

ALLEGHANY CORP /DE  
Form 10-Q  
November 07, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER 1-9371**

**ALLEGHANY CORPORATION**

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER

**DELAWARE**

STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION

**51-0283071**

I.R.S. EMPLOYER IDENTIFICATION NO.

**7 TIMES SQUARE TOWER, 17TH FLOOR, NY, NY 10036**

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE

**212-752-1356**

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE

**NOT APPLICABLE**

FORMER NAME, FORMER ADDRESS, AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT  
INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO  
BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE  
PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED  
TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE  
PAST 90 DAYS.

YES ☒ NO ☐

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN  
ACCELERATED FILER, A NON-ACCELERATED FILER, OR A SMALLER REPORTING COMPANY. SEE  
THE DEFINITIONS OF LARGE ACCELERATED FILER, ACCELERATED FILER AND SMALLER  
REPORTING COMPANY IN RULE 12B-2 OF THE EXCHANGE ACT. (CHECK ONE):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer o <input type="checkbox"/>	Non-accelerated filer o <input type="checkbox"/>	Smaller reporting company o <input type="checkbox"/>
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(Do not check if a smaller reporting company)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN  
RULE 12B-2 OF THE EXCHANGE ACT). 12b-2 OF THE EXCHANGE ACT).

YES o NO ☒

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF  
COMMON STOCK, AS OF THE LAST PRACTICABLE DATE.

8,272,711 SHARES AS OF NOVEMBER 1, 2008



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**CONSOLIDATED STATEMENTS OF EARNINGS**  
**AND COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED**  
**SEPTEMBER 30, 2008 AND 2007**

(dollars in thousands, except share and per share amounts)  
(unaudited)

	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Net premiums earned	\$ 235,705	\$ 254,235
Net investment income	35,571	32,354
Net realized capital (losses) gains	(8,894)	21,234
Other income	907	873
 Total revenues	 263,289	 308,696
 <b>Costs and expenses</b>		
Loss and loss adjustment expenses	204,710	108,430
Commissions, brokerage and other underwriting expenses	70,149	66,384
Other operating expenses	2,451	16,322
Corporate administration	6,876	7,307
Interest expense	198	192
 Total costs and expenses	 284,384	 198,635
 (Losses) earnings from continuing operations, before income taxes	 (21,095)	 110,061
 Income taxes	 (12,262)	 42,619
 (Losses) earnings from continuing operations	 (8,833)	 67,442
 Discontinued operations		
Earnings from discontinued operations	7,531	5,937
Income taxes	2,913	2,990
 Earnings from discontinued operations, net	 4,618	 2,947
 Net (losses) earnings	 \$ (4,215)	 \$ 70,389

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Changes in other comprehensive income		
Change in unrealized gains, net of deferred taxes	\$ (169,044)	\$ 34,666
Less: reclassification for gains realized in net earnings, net of taxes	5,781	(13,774)
Other	13	58
Comprehensive income	\$ (167,465)	\$ 91,339
Net (losses) earnings	\$ (4,215)	\$ 70,389
Preferred dividends	4,305	4,307
Net (losses) earnings available to common stockholders	\$ (8,520)	\$ 66,082
Basic (loss) earnings per share of common stock *		
Continuing operations	\$ (1.58)	\$ 7.59
Discontinued operations	0.56	0.35
	\$ (1.02)	\$ 7.94
Diluted (loss) earnings per share of common stock *		
Continuing operations	\$ (1.58)	\$ 7.23
Discontinued operations	0.56	0.31
	\$ (1.02)	\$ 7.54
Dividends per share of common stock	*	*
Average number of outstanding shares of common stock **	8,313,524	8,319,905

\* Adjusted to reflect the common stock dividend declared in February 2008.

\*\* In February 2008 and 2007, Alleghany declared a stock dividend consisting of one share of Alleghany

common stock  
for every fifty  
shares  
outstanding.

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**ALLEGHANY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**AND COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED**  
**SEPTEMBER 30, 2008 AND 2007**

(dollars in thousands, except share and per share amounts)  
(unaudited)

	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Net premiums earned	\$ 721,424	\$ 721,028
Net investment income	105,611	110,978
Net realized capital gains	44,035	77,072
Other income	1,092	11,948
Total revenues	872,162	921,026
<b>Costs and expenses</b>		
Loss and loss adjustment expenses	479,396	325,273
Commissions, brokerage and other underwriting expenses	213,100	186,503
Other operating expenses	26,484	41,751
Corporate administration	25,290	24,430
Interest expense	534	1,166
Total costs and expenses	744,804	579,123
Earnings from continuing operations, before income taxes	127,358	341,903
Income taxes	32,623	112,172
Earnings from continuing operations	94,735	229,731
Discontinued operations		
Earnings from discontinued operations	29,727	16,201
Income taxes	14,977	8,659
Earnings from discontinued operations, net	14,750	7,542
Net earnings	\$ 109,485	\$ 237,273
Changes in other comprehensive income		
Change in unrealized gains, net of deferred taxes	\$ (145,613)	\$ 92,400



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Less: reclassification for gains realized in net earnings (net of taxes)	(28,623)	(50,080)
Other	5	173
Comprehensive income	\$ (64,746)	\$ 279,766
Net earnings	\$ 109,485	\$ 237,273
Preferred dividends	12,915	12,918
Net earnings available to common stockholders	\$ 96,570	\$ 224,355
Basic earnings per share of common stock *		
Continuing operations	\$ 9.83	\$ 26.10
Discontinued operations	1.77	0.91
	\$ 11.60	\$ 27.01
Diluted earnings per share of common stock *		
Continuing operations	\$ 9.83	\$ 24.65
Discontinued operations	1.77	0.81
	\$ 11.60	\$ 25.46
Dividends per share of common stock	*	*
Average number of outstanding shares of common stock **	8,325,837	8,306,236

\* Adjusted to reflect the common stock dividend declared in February 2008.

\*\* In February 2008 and 2007, Alleghany declared a stock dividend consisting of one share of Alleghany common stock for every fifty shares

outstanding.

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**ALLEGHANY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands, except share amounts)

	<b>September 30, 2008 (unaudited)</b>	<b>December 31, 2007</b>
<b>Assets</b>		
Investments		
Available for sale securities at fair value:		
Equity securities (cost: 2008 \$555,274; 2007 \$691,429)	\$ 853,197	\$1,176,412
Debt securities (amortized cost: 2008 \$2,660,942; 2007 \$2,541,488)	2,610,423	2,564,717
Short-term investments	502,271	316,897
	3,965,891	4,058,026
Other invested assets	263,241	193,272
Total investments	4,229,132	4,251,298
Cash	30,132	57,646
Premium balances receivable	144,113	170,080
Reinsurance recoverables	1,084,809	1,018,673
Ceded unearned premium reserves	195,444	221,203
Deferred acquisition costs	75,913	75,623
Property and equipment at cost, net of accumulated depreciation and amortization	22,050	19,735
Goodwill and other intangibles, net of amortization	201,406	207,540
Current taxes receivable	28,885	4,116
Net deferred tax assets	50,816	0
Assets of discontinued operations	940,460	812,119
Other assets	192,832	104,079
	\$7,195,992	\$6,942,112
<b>Liabilities and Stockholders' Equity</b>		
Losses and loss adjustment expenses	\$2,664,472	\$2,379,701
Unearned premiums	652,766	699,409
Reinsurance payable	54,598	57,380
Net deferred tax liabilities	0	71,594
Liabilities of discontinued operations	782,601	663,417
Other liabilities	352,074	286,284
Total liabilities	4,506,511	4,157,785
	299,429	299,480

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Preferred stock (shares authorized: 2008 and 2007 - 1,132,000; issued and outstanding 2008 - 1,131,619; 2007 - 1,131,819)		
Common stock (shares authorized: 2008 and 2007 - 22,000,000; issued and outstanding 2008 - 8,349,284; 2007 - 8,322,348)	8,349	8,159
Contributed capital	752,683	689,435
Accumulated other comprehensive income	154,401	328,632
Treasury stock, at cost (2008 - 76,513 shares; 2007 - none)	(24,290)	
Retained earnings	1,498,909	1,458,621
Total stockholders' equity	2,689,481	2,784,327
	\$7,195,992	\$6,942,112
<b>Shares of Common Stock Outstanding *</b>	8,272,771	8,322,348

\* Adjusted to reflect the common stock dividend declared in February 2008.

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**ALLEGHANY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED**  
**SEPTEMBER 30, 2008 AND 2007**

(dollars in thousands)

(unaudited)

	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Net earnings	\$ 109,485	\$ 237,273
Earnings from discontinued operations, net	14,750	7,542
Earnings from continuing operations	\$ 94,735	\$ 229,731
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	17,399	10,644
Net realized capital (gains) losses	(44,035)	(77,072)
(Increase) decrease in other assets	(31,276)	(19,353)
(Increase) decrease in reinsurance receivable, net of reinsurance payable	(68,918)	102,407
(Increase) decrease in premium balances receivable	25,967	34,450
(Increase) decrease in ceded unearned premium reserves	25,759	65,427
(Increase) decrease in deferred acquisition costs	(290)	(9,591)
Increase (decrease) in other liabilities and current taxes	(44,757)	11,623
Increase (decrease) in unearned premiums	(46,643)	(50,305)
Increase (decrease) in losses and loss adjustment expenses	284,771	(16,289)
Net adjustments	117,977	51,941
Net cash provided by operating activities from continuing operations	212,712	281,672
Net cash provided by operating activities from discontinued operations	92,175	101,474
Net cash provided by operating activities	304,887	383,146
<b>Cash flows from investing activities</b>		
Purchase of investments	(1,188,509)	(922,497)
Sales of investments	944,668	671,868
Maturities of investments	283,539	189,764
Purchases of property and equipment	(6,716)	(3,069)
Net change in short-term investments	(187,002)	(50,251)
Acquisition of equity method investment	(50,016)	
Acquisition of insurance companies, net of cash acquired		(187,743)
Other, net	(1,745)	2,547
Net cash provided by investing activities from continuing operations	(205,781)	(299,381)
Net cash provided by investing activities from discontinued operations	(87,935)	(122,235)
Net cash (used in) provided by investing activities	(293,716)	(421,616)

**Cash flows from financing activities**

Treasury stock acquisitions	(25,068)	
Principal payments on long-term debt		(80,000)
Decrease in notes receivable		91,535
Convertible preferred stock dividends paid	(13,046)	(13,062)
Tax benefit on stock based compensation	2,330	1,063
Other, net	1,339	3,626
Net cash provided by (used in) financing activities from continuing operations	(34,445)	3,162
Net cash provided by (used in) financing activities from discontinued operations		316
Net cash provided by (used in) financing activities	(34,445)	3,478

**Cash flows of discontinued operations**

Operating activities	(92,175)	(101,474)
Investing activities	87,935	122,235
Financing activities		(316)
Net cash provided by (used in) discontinued operations	(4,240)	20,445
Net cash provided by (used in) continuing operations	(27,514)	(14,547)
Cash at beginning of period	57,646	41,458
Cash at end of period	\$ 30,132	\$ 26,911

**Supplemental disclosures of cash flow information**

Cash paid during the period for:		
Interest	\$ 141	\$ 505
Income taxes paid (refunds received)	\$ 110,227	\$ 156,748

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**Notes to Unaudited Consolidated Financial Statements**

**Alleghany Corporation and Subsidiaries**

***1. Principles of Financial Statement Presentation***

This report should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 10-K"), and the Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, of Alleghany Corporation ("Alleghany").

Alleghany, a Delaware corporation, is engaged in the property and casualty and surety insurance business through its wholly-owned subsidiary Alleghany Insurance Holdings LLC ("AIHL"). AIHL's insurance business is conducted through its wholly-owned subsidiaries RSUI Group, Inc. ("RSUI"), Capitol Transamerica Corporation and Platte River Insurance Company (collectively "CATA") and AIHL's majority-owned subsidiary Employers Direct Corporation ("EDC"), of which AIHL owns approximately 98 percent. AIHL Re LLC ("AIHL Re"), a captive reinsurance subsidiary of AIHL, is available to provide reinsurance to Alleghany operating units and affiliates. In addition, Alleghany owns approximately 32.9 percent of the outstanding shares of common stock of Homesite Group Incorporated ("Homesite"), a national, full-service, mono-line provider of homeowners insurance, and this investment is reflected in Alleghany's financial statements in other invested assets. Alleghany also owns and manages properties in the Sacramento, California region through its subsidiary Alleghany Properties Holdings LLC ("Alleghany Properties") and conducts corporate investment and other activities at the parent level, including the holding of strategic equity investments. These strategic equity investments are available to support the internal growth of subsidiaries and for acquisitions of, and substantial investments in, operating companies.

On June 27, 2008, Darwin Professional Underwriters, Inc. ("Darwin"), of which AIHL owned approximately 55 percent, entered into a merger agreement with Allied World Assurance Company Holdings, Ltd. ("Allied World"), whereby Allied World agreed to acquire all of the issued and outstanding shares of Darwin common stock for cash consideration of \$32.00 per share. The transaction closed on October 20, 2008, at which time Alleghany received aggregate proceeds of approximately \$300 million in cash for AIHL's 9,371,096 shares of Darwin common stock. Alleghany estimates that it will record an after-tax gain from the transaction of approximately \$94 million in the 2008 fourth quarter, including approximately \$9 million of gain deferred at the time of Darwin's initial public offering in May 2006.

Alleghany has classified the operations of Darwin as "discontinued operations" in its consolidated financial statements for all periods presented. Refer to Note 8 for historical financial information of these discontinued operations.

On July 18, 2008, Alleghany, through its subsidiary Alleghany Capital Corporation, acquired approximately 40.45% of the voting interests of ORX Exploration, Inc. ("ORX"), a regional oil and gas exploration and production company, through a purchase of participating preferred stock for cash consideration of \$50.0 million. This investment is reflected in Alleghany's financial statements in other invested assets. Alleghany's interest in ORX is included in corporate activities for segment reporting purposes and is accounted for under the equity-method of accounting.

The financial statements contained in this Report on Form 10-Q are unaudited, but reflect all adjustments which, in the opinion of management, are necessary to a fair statement of results of

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the interim periods covered thereby. All adjustments are of a normal and recurring nature except as described herein. The accompanying consolidated financial statements include the results of Alleghany and its wholly-owned and majority-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). All significant inter-company balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those reported results to the extent that those estimates and assumptions prove to be inaccurate.

Certain prior year amounts have been reclassified to conform to the 2008 presentation.

During the third quarter of 2008, Alleghany identified an error in the amount of \$15.0 million with respect to additional deferred tax liability that relates to prior periods. The \$15.0 million specifically relates to the capital gains taxes incurred by Alleghany at the closing date of the Darwin merger agreement. GAAP requires that capital gains taxes be accrued for over time as income is reported, prior to the date of Darwin's disposition back to the date of Darwin's initial public offering in May 2006. As a result, for the nine-month period ended September 30, 2008, earnings from discontinued operations (as well as net earnings) were reduced by \$5.5 million related to the portion of the \$15.0 million that is attributable to the first half of 2008. Similarly, for the three- and nine-month periods ended September 30, 2007, earnings from discontinued operations and net earnings were reduced by \$1.5 million and \$4.0 million, respectively. Similar corrections to earnings from discontinued operations and net earnings will be made in future reports for the three-month period ended March 31, 2008, for the six-month period ended June 30, 2008, and the years ended December 31, 2007 and 2006 in the amounts of \$2.9 million, \$5.5 million, \$6.2 million, \$3.3 million, respectively. These corrections are not material to Alleghany's consolidated financial statements.

## ***2. Recent Accounting Pronouncements***

### **(a) Recently Adopted**

In September 2006, FASB Statement No. 157, Fair Value Measurements ( SFAS 157 ), was issued. SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Alleghany has adopted the provisions of SFAS 157 as of January 1, 2008, and the implementation did not have a material impact on its results of operations and financial condition. See Note 7.

In October 2008, Financial Accounting Standards Board Staff Position No. 157-3 ( FSP FAS157-3 ) was issued. FSP FAS157-3 clarifies the application of SFAS 157 in an inactive market. If a market becomes inactive, then the fair value determination for securities in that market may be based on inputs that are unobservable in the market, rather than being based on either unadjusted quoted prices or observable market inputs. FSP FAS157-3 is effective upon issuance, including



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periods for which financial statements have not been issued. Alleghany has adopted the provisions of FSP FAS157-3 as of September 30, 2008, and the implementation did not have a material impact on its results of operations and financial condition. See Note 7.

**(b) Future Application of Accounting Standards**

In December 2007, FASB Statements No. 141 (revised 2007), Business Combinations (SFAS 141R), and No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), were issued. SFAS 141R replaces FASB Statement No. 141, Business Combinations. SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information regarding the nature and financial effect of the business combination. SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. SFAS 160 also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. Alleghany will adopt SFAS 141R and SFAS 160 for all business combinations initiated after December 31, 2008.

***3. Earnings Per Share of Common Stock***

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2008 and 2007 (in millions, except share amounts):

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	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
(Losses) earnings from continuing operations	\$ (8.8)	\$ 67.5	\$ 94.7	\$ 229.7
Earnings from discontinued operations	4.6	2.9	14.8	7.5
Net (losses) earnings	\$ (4.2)	\$ 70.4	\$ 109.5	\$ 237.2
Preferred dividends	4.3	4.3	12.9	12.9
(Losses) income available to common stockholders for basic earnings per share	(8.5)	66.1	\$ 96.6	224.3
Preferred dividends	4.3	4.3	12.9	12.9
Effect of other dilutive securities		0.1		0.2
(Losses) income available to common stockholders for diluted earnings per share	\$ (4.2)	\$ 70.5	\$ 109.5	\$ 237.4
Weighted average shares outstanding applicable to basic earnings per share	8,313,524	8,319,905	8,325,837	8,306,236
Preferred stock		997,978		997,978
Effect of other dilutive securities		22,037		22,270
Adjusted weighted average shares outstanding applicable to diluted earnings per share	8,313,524	9,399,920	8,325,837	9,326,484

Contingently issuable shares of 1,057,625 and 57,960 were potentially available during 2008 and 2007, respectively, but were not included in the computations of diluted earnings per share because the impact was anti-dilutive to the earnings per share calculation.

Earnings per share by quarter may not equal the amount for the full year due to rounding.

**4. Commitments and Contingencies****(a) Leases**

Alleghany leases certain facilities, furniture and equipment under long-term lease agreements.

**(b) Litigation**

Alleghany's subsidiaries are parties to pending litigation and claims in connection with the ordinary course of their businesses. Each such subsidiary makes provisions for estimated losses to be incurred in such litigation and claims, including legal costs. In the opinion of management such provisions are adequate.

**(c) Asbestos and Environmental Exposure**

AIHL's reserve for unpaid losses and loss adjustment expenses includes \$20.5 million of gross reserves and \$20.3 million of net reserves at September 30, 2008 and \$22.9 million of gross reserves and \$22.7 million of net reserves at December 31, 2007, for various liability coverages related to asbestos and environmental impairment claims that arose from reinsurance assumed by

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a subsidiary of CATA between 1969 and 1976. This subsidiary exited this business in 1976. Alleghany believes that CATA's asbestos and environmental reserves are adequate at September 30, 2008. Additional information concerning CATA's asbestos and environmental exposure can be found in Note 13 to the Notes to the Consolidated Financial Statements set forth in Item 8 of the 2007 10-K.

### **(d) Indemnification Obligations**

On July 14, 2005, Alleghany completed the sale of its world-wide industrial minerals business, World Minerals, Inc. ( "World Minerals" ), to Imerys USA, Inc. (the "Purchaser" ), a wholly-owned subsidiary of Imerys, S.A., pursuant to a Stock Purchase Agreement, dated as of May 19, 2005, by and among the Purchaser, Imerys, S.A. and Alleghany (the "Stock Purchase Agreement" ). Pursuant to the Stock Purchase Agreement, Alleghany undertook certain indemnification obligations, including a general indemnification for breaches of representations and warranties set forth in the Stock Purchase Agreement (the "Contract Indemnification" ) and a special indemnification (the "Products Liability Indemnification" ) related to products liability claims arising from events that occurred during pre-closing periods, including the period of Alleghany ownership (the "Alleghany Period" ).

Substantially all of the representations and warranties to which the Contract Indemnification applies survived until July 14, 2007, with the exception of certain representations and warranties such as those related to environmental, real estate and tax matters, which survive for longer periods and generally, except for tax and certain other matters, apply only to aggregate losses in excess of \$2.5 million, up to a maximum of approximately \$123.0 million. The Stock Purchase Agreement provides that Alleghany has no responsibility for products liability claims arising in respect of events occurring after the closing, and that any products liability claims involving both pre-closing and post-closing periods will be apportioned on an equitable basis. Additional information concerning the Contract Indemnification and Products Liability Indemnification can be found in Note 13 to the Notes to the Consolidated Financial Statements set forth in Item 8 of the 2007 10-K.

Based on Alleghany's experience to date and other analyses, Alleghany established a \$600 thousand reserve in connection with the Products Liability Indemnification for the Alleghany Period. Such reserve was \$390 thousand at September 30, 2008.

### **(e) Equity Holdings Concentration**

At September 30, 2008, Alleghany had a concentration of market risk in its available-for-sale equity securities portfolio of common stock of Burlington Northern Santa Fe Corporation ( "Burlington Northern" ), a railroad holding company, amounting to \$307.8 million. During the first quarter of 2008, Alleghany sold approximately 1.0 million shares of Burlington Northern common stock, resulting in a pre-tax gain of \$78.1 million. During the third quarter of 2008, Alleghany sold approximately 0.2 million shares of Burlington Northern common stock, resulting in a pre-tax gain of \$14.3 million. In addition, subsequent to September 30, 2008, Alleghany sold approximately 0.9 million shares of Burlington Northern common stock, resulting in a pre-tax gain of \$59.9 million, which will be recognized in the 2008 fourth quarter.

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At September 30, 2008, Alleghany also had a concentration of market risk in its available-for-sale equity securities portfolio with respect to the common stock of certain energy sector businesses amounting to \$323.7 million.

***5. Segment of Business***

Information related to Alleghany's reportable segment is shown in the table below. Property and casualty and surety insurance operations are conducted by AIHL through its insurance operating units RSUI, CATA and EDC. Alleghany has classified the operations of Darwin as discontinued operations in its consolidated financial statements for all periods presented. See Notes 1 and 8. In addition, AIHL Re is a wholly-owned subsidiary of AIHL that is available to provide reinsurance to Alleghany's insurance operating units and affiliates.

Alleghany's reportable segment is reported in a manner consistent with the way management evaluates the businesses. As such, insurance underwriting activities are evaluated separately from investment activities. Net realized capital gains or losses are not considered relevant in evaluating investment performance on an annual basis. Segment accounting policies are the same as those described in Note 1 to the Notes to the Consolidated Financial Statements set forth in Item 8 of the 2007 10-K.

The primary components of corporate activities are Alleghany Properties, Alleghany's investments in Homesite and ORX, and corporate investment and other activities at the parent level, including strategic equity investments. Such strategic equity investments are available to support the internal growth of subsidiaries and for acquisitions of, and substantial investments in, operating companies.

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(in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007(1)	2008	2007(1)
<b>Revenues:</b>				
<i>AIHL insurance group:</i>				
Net premiums earned				
RSUI	\$ 169.9	\$ 183.7	\$ 521.9	\$ 528.5
CATA	47.1	50.0	142.0	148.2
EDC	18.7	20.2	57.3	20.2
AIHL Re		0.4	0.2	