	6.0
Short-term	1,755	5.2	764	2.0	190	14.8	2,709	3.7
Other	10	—	1,156	3.1	—	—	1,166	1.6
Total	\$ 33,785	100.0%	\$ 37,585	100.0%	\$ 1,285	100.0%	\$ 72,655	100.0%

(1)

Fixed income securities are carried at fair value. Amortized cost for these securities was \$25.91 billion, \$30.59 billion and \$1.11 billion for Property-Liability, Life and Savings, and Corporate and Other, respectively.

Total investments increased to \$72.66 billion at June 30, 2000 from \$69.65 billion at December 31, 1999. Property-Liability investments were \$33.78 billion at June 30, 2000 as compared to \$32.94 billion at December 31, 1999. Life and Savings investments at June 30, 2000, increased \$3.15 billion to \$37.59 billion from \$34.44 billion at December 31, 1999. The increase in investments was primarily attributable to amounts invested from positive cash flows generated from the Life and Savings operations and higher unrealized capital gains on fixed income securities, partially offset by a \$1 billion reduction in the Corporate and Other segment during the first six months of 2000 to fund the stock repurchase program.

Approximately 94.3% of the Company's fixed income securities portfolio is rated investment grade, which is defined by the Company as a security having an NAIC rating of 1 or 2, a Moody's rating of Aaa, Aa, A or Baa, or a comparable Company internal rating.

PENDING ACCOUNTING STANDARDS

In June 1999, the Financial Accounting Standards Board ("FASB") delayed the effective date of Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. This statement requires that all derivatives be recognized on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Additionally, the change in fair value of a derivative which is not effective as a hedge will be immediately recognized in earnings. The delay was effected through the issuance of SFAS No. 137, which extends the effective date of SFAS No. 133 requirements to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, which amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities. As such, the Company expects to adopt the provisions of SFAS No. 133 and SFAS No. 138 as of January 1, 2001. The impact of these statements is dependent upon the Company's derivative positions and market conditions existing at the date of adoption. Based on existing interpretations of the requirements of SFAS No. 133, as amended, the impact at adoption is not expected to be material to the results of operations or financial position of the Company.

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FORWARD-LOOKING STATEMENTS AND RISK FACTORS AFFECTING ALLSTATE

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

Forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like "plans," "expects," "will," "anticipates," "estimates," "intends," "believes" 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 and reserves. Forward-looking statements are based on management's current expectations of future events. We cannot guarantee that any forward-looking statement will be accurate. However, we believe that our forward-looking statements are based on reasonable, current expectations and assumptions. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

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

- The implementation of Allstate's multi-access distribution model involves risks and uncertainties that could have a material adverse effect on Allstate's results of operations, liquidity or financial position. More specifically, the following factors could affect Allstate's ability to successfully implement various aspects of its new multi-access distribution model:

- The success of Allstate's proposed direct response call centers may be adversely affected by the limited pool of individuals suited and trained to do such work in any geographic area, particularly in light of the current low unemployment rate. The absence of seasoned staff could be a factor impeding the training of staff and the roll-out of the call centers because they represent a new initiative by Allstate involving virtually all new hires.

- Allstate's reorganization of its multiple employee agency programs into a single exclusive agency independent contractor program may have a temporary negative impact on written premium. In addition, possible litigation regarding the reorganization could diminish the gains in efficiency and cost-effectiveness that Allstate expects to realize from the transition to one program.

- Allstate's reorganization of its multiple employee agency programs into a single exclusive agency independent contractor program, as well as its plans to sell and service its products through direct response call centers and the Internet, are dependent upon its ability to adapt current computer systems and to develop and implement new systems.

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

- Allstate has experienced, and expects to continue to experience, catastrophe losses. While we believe that our catastrophe management initiatives have reduced the potential magnitude of

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possible future losses, Allstate continues to be exposed to catastrophes that could have a material adverse impact on results of operations, liquidity or financial position. Catastrophic events in the future may indicate that the techniques and data that are used to predict the probability of catastrophes and the extent of the resulting losses are inaccurate.

- Changes in market interest rates can have adverse effects on Allstate's investment portfolio, investment income and product sales. Increases in market interest rates have an adverse impact on the value of the investment portfolio by decreasing unrealized capital gains on fixed income securities. In addition, increases in market interest rates as compared to rates offered on some of the Life and Savings segment's products could make those products less attractive and therefore decrease sales. Declining market interest rates could have an adverse impact on Allstate's investment income as Allstate reinvests proceeds from positive cash flows from operations and maturing and called investments in new investments that could be yielding less than the portfolio's average rate.

- In order to meet the anticipated cash flow requirements of its obligations to policyholders, from time to time Allstate adjusts the effective duration of the assets and liabilities of the Life and Savings segment's investment portfolio. Those adjustments may have an impact on the value of the investment portfolio and on investment income.

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

- Recently, the competitive pricing environment for private passenger auto insurance has put pressure on the PP&C segment's premium growth and profit margins. However, because industry participants have begun to raise auto insurance rates, generally, Allstate's management believes that this pressure is abating. Nevertheless, because Allstate's PP&C segment's loss ratio compares favorably to the industry, state regulatory authorities may resist our efforts to raise rates or to maintain them at current levels.

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

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

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

- The Life and Savings segment distributes some of its products under agreements with other financial services entities. Termination of such agreements due to changes in control of these non-affiliated entities could have a detrimental effect on the segment's sales. This risk may be increased due to the recent enactment of the Gramm-Leach-Bliley Act of 1999, which eliminates many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers.

- In November 1999, Allstate announced a program to reduce expenses by approximately \$600 million, to be fully realized beginning in 2001. These expense reductions are dependent on the elimination of certain employee positions, the consolidation of Allstate's operations and facilities, and the reorganization of its multiple employee agency programs to a single exclusive

agency independent contractor program. The savings are to be invested in technology, competitive pricing and advertising.

- Allstate maintains a \$1.50 billion, five-year revolving line of credit and a \$50 million one-year revolving line of credit as potential sources of funds to meet short-term liquidity requirements. In order to borrow on the five-year line of credit, AIC is required to maintain a specified statutory surplus level and the Allstate debt to equity ratio (as defined in the credit agreement) must not exceed a designated level. The ability of Allstate and AIC to meet the requirements is dependent upon their financial condition. If AIC were to sustain significant losses from catastrophes, Allstate and AIC's ability to borrow on the lines of credit could be diminished or eliminated during a period when they might be most in need of capital resources and liquidity.

- Changes in the severity of claims have an impact on the profitability of Allstate's business. Changes in injury claim severity are driven primarily by inflation in the medical sector of the economy. Changes in auto physical damage claim severity are driven primarily by inflation in auto repair costs, auto parts prices and used car prices. Changes in loss costs for homeowners policies are driven by inflationary pressures in the construction industry, in the cost of building materials and in home furnishings.

For its non-standard auto insurance business, Allstate is implementing programs to address the emergence of adverse profitability trends. These programs include additional down-payment requirements, new underwriting guidelines and new rating plans. Allstate expects these programs to have a temporary adverse impact on written premium growth. Consequently, they may impede efforts to recruit new agents. However, they should improve profitability over time.

A number of enacted and pending legislative measures may lead to increased consolidation and increased competition in the financial services industry. At the federal level, these measures include the recently enacted Gramm-Leach-Bliley Act of 1999, which eliminates many federal and state law barriers to affiliations among banks, securities firms, insurers and other financial service providers. At the state level, these measures include legislation to permit mutual insurance companies to convert to a hybrid structure known as a mutual holding company, thereby allowing insurance companies owned by their policyholders to become stock insurance companies owned (through one or more intermediate holding companies) at least 51% by their policyholders and potentially up to 49% by stockholders. Also several large mutual life insurers have used or are expected to use existing state laws and regulations governing the conversion of mutual insurance companies into stock insurance companies (demutualization). These measures may also increase competition for capital among financial service providers.

Deferred annuities and interest-sensitive life insurance products receive favorable policyholder taxation under current tax laws and regulations. Any legislative or regulatory changes that adversely alter this treatment are likely to negatively affect the demand for these products.

The adoptions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is not expected to be material to the results of operations of the Company. However, the impact is dependent upon market conditions and our holdings existing at the date of adoption, which for Allstate will be January 1, 2001.

Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance companies and may generally be expected to have an effect on an insurance company's business. On an ongoing basis, rating organizations review the financial performance and condition of insurers. Downgrades in one or more of the ratings of the Allstate companies could have a material adverse effect on Allstate's business, financial condition and results of operations.

PART II. Other Information

Item 1. Legal Proceedings

The discussion "Regulation and Legal Proceedings" in Part I, Item 1, Note 5 of this Form 10-Q is incorporated herein by reference. That discussion updates the discussion "Regulation and Legal Proceedings" beginning on page A-27 of Allstate's 2000 Notice of Annual Meeting and Proxy Statement.

Item 4. Submission of Matters to a Vote of Security Holders

On May 18, 2000, Allstate held its annual meeting of stockholders. Thirteen directors were elected for terms expiring at the 2001 annual meeting of stockholders. In addition, the stockholders ratified the appointment of Deloitte & Touche LLP as independent auditors for 2000. The stockholders did not approve stockholder proposals regarding cumulative voting in the election of directors and endorsement of the CERES principles.

Election of Directors.

Nominee	Votes for	Votes Withheld
F. Duane Ackerman	604,470,325	13,370,730
James G. Andress	604,143,447	13,697,608
Warren L. Batts	603,379,606	14,461,449
Edward A. Brennan	600,295,342	17,545,713
James M. Denny	603,213,369	14,627,686
W. James Farrell	604,023,754	13,817,301
Ronald T. LeMay	604,120,812	13,720,243
Edward M. Liddy	601,982,624	15,858,431
Michael A. Miles	603,893,482	13,947,573
H. John Riley, Jr.	604,702,463	13,138,592
Joshua I. Smith	603,842,267	13,998,788
Judith A. Sprieser	604,347,405	13,493,650
Mary Alice Taylor	604,440,768	13,400,287

Ratify appointment of Deloitte & Touche as the Company's auditors for 2000.

Votes For	Votes Against	Votes Abstained
609,379,919	4,713,041	3,760,095

Stockholder proposal for cumulative voting in the election of directors.

Votes For	Votes Against	Votes Abstained	Broker Non-votes
182,391,562	325,256,800	10,646,678	99,558,015

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>	<u>Broker Non-votes</u>
48,910,096	432,007,325	37,377,619	99,558,015

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K.

Registrant filed a Current Report on Form 8-K on April 27, 2000 (Items 5 and 7)

Registrant filed a Current Report on Form 8-K on May 4, 2000 (Items 5 and 7)

Registrant filed a Current Report on Form 8-K on June 14, 2000 (Items 5 and 7)

Registrant filed a Current Report on Form 8-K on June 16, 2000 (Items 5 and 7)

SIGNATURE

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

THE ALLSTATE CORPORATION
(Registrant)

August 7, 2000

By: /s/ SAMUEL H. PILCH

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

<u>Exhibit No.</u>	<u>Description</u>	<u>Sequentially Numbered Page</u>
3(ii)	By-Laws as amended effective May 18, 2000.	E-2
4	Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.	—
15	Acknowledgment of awareness from Deloitte & Touche LLP dated August 7, 2000, concerning unaudited interim financial information.	E-25
27	Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for information only and not filed.	E-26

**BY-LAWS OF
THE ALLSTATE CORPORATION
A Delaware corporation**

**ARTICLE I
OFFICES**

Section 1. *Registered Office; Registered Agent.* The registered office in the State of Delaware and the name of the corporation's registered agent at such address shall be as stated in the Second Article of the Certificate of Incorporation of The Allstate Corporation, as it may be amended from time to time.

Section 2. *Other Offices.* The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors of the corporation (the "Board of Directors") may from time to time determine or the business of the corporation may require.

**ARTICLE II
STOCKHOLDERS**

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

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

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

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Section 4. *Stockholder List.* The officer who has charge of the stock ledger of the corporation shall make, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city, where the meeting is to be held and which place shall be specified in the notice of the meeting, or, if not specified, at the place where said meeting is to be held. The list shall be produced subject to the inspection of any stockholder who may be present.

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

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

Section 7. *Business Transacted At Special Meetings.* Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 8. *Appointment of Inspectors of Election.* The Board of Directors shall, in advance of sending to the stockholders any notice of a meeting of the holders of any class of shares, appoint one or more inspectors of election ("inspectors") to act at such meeting or any adjournment or postponement thereof and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is so appointed or if no inspector or alternate is able to act, the Chairman of the Board and Chief Executive Officer shall appoint one or more inspectors to act at such meeting. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspectors shall not be directors, officers or employees of the corporation.

Section 9. *Quorum; Adjournment.* Except as otherwise required by law or the certificate of incorporation, the holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If a quorum

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shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting to a later date without notice other than announcement at the meeting, until a quorum shall be present or represented. If at such later date, a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

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

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

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

Section 13. *Stock Ledger.* The stock ledger of the corporation shall be the only evidence as to who are the stockholders entitled (i) to examine the stock ledger, any stockholder list required by these by-laws or the books of the corporation, or (ii) to vote in person or by proxy at any meeting of stockholders.

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

Section 15. *Advance Notice of Stockholder-Proposed Business at Annual Meeting.* To be properly brought before an annual meeting, business must be either (a)

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specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than ninety (90) nor more than one hundred and twenty (120) days prior to the one year anniversary of the date of the annual meeting of the previous year. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (iii) the class and number of shares of the corporation that are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business. Notwithstanding anything in these by-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 15, *provided, however*, that nothing in this Section 15 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 15 and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 16. *Nomination of Directors; Advance Notice of Stockholder Nominations.* Only persons who are nominated in accordance with the procedures set forth in this Section 16 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation at the annual meeting may be made at a meeting of stockholders by or at the direction of the Board of Directors, by any nominating committee or person appointed for such purpose by the Board of Directors, or by any stockholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 16. Such nominations, other than those made by, or at the direction of, or under the authority of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than ninety (90) nor more than one hundred and twenty (120) days prior to the one year anniversary of the date of the annual meeting of the previous year. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation, if any, which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors

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pursuant to Rule 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the stockholder giving the notice (i) the name and record address of the stockholder and (ii) the class and number of shares of capital stock of the corporation which are beneficially owned by the stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the qualifications of such proposed nominee to serve as director of the corporation. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE III DIRECTORS

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

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

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

Section 4. *Resignation.* Any director may resign at any time upon written notice to the corporation. Such written resignation shall take effect at the time specified therein, and if no time be specified, at the time of its receipt by the Chairman of the Board and Chief Executive Officer or Secretary. The acceptance of a resignation shall not be necessary to make it effective.

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

Section 6. *Annual Meetings.* The annual meeting of each newly elected Board of Directors shall be held without notice other than this by-law immediately after the annual meeting of stockholders.

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

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

Section 9. *Notice of Meetings.* Notices of meetings, other than the annual meeting, shall be mailed to each director, addressed to each director at such director's residence or usual place of business, or the address where the director is known to be, not later than three days before the day on which the meeting is to be held, or shall be sent to either of such places by telegraph, by teletype, by facsimile transmission or be communicated to each director personally or by telephone, not later than three hours before such meeting. Notice of any meeting of the Board of Directors need not be given to any director who shall sign a written waiver thereof either before or after the time stated therein for such meeting, or who shall be present at the meeting and participate in the business transacted thereat; and any and all business transacted at any meeting of the Board of Directors shall be fully effective without any notice thereof having been given, if all the members shall be present thereat. Unless limited by law, the certificate of incorporation, the by-laws, or by the terms of the notice thereof, any and all business may be transacted at any meeting without the notice thereof having so specially enumerated the matters to be acted upon.

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

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

Section 12. *Action By Unanimous Written Consent.* Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent thereto is signed by all members of the Board of Directors or of such committee as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or such committee.

Section 13. *Participation in Meetings by Conference Telephone.* Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee thereof, through the use of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

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

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

Section 16. *Committee Secretary.* The Board of Directors may elect a secretary of any such committee. If the Board of Directors does not elect such a secretary, the committee shall do so. The secretary of any committee need not be a member of the

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committee, but shall be selected from a member of the staff of the office of the Secretary of the corporation, unless otherwise provided by the Board of Directors.

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

Section 18. *Committee Meetings.* Meetings of committees of the Board of Directors may be held at any place, within or without the State of Delaware, as shall from time to time be designated by the Board of Directors or the committee in question. Regular meetings of any committee shall be held at such times as may be determined by resolution of the Board of Directors or the committee in question and no notice shall be required for any regular meeting. A special meeting of any committee shall be called by resolution of the Board of Directors, or by the Secretary or an Assistant Secretary upon the request of any member of the committee. Notices of special meetings shall be mailed to each member of the committee in question no later than two days before the day on which the meeting is to be held, or shall be sent by telegraph, by teletype, or be delivered to such member personally or by telephone, no later than three hours before such meeting. Notices of any such meeting need not be given to any such member, however, who shall sign a written waiver thereof, whether before or after the meeting, or who shall be present at the meeting and participate in the business transacted thereat; and any and all business transacted at any meeting of any committee shall be fully effective without any notice thereof having been given, if all the members of the committee shall be present thereat. Unless limited by law, the certificate of incorporation, these by-laws, or by the terms of the notice thereof, any and all business may be transacted at any such special meeting without the notice thereof having so specifically enumerated the matters to be acted upon.

Section 19. *Action Without a Committee Meeting.* Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if all members of such committee consent thereto in writing and such writing or writings are filed with the minutes of proceedings of the committee.

Section 20. *Executive Committee.* The Executive Committee shall consist of a director, who shall serve as chairman of the Executive Committee, and of such number of other directors, a majority of whom shall not be officers or employees of the corporation, not less than two, as shall from time to time be prescribed by the Board of Directors. The Executive Committee, unless otherwise provided by resolution of the Board of Directors, shall between meetings of the Board of Directors have all the powers of the Board of Directors and may perform all of the duties thereof, except that the Executive Committee shall have no authority as to the following matters: (i) submission to stockholders of any action that requires stockholders' authorization under the General Corporation Law of the State of Delaware; (ii) compensation of directors; (iii) amendment or repeal of these by-laws or the adoption of new by-laws; (iv) amendment or repeal of any resolution of the

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Board of Directors that by its terms may not be so amended or repealed; (v) action in respect of dividends to stockholders; (vi) election of officers, directors or members of committees of the Board of Directors. Any action taken by the Executive Committee shall be subject to revision or alteration by the Board of Directors, provided that rights or acts of third parties vested or taken in reliance on such action prior to their written notice of any such revision or alteration shall not be adversely affected by such revision or alteration.

Section 21. *Audit Committee.* The size of the Audit Committee shall be set from time to time by the Board of Directors, but will always consist of at least three directors. The members of the Audit Committee shall be appointed by the Board upon the recommendation of the Nominating and Governance Committee in accordance with the independence and experience requirements of the New York Stock Exchange.

Upon completion of the audit of the Corporation each year, the Committee shall review the Corporation's annual financial statements, including major issues regarding accounting and auditing principles and practices, as well as the adequacy of internal controls that could significantly affect the Corporation's financial statements. The Committee shall review the independent public accountants' report on the annual financial statements. The Committee shall also review any filings with the Securities and Exchange Commission and other published documents containing the Corporation's annual financial statements. In performing these reviews, the Committee will confer with management, the Corporation's independent public accountants and its internal auditors.

The Audit Committee shall review all recommendations made by the Corporation's independent public accountants and internal auditors to the Audit Committee or the Board of Directors with respect to accounting matters and the system of internal controls used by the Corporation. The Committee shall examine the scope of audits conducted by the Corporation's independent public accountants and internal auditors. The Committee shall review any reports from the Corporation's independent public accountants and internal auditors concerning compliance by management with governmental laws and regulations and with the Corporation's policies relating to ethics, conflicts of interest, perquisites and use of corporate assets. The Committee shall also, pursuant to applicable regulatory requirements and professional standards:

- discuss with the independent public accountants judgments about the quality (not just the acceptability) of the accounting principles used in financial reporting;
- prepare the audit committee report required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.

The Audit Committee shall meet with the Corporation's independent public accountants and/or internal auditors without management present whenever the

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Committee shall deem it appropriate. The Committee shall review with the General Counsel of the Corporation the status of legal matters that may have a material impact on the Corporation's financial statements.

Annually, the Audit Committee shall review the qualifications of the Corporation's independent public accountants. The Audit Committee shall also receive periodic written reports from the independent public accountants regarding their independence and actively discuss such reports with the accountants. As part of such reviews, the Committee shall consider management's plans for engaging the accountants for management advisory services and shall determine whether any such engagements could impair the accountants' independence. The Committee shall also evaluate the performance of the independent public accountants and, if so determined by the Audit Committee, recommend that the Board replace them. Following this review, the Committee shall advise the Board of Directors with respect to the selection of independent public accountants to audit the Corporation's financial statements and to perform such other duties as the Board of Directors may prescribe. If any subsequent concerns regarding the accountants' independence are identified, the Committee shall recommend that the Board of Directors take appropriate action to satisfy itself of the accountants' independence.

The Audit Committee shall have the power to conduct or authorize special projects or investigations related to matters that the Committee considers necessary to discharge its duties and responsibilities. It shall have the power to retain independent outside counsel, accountants or others to assist it in the conduct of any investigations and may use the Corporation's internal auditors for such purpose. The Committee is not expected to conduct investigations or to resolve disagreements, if any, between management and the independent public accountants.

While the Audit Committee has the responsibilities and powers set forth in these By-Laws, the Committee is not required to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent public accountants.

The Audit Committee shall also review and reassess the adequacy of this Section of these By-Laws on an annual basis and recommend any proposed changes to the Board of Directors.

Section 22. *Compensation and Succession Committee.* The size of the Compensation and Succession Committee shall be set from time to time by the Board of Directors, but will always consist of at least two directors. The members of the Committee shall not be officers or employees of the corporation or any of its affiliates.

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The Compensation and Succession Committee shall make recommendations to the Board of Directors with respect to the following:

- The nominees for election as officers of the corporation (other than the Chairman and Chief Executive Officer) and the senior officer of each significant operating subsidiary of the corporation.
- The corporation's proxy statements and form of proxy for its annual meetings.
- The administration of the salaries, bonuses, and other compensation to be paid to the elected officers of the corporation, including the terms and conditions of their employment.

The Compensation and Succession Committee shall administer all stock option and other benefit plans (unless otherwise specified in plan documents) affecting the direct and indirect remuneration of officers of the corporation and its subsidiaries.

Annually, the Compensation and Succession Committee shall review the management organization of the corporation and succession plans for the senior officer of each significant operating subsidiary of the corporation and shall confer with the Chairman and Chief Executive Officer regarding the persons he or she considers qualified to fill any vacancy that may occur in such offices.

Section 23. *Nominating and Governance Committee.* The size of the Nominating and Governance Committee shall be set from time to time by the Board of Directors, but will always consist of at least two directors. The members of the Committee shall not be officers or employees of the corporation or any of its affiliates.

The Nominating and Governance Committee shall make recommendations to the Board of Directors with respect to the following:

- The appropriate size and composition of the Board of Directors.
- The nominees for election to the Board of Directors for whom the corporation should solicit proxies.
- The nominees for election to all committees of the Board of Directors.
- The nominees for election as Chairman and Chief Executive Officer.
- Plans for the annual stockholders' meeting.
- The policies and practices on stockholder voting.
- The nominees to serve as proxies in connection with the annual stockholders' meetings.
- The corporation's proxy statements and form of proxy for its annual meetings.
- Establishment of guidelines on corporate governance.

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Determination of criteria for assessment of performance of the Board of Directors.

- The administration of all compensation to be paid to directors of the corporation who are not officers or employees of the corporation or any of its affiliates.
- Periodic review of the performance of the Chairman and Chief Executive Officer.

Either the Chairman of the Board or the Nominating and Governance Committee itself recommends to the Board, and the Board designates, the members and chairman of the Nominating and Governance Committee.

Section 24. *Compensation of Directors.* Unless otherwise restricted by the certificate of incorporation, the Board of Directors shall have the authority to fix the compensation of directors by written resolution. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV INDEMNIFICATION OF OFFICERS, DIRECTORS AND OTHERS

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

- (A) "acted properly" as to any employee shall mean that such person
- (i) acted in good faith;
 - (ii) acted in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation; and
 - (iii) with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

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

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

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- (C) "Employee Indemnitee" shall mean any non-officer employee of the corporation (but not subsidiaries of the corporation).
- (D) "expenses" shall include attorneys' fees and expenses and any attorneys' fees and expenses of establishing a right to indemnification under this Article.
- (E) "Indemnitee" shall mean any person who is or was
- (i) a director or officer of the corporation and/or any subsidiary;
 - (ii) a trustee or a fiduciary under any employee pension, profit sharing, welfare or similar plan or trust of the corporation and/or any subsidiary; or
 - (iii) serving at the request of the corporation as a director or officer of or in a similar capacity in another corporation, partnership, joint venture, trust or other enterprise, (which shall, for the purpose of this Article be deemed to include not-for-profit or for-profit entities of any type), whether acting in such capacity or in any other capacity including, without limitation, as a trustee or fiduciary under any employee pension, profit sharing, welfare or similar plan or trust.
- (F) "proceeding" shall mean any threatened, pending or completed action or proceeding, whether civil or criminal, and whether judicial, legislative or administrative and shall include investigative action by any person or body.

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

Section 2. *Indemnification.*

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

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

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

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

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

- (A) by the Board of Directors, by a majority vote of a quorum consisting of directors who were not made parties to such proceeding, or
- (B) if such a quorum is not obtainable, or, even if obtainable and a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or

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

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

Section 6. *Miscellaneous.*

- (A) The indemnification provided to a covered person by this Article:
- (i) shall not be deemed exclusive of any other rights to which such person may be entitled by law or under any articles of incorporation, by-law, agreement, vote of shareholders or disinterested directors or otherwise;
- (ii) shall inure to the benefit of the legal representatives of such person or his or her estate, whether such representatives are court appointed or otherwise designated, and to the benefit of the heirs of such person; and
- (iii) shall be a contract right between the corporation and each such person who serves in any such capacity at any time while this Article IV is in effect, and any repeal or modification of this Article IV shall not affect any rights or obligations then existing with respect to any state of facts or any proceedings then existing.

(B)

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

(C)

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

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insurance to indemnify the corporation for any obligation which it may incur as a result of the indemnification of covered persons under the provisions of this Article.

(D)

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

ARTICLE V NOTICES

Section 1. *Notice.* Except as otherwise specifically provided for in these by-laws, notices to directors and stockholders shall be in writing and delivered personally or mailed, or given by telephone, by teletype, by telegram, by facsimile transmission or by other similar means of communication, to the directors or stockholders at their addresses appearing on the books of the corporation. Notice by mail shall be deemed to be given at the time when the same is mailed.

Section 2. *Waiver.* Whenever any notice is required to be given by law or by the certificate of incorporation or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Any person who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. In the case of directors, such member shall be conclusively presumed to have assented to any action taken unless his or her dissent shall be entered in the minutes of the meeting or unless his or her written dissent to such action shall be filed with the person acting as the Secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the Secretary immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

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ARTICLE VI OFFICERS

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

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

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

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

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

Section 6. *Chairman of the Board and Chief Executive Officer.* The Chairman of the Board and Chief Executive Officer shall be a member of the Board of Directors and shall be an officer of the corporation. The Chairman of the Board and Chief Executive Officer shall be the chief executive officer of the corporation and shall direct, coordinate and control the corporation's business and activities and its operating expenses and capital expenditures, shall have general authority to exercise all the powers necessary for the chief executive officer of the corporation and shall perform such other duties and have such other powers as may properly belong to his or her office or as shall be prescribed from time to time by the Board of Directors or these by-laws, all in accordance with basic policies as established by and subject to the control of the Board of Directors. The

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Chairman of the Board and Chief Executive Officer shall preside at all meetings of the Board of Directors, and of the stockholders, at which he or she is present. In the absence or disability of the Chairman of the Board and Chief Executive Officer, the duties of the Chairman of the Board and Chief Executive Officer shall be performed and his or her authority shall be exercised by the President and Chief Operating Officer, or in the absence or inability of the President and Chief Operating Officer, by one of the Vice Presidents designated for this purpose by the Board of Directors.

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

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

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

Section 10. *Controller.* The Controller shall, under the direction of the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer, have general charge, control, and supervision over the accounting and auditing affairs of the corporation. The Controller or such persons as the Controller shall designate shall have responsibility for the custody and safekeeping of all permanent financial and accounting records and papers of the corporation. The Controller shall have responsibility for the preparation and maintenance of the books of account and of the accounting records and papers of the corporation; shall supervise the preparation of all financial statements and

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reports on the operation and condition of the business; shall have responsibility for the establishment of financial procedures, records, and forms used by the corporation; shall have responsibility for the filing of all financial reports and returns, required by law; shall render to the Chairman of the Board and Chief Executive Officer, the Chief Financial Officer or the Board of Directors, whenever they may require, an account of the Controller's transactions; and in general shall have such other powers and perform such other duties as are incident to the office of Controller and as the Board of Directors, the Chairman of the Board and Chief Executive Officer, the Chief Financial Officer, or these by-laws may, from time to time, prescribe.

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

Section 12. *Assistant Secretaries.* The Assistant Secretary, or if there be more than one, the Assistant Secretaries, shall in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors or the Chairman of the Board and Chief Executive Officer may, from time to time, prescribe.

Section 13. *Treasurer.* The Treasurer shall, under the direction of the Chairman of the Board and Chief Executive Officer, have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all monies and other valuable effects in the name and to the credit of the corporation as may be ordered by the Board of Directors; shall cause the funds of the corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the Chairman of the Board and Chief Executive Officer and the Board of Directors, at its regular meeting or when the Board of Directors so requires, an account of the Treasurer's actions; shall have such other powers and perform such other duties as the Board of Directors, the Chairman of the Board and Chief Executive Officer or these by-laws may, from time to time, prescribe.

Section 14. *Assistant Treasurers.* The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform

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such other duties and have such other powers as the Board of Directors or the Chairman of the Board and Chief Executive Officer may, from time to time, prescribe.

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

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

Section 17. *Duties of Appointed Officers.* An appointed officer shall perform such duties (not including duties normally performed by an officer of the corporation) as may, from time to time, be assigned to such appointed officer by the officer of the corporation having management responsibility for the

organizational component or function to which such appointed officer is assigned.

ARTICLE VII CERTIFICATE OF STOCK

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

Section 2. *Countersigned Certificates; Signature of Former Officers, Transfer Agents or Registrars.* Where a certificate is countersigned by (i) a transfer agent other than the corporation or its employee, or (ii) a registrar other than the corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer,

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transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

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

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

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

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

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

ARTICLE VIII GENERAL PROVISIONS

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

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

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

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

Section 5. *Seal.* The corporate seal shall have inscribed thereon the name of the corporation and shall be in such form as may be approved from time to time by the Board

of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

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

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

ARTICLE IX AMENDMENTS

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

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

We have reviewed, in accordance with standards established by the American Institute of Certified Public Accountants, the unaudited interim condensed consolidated financial statements of The Allstate Corporation and subsidiaries for the three-month and six-month periods ended June 30, 2000 and 1999, as indicated in our report dated August 7, 2000; because we did not perform an audit, we expressed no opinion on such financial statements.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000, is incorporated by reference in Registration Statement Nos. 333-39640, 333-34583, 333-61817 and 333-95821 on Form S-3 and Registration Statement Nos. 33-77928, 33-93758, 33-93760, 33-93762, 33-99132, 33-99136, 33-99138, 333-04919, 333-16129, 333-23309, 333-40283, 333-40285, 333-40289 and 333-30776 on Form S-8.

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

DELOITTE & TOUCHE LLP

Chicago, Illinois
August 7, 2000

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