Jensen Glenn
Form 4/A
October 28, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Jensen Glenn

(Last) (First) (Middle)

73-4460 QUEEN KAAHUMANU HWY#102

(Street)

KAILUA-KONA, HI 96740

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CYANOTECH CORP [CYAN]

3. Date of Earliest Transaction (Month/Day/Year)
07/01/2011

4. If Amendment, Date Original Filed(Month/Day/Year)
08/31/2011

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President Operations

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. De Se

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(In
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Common Stock Options	$ 3.58	07/01/2011	A		8,000		(1)	07/01/2021	Common Stock	8,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Jensen Glenn 73-4460 QUEEN KAAHUMANU HWY#102 KAILUA-KONA, HI 96740			Vice President Operations	

Signatures

Karyn R. Okada	10/28/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 800 options became exercisable on 2011-07-01, 1,600 options shall become exercisable on 2012-07-01, 2,400 options shall become exercisable on 2013-07-01, and 3,200 options shall become exercisable on 2014-07-01.

Remarks:

The original filing on August 31, 2011 was inadvertently filed as a Form 5, and should have been filed as a Form 4. This Form

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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29.9

30.9

30.0

29.5

GAAP combined ratio

93.1

%

95.2

%

100.5

%

96.0

%

Explanation of Responses:

Incremental impact of direct to consumer initiative on GAAP combined ratio

2.5

%

1.9

%

2.1

%

1.7

%

55

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Overview

Operating income of $168 million in the third quarter of 2010 was $19 million, or 13%, higher than operating income in the same period of 2009, primarily reflecting an increase in business volume and the favorable impact of earned rate increases outpacing loss cost trends. Through the first nine months of 2010, operating income of $246 million was $145 million, or 37%, lower than in the same 2009 period. The decline in operating income in the first nine months of 2010 primarily reflected an increase in catastrophe losses and a decline in net favorable prior year reserve development, partially offset by an increase in net investment income, an increase in business volume, the favorable impact of earned rate increases outpacing loss cost trends and a reduction in non-catastrophe weather-related losses. In addition, operating income in the first nine months of 2009 included a $48 million reduction in the estimate of property windpool assessments related to Hurricane Ike that had been recorded in general and administrative expenses in 2008. Catastrophe losses in the third quarter and first nine months of 2010 totaled $66 million and $573 million, respectively, compared with $68 million and $278 million in the respective periods of 2009. Net favorable prior year reserve development in the third quarter and first nine months of 2010 totaled $23 million and $50 million, respectively, compared with $22 million and $120 million in the respective periods of 2009.

Earned Premiums

Earned premiums of $1.87 billion in the third quarter of 2010 increased $74 million, or 4%, over earned premiums in the same period of 2009. In the first nine months of 2010, earned premiums of $5.47 billion were $158 million, or 3%, higher than in the same 2009 period. The increases reflected continued strong business retention rates, continued renewal premium increases and growth in new business volume during the preceding twelve months.

Net Investment Income

Net investment income in the third quarter and first nine months of 2010 decreased by $5 million and increased $41 million, respectively, compared with the same periods of 2009. Refer to the Net Investment Income section of the Consolidated Results of Operations discussion herein for a description of the factors contributing to the changes in the Company s consolidated net investment income in the third quarter and first nine months of 2010 compared with the same periods of 2009.

Claims and Expenses

Claims and claim adjustment expenses in the third quarter of 2010 totaled $1.18 billion, an increase of $28 million, or 2%, over the same period of 2009, primarily reflecting an increase in business volume. Through the first nine months of 2010, claims and claim adjustment expenses totaled $3.85 billion, an increase of $322 million, or 9%, over the same period of 2009. The year-to-date total in 2010 reflected an increase in catastrophe losses, a reduction in net favorable prior year reserve development and increased business volume. The year-to-date total in 2010 also reflected a decline in non-catastrophe weather-related losses. Catastrophe losses in the third quarter and first nine months of 2010 totaled $66 million and $573 million, respectively, compared with $68 million and $278 million in the respective periods of 2009. Catastrophe losses in both 2010 and 2009 resulted from several severe wind and hail storms.

Net favorable prior year reserve development in the third quarter and first nine months of 2010 totaled $23 million and $50 million, respectively, compared with $22 million and $120 million in the respective periods of 2009. Net favorable prior year reserve development in both periods of 2010 was concentrated in the Homeowners and Other product line. The third quarter 2009 net favorable prior year reserve development also occurred in the Homeowners and Other product line and primarily reflected favorable loss experience related to Hurricane Ike. Net favorable prior year reserve development in the first nine months of 2009 primarily reflected favorable loss experience related to Hurricanes Ike and Katrina.

The amortization of deferred acquisition costs totaled $364 million and $1.07 billion in the third quarter and first nine months of 2010, respectively, compared with $357 million and $1.06 billion in the respective periods of 2009, consistent with earned premium levels in all periods.

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General and administrative expenses in the third quarter of 2010 totaled $215 million, $5 million lower than in the same period of 2009. In the first nine months of 2010, general and administrative expenses of $632 million were $55 million higher than in the same period of 2009. The total for the first nine months of 2009 reflected a $48 million reduction in the estimate of property windpool assessments related to Hurricane Ike. Adjusting for the impact of windpool assessments in 2009, general and administrative expenses in the first nine months of 2010 increased 1% over the same period of 2009, primarily reflecting growth in business volume and continued costs supporting business growth and product development, including the Company s direct to consumer initiative.

GAAP Combined Ratio

The GAAP combined ratio of 93.1% in the third quarter of 2010 was 2.1 points lower than the GAAP combined ratio of 95.2% in the same 2009 period. The GAAP combined ratio of 100.5% in the first nine months of 2010 was 4.5 points higher than the GAAP combined ratio of 96.0% in the same 2009 period.

The loss and loss adjustment expense ratio of 63.2% in the third quarter of 2010 was 1.1 points lower than the comparable 2009 ratio of 64.3%. Catastrophe losses accounted for 3.6 points of the 2010 third quarter loss and loss adjustment expense ratio, whereas the 2009 third quarter loss and loss adjustment expense ratio included a 3.8 point impact of the cost of catastrophes. The loss and loss adjustment expense ratio for the third quarter of 2010 and 2009 included 1.2 point and 1.3 point benefits, respectively, from net favorable prior year reserve development. The loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development for the third quarter of 2010 was 1.0 points lower than the 2009 ratio on the same basis, primarily reflecting the favorable impact of earned rate increases outpacing loss cost trends.

In the first nine months of 2010, the loss and loss adjustment expense ratio of 70.5% was 4.0 points higher than the comparable 2009 ratio of 66.5%. Catastrophe losses accounted for 10.5 points of the loss and loss adjustment expense ratio for the first nine months of 2010, whereas the loss and loss adjustment expense ratio for the first nine months of 2009 included a 5.2 point impact of catastrophe losses. The loss and loss adjustment expense ratio for the first nine months of 2010 and 2009 included 0.9 point and 2.2 point benefits, respectively, from net favorable prior year reserve development. Through the first nine months of 2010, the loss and loss adjustment expense ratio excluding catastrophe losses and prior year reserve development was 2.6 points lower than the 2009 ratio on the same basis, reflecting the favorable impact of earned rate increases outpacing loss cost trends and a reduction in non-catastrophe weather-related losses.

The underwriting expense ratio of 29.9% for the third quarter of 2010 was 1.0 points lower than the third quarter 2009 underwriting expense ratio of 30.9%, primarily reflecting lower expenses. In the first nine months of 2010, the underwriting expense ratio of 30.0% was 0.5 points higher than the underwriting expense ratio of 29.5% in the same 2009 period. The 2009 year-to-date underwriting expense ratio included a 0.9 point benefit from the reduction in the estimate of windpool assessments described above.

Agency Written Premiums

Gross and net written premiums by product line were as follows for the Personal Insurance segment s Agency business, which comprises business written through agents, brokers and other intermediaries, and represents almost all of the segment s gross and net written premiums:

(in millions)	Gross Written Premiums Three Months Ended September 30, 2010	 2009	 Nine Months Ended September 30, 2010	 2009
Agency Automobile	**$ 958**	$ 905	**$ 2,826**	$ 2,748
Agency Homeowners and Other	**1,140**	1,067	**3,078**	2,877
Total Agency Personal Insurance	**$ 2,098**	$ 1,972	**$ 5,904**	$ 5,625

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	Net Written Premiums							
	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	**2010**		**2009**		**2010**		**2009**	
Agency Automobile	**$**	**952**	$	898	**$**	**2,810**	$	2,729
Agency Homeowners and Other		**1,024**		946		**2,862**		2,647
Total Agency Personal Insurance	**$**	**1,976**	$	1,844	**$**	**5,672**	$	5,376

Gross and net Agency written premiums in the third quarter of 2010 increased 6% and 7%, respectively, over the totals in the same period of 2009. In the first nine months of 2010, gross Agency written premiums increased 5%, and net Agency written premiums increased 6% over the respective totals in the same period of 2009.

In the Agency Automobile line of business, net written premiums in the third quarter and first nine months of 2010 increased 6% and 3%, respectively, over the same periods of 2009. The increases in both periods of 2010 primarily reflected the impact on written premiums of the introduction of twelve-month policy terms in certain markets in 2010. Excluding the impact of the change in policy terms in 2010, Agency Automobile net written premiums increased 1% over the third quarter of 2009 and were level with the first nine months of 2009. Business retention rates remained strong and new business levels increased over the third quarter and first nine months of 2009. Renewal premium changes were positive in both periods of 2010 but declined from the respective periods of 2009.

In the Agency Homeowners and Other line of business, net written premiums in the third quarter and first nine months of 2010 grew 8% over the same periods of 2009. Growth in the third quarter of 2010 was driven by increases in renewal premium changes and business retention rates. New business levels declined slightly from the third quarter of 2009. Through the first nine months of 2010, changes in the timing of certain reinsurance contributed to net written premium growth over the same period of 2009, along with increases in renewal premium changes, business retention rates and new business levels.

The Personal Insurance segment had approximately 7.7 million and 7.4 million policies in force at September 30, 2010 and 2009, respectively.

Interest Expense and Other

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	**2010**		**2009**		**2010**		**2009**	
Operating loss	**$**	**(65)**	**$**	(70)	**$**	**(214)**	$	(169)

The $5 million decrease in operating loss in Interest Expense and Other in the third quarter of 2010 compared with the same period of 2009 primarily reflected a decline in interest expense. The $45 million increase in operating loss in the first nine months of 2010 compared with the same 2009 period reflected a benefit of $28 million from the favorable resolution of various prior year tax matters in the first nine months of 2009. In addition, the operating loss in the first nine months of 2010 included a $12 million increase in tax expense associated with recent federal health care legislation, and an increase in interest expense. After-tax interest expense in the third quarter and first nine months of 2010 totaled $62 million and $189 million, respectively, compared with $64 million and $185 million in the respective periods of 2009.

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ASBESTOS CLAIMS AND LITIGATION

The Company believes that the property and casualty insurance industry has suffered from court decisions and other trends that have attempted to expand insurance coverage for asbestos claims far beyond the intent of insurers and policyholders. While the Company has experienced a decrease in new asbestos claims over the past several years, the Company continues to receive a significant number of asbestos claims from the Company s policyholders (which includes others seeking coverage under a policy), including claims against the Company s policyholders by individuals who do not appear to be impaired by asbestos exposure. Factors underlying these claim filings include intensive advertising by lawyers seeking asbestos claimants and the focus by plaintiffs on previously peripheral defendants. The focus on these defendants is primarily the result of the number of traditional asbestos defendants who have sought bankruptcy protection in previous years. In addition to contributing to the overall number of claims, bankruptcy proceedings may increase the volatility of asbestos-related losses by initially delaying the reporting of claims and later by significantly accelerating and increasing loss payments by insurers, including the Company. The bankruptcy of many traditional defendants has also caused increased settlement demands against those policyholders who are not in bankruptcy but that remain in the tort system. Currently, in many jurisdictions, those who allege very serious injury and who can present credible medical evidence of their injuries are receiving priority trial settings in the courts, while those who have not shown any credible disease manifestation are having their hearing dates delayed or placed on an inactive docket. This trend of prioritizing claims involving credible evidence of injuries, along with the focus on previously peripheral defendants, contributes to the claims and claim adjustment expense payments experienced by the Company. The Company s asbestos-related claims and claim adjustment expense experience also has been impacted by the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers.

The Company continues to be involved in coverage litigation concerning a number of policyholders, some of whom have filed for bankruptcy, who in some instances have asserted that all or a portion of their asbestos-related claims are not subject to aggregate limits on coverage. In these instances, policyholders also may assert that each individual bodily injury claim should be treated as a separate occurrence under the policy. It is difficult to predict whether these policyholders will be successful on both issues. To the extent both issues are resolved in a policyholder s favor and other Company defenses are not successful, the Company s coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per-occurrence limits and the number of asbestos bodily injury claims against the policyholders. Accordingly, although the Company has seen a moderation in the overall risk associated with these lawsuits, it remains difficult to predict the ultimate cost of these claims.

Many coverage disputes with policyholders are only resolved through settlement agreements. Because many policyholders make exaggerated demands, it is difficult to predict the outcome of settlement negotiations. Settlements involving bankrupt policyholders may include extensive releases which are favorable to the Company but which could result in settlements for larger amounts than originally anticipated. There also may be instances where a court may not approve a proposed settlement, which may result in additional litigation and potentially less beneficial outcomes for the Company. As in the past, the Company will continue to pursue settlement opportunities.

In addition to claims against policyholders, proceedings have been launched directly against insurers, including the Company, by individuals challenging insurers conduct with respect to the handling of past asbestos claims and by individuals seeking damages arising from alleged asbestos-related bodily injuries. The Company anticipates the filing of other direct actions against insurers, including the Company, in the future. It is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability. The Company believes it has meritorious defenses to these claims and has received favorable rulings in certain jurisdictions.

Travelers Property Casualty Corp. (TPC), a wholly-owned subsidiary of the Company, had entered into settlement agreements, which are subject to a number of contingencies, in connection with a number of these direct action claims. These settlement agreements had been approved by the court in connection with proceedings initiated by TPC in the Johns Manville bankruptcy court. On March 29, 2006, the U.S. District Court for the Southern District of New York substantially affirmed the bankruptcy court s orders, while vacating that portion of the bankruptcy court s orders which required all future direct actions against TPC to first be approved by the bankruptcy court before proceeding in state or federal court. Various parties appealed the district court s ruling to the U.S. Court of Appeals for the Second Circuit. On February 15, 2008, the

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Second Circuit issued an opinion vacating on jurisdictional grounds the district court s approval of the bankruptcy court s order that barred the filing of certain direct action claims against TPC in the future. TPC and certain other parties filed Petitions for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s decision. Those petitions were granted and on June 18, 2009, the Supreme Court ruled in favor of the Company, reversing the Second Circuit s decision. However, since the Second Circuit had not ruled on several additional issues principally related to procedural matters and the adequacy of notice provided to certain parties, the Supreme Court remanded the case to the Second Circuit for further proceedings on those specific issues. On March 22, 2010, the Second Circuit issued an opinion in which it found that the notice of the 1986 Orders provided to the remaining objector was insufficient to bar contribution claims by that objector against TPC. On April 5, 2010, TPC filed a Petition for Rehearing and Rehearing *En Banc* with the Second Circuit, requesting further review of its March 22, 2010 opinion, which was denied on May 25, 2010. On August 18, 2010, TPC filed a Petition for Writ of Certiorari in the United States Supreme Court seeking review of the Second Circuit s March 22, 2010 opinion, and a Petition for a Writ of Mandamus seeking an order from the Supreme Court requiring the Second Circuit to comply with the Supreme Court s June 18, 2009 ruling in TPC s favor. The Supreme Court has not yet ruled on the Petitions. The plaintiffs in the Statutory and Hawaii actions and the Common Law Claims actions filed Motions to Compel with the bankruptcy court on September 2, 2010 and September 3, 2010, respectively, arguing that all conditions precedent to the settlements have been met and seeking to require TPC to pay the settlement amounts. On September 30, 2010, TPC filed an Opposition to the plaintiffs Motions to Compel on the grounds that the conditions precedent to the settlements, principally the requirement that all contribution claims be barred, have not been met in light of the Second Circuit s March 22, 2010 opinion. A hearing on the Motions to Compel is scheduled for October 21, 2010. (For a description of these matters, see note 12 to the consolidated financial statements).

Because each policyholder presents different liability and coverage issues, the Company generally reviews the exposure presented by each policyholder at least annually. Among the factors which the Company may consider in the course of this review are: available insurance coverage, including the role of any umbrella or excess insurance the Company has issued to the policyholder; limits and deductibles; an analysis of the policyholder s potential liability; the jurisdictions involved; past and anticipated future claim activity and loss development on pending claims; past settlement values of similar claims; allocated claim adjustment expense; potential role of other insurance; the role, if any, of non-asbestos claims or potential non-asbestos claims in any resolution process; and applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a products/completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

In the third quarter of 2010, the Company completed its annual in-depth asbestos claim review and noted the continuation of recent trends, which include:

- continued high level of litigation activity involving individuals alleging serious asbestos-related illness;
- stable payment patterns for a large proportion of policyholders;
- a decrease in the number of large asbestos exposures confronting the Company due to additional settlement activity;
- continued moderate level of asbestos-related bankruptcy activity; and
- the absence of new theories of liability or new classes of defendants.

While the Company believes that these trends indicate a reduction in the volatility associated with the Company s overall asbestos exposure, there nonetheless remains a high degree of uncertainty with respect to future exposure from asbestos claims.

As in prior years, the annual claim review considered active policyholders and litigation cases for potential product and non-product liability. Compared with the prior year period, the Home Office and Field Office categories, which account for the vast majority of policyholders with active asbestos-related claims, experienced an overall reduction in the number of policyholders who, for the first time, were tendering asbestos claims. However, gross defense and indemnity costs in these categories remained at similar levels to what the Company has experienced in recent years due to the high level of litigation activity in a limited number of jurisdictions where individuals alleging serious asbestos-related injury continue to target previously peripheral defendants.

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The Company s quarterly asbestos reserve review includes an analysis of exposure and claim payment patterns by policyholder category, as well as recent settlements, policyholder bankruptcies, judicial rulings and legislative actions. The Company also analyzes developing payment patterns among policyholders in the Home Office, Field Office and Assumed Reinsurance and Other categories as well as projected reinsurance billings and recoveries. In addition, the Company reviews its historical gross and net loss and expense paid experience, year-by-year, to assess any emerging trends, fluctuations, or characteristics suggested by the aggregate paid activity. Conventional actuarial methods are not utilized to establish asbestos reserves nor have the Company s evaluations resulted in any way of determining a meaningful average asbestos defense or indemnity payment.

The completion of these reviews and analyses in the third quarter resulted in a net $140 million increase in the Company s asbestos reserves, driven by increases in the Company s estimate of 1) projected settlement and defense costs related to a broad number of policyholders; 2) costs of litigating asbestos-related coverage matters; and 3) projected payments on assumed reinsurance accounts. This increase included a $70 million benefit from the reduction in the allowance for uncollectible reinsurance resulting from a recent favorable ruling related to a reinsurance dispute, and an increase in estimated reinsurance recoverables. In the third quarter of 2009, the Company recorded a $185 million increase in asbestos reserves, primarily driven by a slight increase in the Company s assumption for projected defense costs related to many policyholders. Overall, the company s assessment of the underlying asbestos environment did not change significantly from recent periods.

Net asbestos losses and expenses paid in the first nine months of 2010 were $240 million, compared with $184 million in the same period of 2009. Approximately 29% and 21% of total net paid losses in the first nine months of 2010 and 2009, respectively, related to policyholders with whom the Company had entered into settlement agreements limiting the Company s liability. Net asbestos reserves totaled $2.66 billion at September 30, 2010, compared with $2.92 billion at September 30, 2009.

The following table displays activity for asbestos losses and loss expenses and reserves:

(at and for the nine months ended September 30, in millions)	**2010**	2009
Beginning reserves:		
Direct	**$ 3,097**	$ 3,299
Ceded	**(339)**	(385)
Net	**2,758**	2,914
Incurred losses and loss expenses:		
Direct	**262**	185
Ceded	**(122)**	
Net	**140**	185
Losses paid:		
Direct	**301**	233
Ceded	**(61)**	(49)
Net	**240**	184
Ending reserves:		
Direct	**3,058**	3,251
Ceded	**(400)**	(336)
Net	**$ 2,658**	$ 2,915

See Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

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ENVIRONMENTAL CLAIMS AND LITIGATION

The Company continues to receive claims from policyholders who allege that they are liable for injury or damage arising out of their alleged disposition of toxic substances. Mostly, these claims are due to various legislative as well as regulatory efforts aimed at environmental remediation. For instance, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), enacted in 1980 and later modified, enables private parties as well as federal and state governments to take action with respect to releases and threatened releases of hazardous substances. This federal statute permits the recovery of response costs from some liable parties and may require liable parties to undertake their own remedial action. Liability under CERCLA may be joint and several with other responsible parties.

The Company has been, and continues to be, involved in litigation involving insurance coverage issues pertaining to environmental claims. The Company believes that some court decisions have interpreted the insurance coverage to be broader than the original intent of the insurers and policyholders. These decisions often pertain to insurance policies that were issued by the Company prior to the mid-1980s. These decisions continue to be inconsistent and vary from jurisdiction to jurisdiction. Environmental claims when submitted rarely indicate the monetary amount being sought by the claimant from the policyholder, and the Company does not keep track of the monetary amount being sought in those few claims which indicate a monetary amount.

The resolution of environmental exposures by the Company generally occurs by settlement on a policyholder-by-policyholder basis as opposed to a claim-by-claim basis. Generally, the Company strives to extinguish any obligations it may have under any policy issued to the policyholder for past, present and future environmental liabilities and extinguish any pending coverage litigation dispute with the policyholder. This form of settlement is commonly referred to as a buy-back of policies for future environmental liability. In addition, many of the agreements have also extinguished any insurance obligation which the Company may have for other claims, including but not limited to asbestos and other cumulative injury claims. The Company and its policyholders may also agree to settlements which extinguish any liability arising from known specified sites or claims. These agreements also include appropriate indemnities and hold harmless provisions to protect the Company. The Company s general purpose in executing these agreements is to reduce the Company s potential environmental exposure and eliminate the risks presented by coverage litigation with the policyholder and related costs.

In establishing environmental reserves, the Company evaluates the exposure presented by each policyholder and the anticipated cost of resolution, if any. In the course of this analysis, the Company generally considers the probable liability, available coverage, relevant judicial interpretations and historical value of similar exposures. In addition, the Company considers the many variables presented, such as the nature of the alleged activities of the policyholder at each site; the allegations of environmental harm at each site; the number of sites; the total number of potentially responsible parties at each site; the nature of environmental harm and the corresponding remedy at each site; the nature of government enforcement activities at each site; the ownership and general use of each site; the overall nature of the insurance relationship between the Company and the policyholder, including the role of any umbrella or excess insurance the Company has issued to the policyholder; the involvement of other insurers; the potential for other available coverage, including the number of years of coverage; the role, if any, of non-environmental claims or potential non-environmental claims in any resolution process; and the applicable law in each jurisdiction. Conventional actuarial techniques are not used to estimate these reserves.

In its review of environmental reserves, the Company considers: past settlement payments; changing judicial and legislative trends; its reserves for the costs of litigating environmental coverage matters; the potential for policyholders with smaller exposures to be named in new clean-up actions for both on- and off-site waste disposal activities; the potential for adverse development; the potential for additional new claims beyond previous expectations; and the potential higher costs for new settlements.

The duration of the Company s investigation and review of these claims and the extent of time necessary to determine an appropriate estimate, if any, of the value of the claim to the Company vary significantly and are dependent upon a number of factors. These factors include, but are not limited to, the cooperation of the policyholder in providing claim information, the pace of underlying litigation or claim processes, the pace of coverage litigation between the policyholder and the Company and the willingness of the policyholder and the Company to negotiate, if appropriate, a resolution of any dispute pertaining to these claims. Because these factors vary from claim-to-claim and policyholder-by-policyholder, the Company cannot provide a meaningful average of the duration of an environmental claim. However, based upon the Company s experience in resolving these claims, the duration may vary from months to several years.

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The Company continues to receive notices from policyholders tendering claims for the first time. These policyholders generally present smaller exposures, have fewer sites and are lower tier defendants. Further, in many instances clean-up costs have been reduced because regulatory agencies are willing to accept risk-based site analyses and more efficient clean-up technologies. However, the Company has experienced modest upward development in the expected defense and settlement costs for certain of its pending policyholders. As a result, the Company increased its net environmental reserves by $35 million in the second quarter of 2010. The Company increased its net environmental reserves by $70 million in the second quarter of 2009, due to a slight increase in the number of policyholders tendering claims for the first time and upward development in the expected defense and settlement costs for certain of its pending policyholders.

Net paid losses in the first nine months of 2010 and 2009 were $51 million and $70 million, respectively. At September 30, 2010, approximately 92% of the net environmental reserve (approximately $347 million) was carried in a bulk reserve and included unresolved environmental claims, incurred but not reported environmental claims and the anticipated cost of coverage litigation disputes relating to these claims. The bulk reserve the Company carries is established and adjusted based upon the aggregate volume of in-process environmental claims and the Company s experience in resolving those claims. The balance, approximately 8% of the net environmental reserve (approximately $30 million), consists of case reserves.

The following table displays activity for environmental losses and loss expenses and reserves:

(at and for the nine months ended September 30, in millions)		**2010**		**2009**
Beginning reserves:				
Direct	**$**	**389**	$	400
Ceded		**4**		14
Net		**393**		414
Incurred losses and loss expenses:				
Direct		**45**		85
Ceded		**(10)**		(15)
Net		**35**		70
Losses paid:				
Direct		**51**		74
Ceded				(4)
Net		**51**		70
Ending reserves:				
Direct		**383**		411
Ceded		**(6)**		3
Net	**$**	**377**	$	414

UNCERTAINTY REGARDING ADEQUACY OF ASBESTOS AND ENVIRONMENTAL RESERVES

As a result of the processes and procedures described above, management believes that the reserves carried for asbestos and environmental claims at September 30, 2010 are appropriately established based upon known facts, current law and management s judgment. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for asbestos and environmental claims and related litigation. As a result, these reserves are subject to revision as new information becomes available and as claims develop. The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in asbestos and environmental claims beyond that which is anticipated, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company s previous assessment of these claims, the number and outcome of direct actions against the Company, future developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims and the unavailability of other insurance sources potentially available to policyholders, whether through exhaustion of policy limits or through the insolvency of other participating insurers. In addition, uncertainties arise

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from the insolvency or bankruptcy of policyholders and other defendants. It is also not possible to predict changes in the legal, regulatory and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court and regulatory decisions and interpretations, as well as changes in applicable legislation. It is also difficult to predict the ultimate outcome of complex coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos and environmental reserves, the Company continues to study the implications of these and other developments. (Also see note 12 to the consolidated financial statements).

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, the Company s estimate of claims and claim adjustment expenses may change. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company s operating results in future periods.

INVESTMENT PORTFOLIO

The majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid taxable U.S. government, tax-exempt U.S. municipal bonds, and taxable corporate and U.S. agency mortgage-backed bonds. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company s insurance and debt obligations. The weighted average credit quality of the Company s fixed maturity portfolio, both including and excluding U.S. Treasury securities, was Aa2 at September 30, 2010 and December 31, 2009. Below investment grade securities represented 2.9% and 2.7% of the total fixed maturity investment portfolio at September 30, 2010 and December 31, 2009, respectively. The average effective duration of fixed maturities and short-term securities was 3.5 (3.8 excluding short-term securities) at September 30, 2010, compared with 3.9 (4.2 excluding short-term securities) at December 31, 2009. The decline in duration primarily resulted from the impact of declining market yields on existing holdings of municipal bonds and mortgage-backed securities (which impact the assumptions related to optional pre-payments and the related estimate of effective duration for callable securities).

The Company s fixed maturity investment portfolio at September 30, 2010 included $41.43 billion of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). Included in the municipal bond portfolio were $7.15 billion of advance refunded or escrowed-to-maturity bonds. Advance refunded and escrowed-to-maturity bonds are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. Such escrow accounts are verified as to their sufficiency by an external auditor and are almost exclusively comprised of U.S. Treasury securities. The municipal bond portfolio is diversified across the United States, the District of Columbia and Puerto Rico and includes general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers. Moody s Investors Service has assigned a negative outlook to municipal securities issued by local governments within the United States.

The Company bases its investment decision on the credit characteristics of the municipal security; however, its municipal bond portfolio includes a number of securities that were enhanced by third-party insurance for the payment of principal and interest in the event of an issuer default. Of the insured municipal securities in the Company s investment portfolio at September 30, 2010, approximately 99% were rated at A3 or above, and approximately 90% were rated at Aa3 or above, without the benefit of insurance. The Company believes that a loss of the benefit of insurance would not result in a material adverse impact on the Company s results of operations, financial position or liquidity, due to the underlying credit strength of the issuers of the securities, as well as the Company s ability and intent to hold the securities. The average credit rating of the underlying issuers of these securities was Aa2 at September 30, 2010. The average credit rating of the entire municipal bond portfolio was Aa1 at September 30, 2010 with and without the third-party insurance.

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At September 30, 2010 and December 31, 2009, the Company held commercial mortgage-backed securities (CMBS, including FHA project loans) of $638 million and $714 million, respectively. At September 30, 2010, approximately $204 million of these securities, or the loans backing such securities, contained guarantees by the U.S. government or a government-sponsored enterprise; and $19 million were comprised of Canadian non-guaranteed securities. The average credit rating of the $434 million of non-guaranteed securities at September 30, 2010 was Aaa, and 89% of those securities were issued in 2004 and prior years. The CMBS portfolio is supported by loans that are diversified across economic sectors and geographical areas. The Company does not believe this portfolio exposes it to a material adverse impact on its results of operations, financial position or liquidity, due to the portfolio s relatively small size and the underlying credit strength of these securities.

The Company makes investments in residential collateralized mortgage obligations (CMOs) that typically have high credit quality, offer good liquidity and are expected to provide an advantage in yield compared to U.S. Treasury securities. The Company s investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. While prepayment risk (either shortening or lengthening of duration) and its effect on total return cannot be fully controlled, particularly when interest rates move dramatically, the Company s investment strategy generally favors securities that control this risk within expected interest rate ranges. The Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs. Recently, attorneys general in all 50 states launched a joint probe into mortgage lenders and servicers regarding foreclosure practices. In addition, a number of major companies that service mortgages suspended home foreclosures in those states that handle foreclosures through the court system to address allegations of irregularities in foreclosure documents. While the Company does not believe these and related actions will have a material impact on its investment portfolio or its reported net investment income, it is not yet clear how these issues will ultimately be resolved and a substantial and protracted disruption to the foreclosure process could materially impact returns on the Company s CMO portfolio.

At September 30, 2010 and December 31, 2009, the Company held CMOs classified as available for sale with a fair value of $2.27 billion and $2.58 billion, respectively (in addition to the CMBS securities of $638 million and $714 million, respectively, described above). Approximately 38% and 37% of the Company s CMO holdings were guaranteed by or fully collateralized by securities issued by GNMA, FNMA or FHLMC at September 30, 2010 and December 31, 2009, respectively. In addition, at September 30, 2010 and December 31, 2009, the Company held $2.27 billion and $2.63 billion, respectively, of GNMA, FNMA, FHLMC (excluding FHA project loans which are included with CMBS) mortgage-backed pass-through securities classified as available for sale. The average credit rating of all of the above securities was Aa1 at September 30, 2010 and December 31, 2009.

The Company s fixed maturity investment portfolio at September 30, 2010 and December 31, 2009 included asset-backed securities collateralized by sub-prime mortgages and collateralized mortgage obligations backed by alternative documentation mortgages with a collective fair value of $299 million and $270 million, respectively (comprising approximately 0.5% and 0.4% of the Company s total fixed maturity investments at September 30, 2010 and December 31, 2009, respectively). The disruption in secondary investment markets for mortgage-backed securities in recent years provided the Company with the opportunity to selectively acquire additional asset-backed securities collateralized by sub-prime mortgages at discounted prices. The Company purchased $29 million and $74 million of such securities during the nine months ended September 30, 2010 and the year ended December 31, 2009, respectively. The Company defines sub-prime mortgage-backed securities as investments in which the underlying loans primarily exhibit one or more of the following characteristics: low FICO scores, above-prime interest rates, high loan-to-value ratios or high debt-to-income ratios. Alternative documentation securitizations are those in which the underlying loans primarily meet the government-sponsored entity s requirements for credit score but do not meet the government-sponsored entity s guidelines for documentation, property type, debt and loan-to-value ratios. The average credit rating on these securities and obligations held by the Company was Baa2 and A3 at September 30, 2010 and December 31, 2009, respectively.

The Company s real estate investments include warehouses and office buildings and other commercial land and properties that are directly owned. The carrying value of these investments totaled $843 million and $865 million at September 30, 2010 and December 31, 2009, respectively.

The Company s other investments are primarily comprised of private equity limited partnerships, hedge funds, real estate partnerships, joint ventures, mortgage loans, venture capital (through direct ownership and limited partnerships) and trading securities. These asset classes have historically provided a higher return than fixed maturity investments but are subject to more volatility. Net investment income provided by these asset classes totaled $46 million and $161 million in the third quarter and first nine months of 2010, respectively, compared with net investment income of $45 million and negative net investment income of $203 million in the respective periods of 2009. The losses in 2009 reflected market conditions. The carrying value of the Company s other investments at September 30, 2010 and December 31, 2009 was $2.96 billion and $2.95 billion, respectively. In October 2010, the Company sold its non-public warrants in a public company for approximately $99 million, which approximated the warrants fair value at September 30, 2010.

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REINSURANCE RECOVERABLES

For a description of the Company s reinsurance recoverables, refer to Reinsurance Recoverables in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

On August 20, 2010, in a reinsurance dispute in New York state court captioned *United States Fidelity & Guaranty Company v. American Re-Insurance Company, et al*., the trial court granted summary judgment for the Company, awarding it $251 million (after taking into account a settlement with one of the defendants), plus pre-judgment interest in the amount of $166 million. United States Fidelity and Guaranty Company is a subsidiary of the Company. The $251 million awarded by the court represents the amount owed to the Company under the terms of the reinsurance agreements and is reported as part of reinsurance recoverables in the Company s consolidated balance sheet. The interest awarded by the Court is treated for accounting purposes as a gain contingency in accordance with FASB Topic 450, *Contingencies,* and accordingly has not been recognized in the Company s consolidated financial statements. When the judgment is entered by the court, post-judgment interest will accrue at the rate of 9 percent (without compounding) on the entire award of $417 million. The summary judgment ruling, including the award of interest, is subject to appeal. The Company intends to vigorously pursue collection of the amounts awarded in the court s ruling.

The following table summarizes the composition of the Company s reinsurance recoverable assets:

(in millions)		September 30, 2010		December 31, 2009
Gross reinsurance recoverables on paid and unpaid claims and claim adjustment expenses	**$**	**7,387**	$	8,138
Allowance for uncollectible reinsurance		**(373)**		(523)
Net reinsurance recoverables		**7,014**		7,615
Structured settlements		**3,403**		3,456
Mandatory pools and associations		**1,643**		1,745
Total reinsurance recoverables	**$**	**12,060**	$	12,816

The $601 million decline in net reinsurance recoverables since December 31, 2009 reflected cash collections and the impact of net favorable prior year reserve development, partially offset by a reduction in the allowance for uncollectible reinsurance. The reduction in the allowance for uncollectible reinsurance was driven by a $70 million benefit resulting from a recent favorable ruling related to the reinsurance dispute described above. As a result, at September 30, 2010, reinsurance recoverables included the full $251 million owed to the Company under the terms of the related reinsurance agreement.

Included in reinsurance recoverables are certain amounts related to structured settlements. Structured settlements comprise annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers compensation claims comprise a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables as the Company retains the contingent liability to the claimant. In the event that the life insurance company fails to make the required annuity payments, the Company would be required to make such payments. In the third quarter of 2010, Old Mutual plc, the parent of a U.S. life insurance company that is one of the largest issuers of structured settlements included in the Company s reinsurance recoverables, agreed to sell its U.S. life insurance business to a hedge fund buyer. The Company currently cannot predict the impact of the transaction on the long-term creditworthiness of the annuity issuer.

OUTLOOK

The following discussion provides outlook information for certain key drivers of the Company s results of operations and capital position.

Premiums. The Company s earned premiums are a function of net written premium volume. Net written premiums comprise both renewal business and new business and are recognized as earned premium over the life of the underlying policies. When business renews, the amount of net written premiums associated with that business may increase or decrease (renewal premium change) as a result of increases or decreases in rate and/or insured exposures, which the Company considers as a measure of units of exposure. Net written premiums from both renewal and new business, and therefore earned premiums, are impacted by competitive market conditions as well as general economic conditions, which, particularly in the case of the Business Insurance segment, affect audit premium adjustments, policy endorsements and mid-term cancellations. Net written premiums are also impacted by the structure of reinsurance programs and related costs.

The Company expects retention levels (the amount of expiring premium that renews, before the impact of renewal premium changes) will remain strong, generally consistent with recent periods. In the Business Insurance and Financial, Professional & International Insurance segments, the Company expects that renewal premium changes, including the components of rate changes and insured exposures, will not meaningfully change during the remainder of 2010 and into 2011 compared with the first nine months of 2010. In the Personal Insurance segment, the Company expects that Agency Automobile renewal premium changes, while positive, will decrease slightly in the remainder of 2010 and into 2011 from levels in the first nine months of 2010. For its Agency Homeowners and Other business, the Company expects renewal premium changes in the remainder of 2010 and into 2011 will remain generally consistent with the first nine months of 2010.

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The pricing environment for new business generally has less of an impact on underwriting profitability than renewal rate changes, given the volume of new business relative to renewal business. While property and casualty insurance market conditions are expected to remain competitive in the remainder of 2010 and into 2011 for new business, the Company believes it is well-positioned to capitalize on new business opportunities as agents, brokers and customers seek to place business with high-quality carriers. In addition, the Company announced in 2009 that it launched a new distribution channel that markets personal insurance products directly to consumers, which is expected to generate modest growth in premium volume for Personal Insurance in 2010 and into 2011.

While economic conditions have recently improved and U.S. gross domestic product experienced growth in the latter part of 2009 and early 2010, that trend may not continue, and the U.S. economy may enter into a double dip recession. Further, if growth continues, it may be at a slow rate for an extended period of time. In addition, other economic conditions, such as the commercial and residential real estate environment and employment rates, may continue to be weak. If weak economic conditions persist or deteriorate, low levels of economic activity could impact exposure changes at renewal and our ability to write business at acceptable rates. Additionally, such low levels of economic activity could adversely impact audit premium adjustments, policy endorsements and mid-term cancellations after policies are written. All of the foregoing, in turn, could adversely impact net written premiums in 2010 and into 2011. Since earned premiums lag net written premiums, earned premiums could be adversely impacted in the remainder of 2010 and into 2011.

Underwriting Gain/Loss. The anticipated impact of competitive market conditions and general economic conditions on the Company s earned premiums, as discussed above, coupled with an expected modest increase in loss costs, will likely result in modestly reduced underwriting profitability during the remainder of 2010 and into 2011, as compared with 2009. In addition, the Company s direct to consumer initiative in the Personal Insurance segment, discussed above, while intended to enhance the Company s long-term ability to compete successfully in a consumer-driven marketplace, is expected to remain unprofitable for a number of years as this book of business grows and matures.

In recent periods, the Company has experienced net favorable prior year reserve development, driven by better than expected loss experience in all of the Company s segments for prior loss years. Better than expected loss experience and other favorable circumstances may continue at lower levels compared to recent periods, may not continue or may reverse, causing the Company to recognize lower favorable prior year reserve development, no favorable prior year reserve development or unfavorable prior year reserve development in future periods. The ongoing review of prior year claim and claim adjustment expense reserves, or other changes in current period circumstances, may result in the Company revising current year loss estimates upward or downward in future periods.

Catastrophe losses are inherently unpredictable from year to year, and the Company s results of operations would be adversely impacted by significant catastrophe losses in the remainder of 2010 and into 2011.

Investments. The Company expects to continue to focus its investment strategy on maintaining a high-quality investment portfolio and a relatively low average effective duration. The Company s invested assets at September 30, 2010 totaled $74.72 billion, of which 94% was invested in fixed maturity and short-term securities, with the remaining 6% invested in equity securities, real estate, private equity limited partnerships, hedge funds and real estate partnerships.

Net investment income is a material contributor to the Company s results of operations. While investment returns are difficult to predict and inherently uncertain, in the remainder of 2010 and into 2011, the Company expects investment returns for its fixed maturity investment portfolio to be slightly lower than in recent periods due to lower reinvestment yields available for maturing long-term fixed maturity investments. Returns from the Company s short-term and non-fixed maturity investment portfolios are expected to remain challenged. Short-term interest rates are expected to remain at or near historically low levels. The Company expects investment income in its non-fixed maturity investment portfolio during the remainder of 2010 and into 2011 to be generally consistent with the first nine months of 2010. However, if general economic conditions and/or investment market conditions deteriorate in the remainder of 2010 and into 2011, the Company could also experience a reduction in net investment income and/or significant realized investment losses, including impairments. The Company expects its fixed income assets, including its municipal portfolio, to provide adequate risk-adjusted returns and support its insurance operations over the long-term.

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Capital Position. The Company believes it has a strong capital position and expects to continue its common share repurchase program in the remainder of 2010 as part of its continuing efforts to maximize shareholder value. During the fourth quarter of 2010, the Company expects to repurchase between $1.1 billion and $1.6 billion of its common shares under its share repurchase authorization. The actual amount of share repurchases may be materially different and will depend on a variety of factors, including the Company s earnings, corporate and regulatory requirements, share price, catastrophe losses, strategic initiatives and other market conditions.

The Company had a net after-tax unrealized investment gain of $2.89 billion in its fixed maturity investment portfolio at September 30, 2010. While the Company does not attempt to predict future interest rate movements, a rising interest rate environment would reduce the market value of fixed maturity investments and, therefore, reduce shareholders equity, and a declining interest rate environment would have the opposite effects.

Many of the statements in this Outlook section are forward-looking statements, which are subject to risks and uncertainties that are often difficult to predict and beyond the Company s control. Actual results could differ materially from those expressed or implied by such forward-looking statements. Further, such forward-looking statements speak only as of the date of this report and the Company undertakes no obligation to update them. See Forward Looking Statements. For a discussion of potential risks and uncertainties that could impact the Company s results of operations or financial position, see Item 1A Risk Factors herein and in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, and Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in this report.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet the short- and long-term cash requirements of its business operations. The liquidity requirements of the Company s business have been met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable. Such claims increase liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes. Additionally, the variability of asbestos-related claim payments, as well as the volatility of potential judgments and settlements arising out of litigation, may also result in increased liquidity requirements. It is the opinion of the Company s management that the Company s future liquidity needs will be adequately met from all of the above sources.

At September 30, 2010, total cash and short-term invested assets aggregating $2.82 billion and having a weighted average maturity of 55 days were held at the holding company. The assets held at the holding company are sufficient to meet the holding company s current liquidity requirements and are more than two times the Company s target level. These liquidity requirements primarily include shareholder dividends and debt service. The Company has a shelf registration with the Securities and Exchange Commission which permits it to issue securities from time to time.

On June 10, 2010, the Company entered into a three-year, $1.0 billion revolving credit agreement with a syndicate of financial institutions, replacing its five-year, $1.0 billion credit agreement that expired on that date. No borrowings have been made under the credit agreement since its inception. Pursuant to the credit agreement covenants, the Company must maintain a minimum consolidated net worth (generally defined as shareholders equity plus certain trust preferred and mandatorily convertible securities, reduced for goodwill and other intangible assets). That threshold is adjusted downward by an amount equal to 70% of the aggregate amount of common stock repurchased by the Company after March 31, 2010, up to a maximum deduction of $1.75 billion. The threshold was $14.70 billion at September 30, 2010, and will decline to a minimum of $14.35 billion during the term of the credit agreement, subject to the Company repurchasing an additional $500 million of its common stock. The Company must also maintain a ratio of total debt to the sum of total debt plus consolidated net worth of not greater than 0.40 to 1.00. In addition, the credit agreement contains other customary restrictive covenants as well as certain customary events of default, including with respect to a change in control, which is defined to include the acquisition of 35% or more of the Company s voting stock and certain changes in the composition of the Company s board of directors. At September 30, 2010, the Company was in compliance with these covenants. Generally, the cost of borrowing under this agreement will range from LIBOR plus 100 basis points to LIBOR plus 175 basis points depending on the

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Company s credit ratings. At September 30, 2010, that cost would have been LIBOR plus 125 basis points, had there been any amounts outstanding under the credit agreement. This line of credit also supports the Company s $800 million commercial paper program, of which $100 million was outstanding at September 30, 2010. The Company is not reliant on its commercial paper program to meet its operating cash flow needs.

The Company currently utilizes uncollateralized letters of credit issued by major banks with an aggregate limit of approximately $418 million to provide much of the capital needed to support its obligations at Lloyd s. If uncollateralized letters of credit are not available at a reasonable price or at all in the future, the Company can collateralize these letters of credit or may have to seek alternative means of supporting its obligations at Lloyd s, which could include utilizing holding company funds on hand.

Operating Activities

Net cash flows provided by operating activities in the first nine months of 2010 and 2009 totaled $2.39 billion and $3.20 billion, respectively. Cash flows in the first nine months of 2010 reflected a higher level of catastrophe loss payments and lower collected premiums compared with the first nine months of 2009.

Investing Activities

Net cash flows provided by investing activities in the first nine months of 2010 totaled $1.65 billion, compared with net cash flows used in investing activities in the first nine months of 2009 of $1.45 billion. Net cash provided by investing activities in the first nine months of 2010, along with cash flows provided by operating activities, was principally deployed in common share repurchases. Fixed maturity securities accounted for the majority of investment purchases, sales and maturities in both years.

The Company s management of the duration of the fixed maturity investment portfolio generally produces a duration that exceeds the estimated duration of the Company s net insurance liabilities. The average effective duration of fixed maturities and short-term securities was 3.5 (3.8 excluding short-term securities) at September 30, 2010, compared with 3.9 (4.2 excluding short-term securities) at December 31, 2009. The decline in duration primarily resulted from the impact of declining market yields on existing holdings of municipal bonds and mortgage-backed securities (which impact the assumptions related to optional pre-payments and the related estimate of effective duration for callable securities).

The primary goals of the Company s asset liability management process are to satisfy the insurance liabilities, manage the interest rate risk embedded in those insurance liabilities and maintain sufficient liquidity to cover fluctuations in projected liability cash flows. Generally, the expected principal and interest payments produced by the Company s fixed maturity portfolio adequately fund the estimated runoff of the Company s insurance reserves. Although this is not an exact cash flow match in each period, the substantial degree by which the market value of the fixed maturity portfolio exceeds the expected present value of the net insurance liabilities, as well as the positive cash flow from newly sold policies and the large amount of high quality liquid bonds, provide assurance of the Company s ability to fund claim payments without having to sell illiquid assets or access credit facilities.

Financing Activities

Net cash flows used in financing activities in the first nine months of 2010 totaled $4.00 billion, compared with $1.84 billion in the same 2009 period. The 2010 total primarily reflected common share repurchases, dividends to shareholders and the repayment of debt, partially offset by the proceeds from employee stock option exercises. On April 15, 2010, the Company s $250 million, 8.125% senior notes matured and were fully paid. On August 23, 2010, the Company s $21 million, 7.415% medium-term notes matured and were fully paid. On September 16, 2010, the Company repaid the remaining $4 million principal balance on its 7.81% private placement senior notes. The 2009 total primarily reflected common share repurchases and dividends to shareholders, partially offset by the proceeds from the issuance of debt and employee stock option exercises.

Dividends paid to shareholders totaled $512 million and $518 million in the first nine months of 2010 and 2009, respectively. The declaration and payment of future dividends to holders of the Company s common stock will be at the discretion of the Company s board of directors and will depend upon many factors, including the Company s financial position, earnings, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints and other factors as the board of directors deems relevant. Dividends would be paid by the Company only if declared by its board of directors out of funds legally available, subject to any other restrictions that may be applicable to the Company.

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Since May 2006, the Company s board of directors has approved four common share repurchase authorizations, for a cumulative authorization of up to $16 billion of shares of the Company s common stock. Under these authorizations, the most recent of which totaled $6 billion and was approved by the board of directors in October 2009, repurchases may be made from time to time in the open market, pursuant to preset trading plans meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, in private transactions or otherwise. The authorizations do not have a stated expiration date. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including the Company s financial position, earnings, catastrophe losses, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, other investment opportunities (including mergers and acquisitions), market conditions and other factors. During the three months and nine months ended September 30, 2010, the Company repurchased 11.8 million shares and 66.8 million shares, respectively, under its share repurchase authorization for a total cost of approximately $600 million and $3.40 billion, respectively. The average cost per share repurchased was $50.73 and $50.92, respectively. At September 30, 2010, the Company had $3.11 billion of capacity remaining under its share repurchase authorization.

The following table summarizes the components of the Company s capital structure at September 30, 2010 and December 31, 2009.

(in millions)		**September 30, 2010**		**December 31, 2009**
Debt:				
Short-term	**$**	**109**	$	373
Long-term		**6,154**		6,165
Net unamortized fair value adjustments and debt issuance costs		**(11)**		(11)
Total debt		**6,252**		6,527
Preferred shareholders equity		**70**		79
Common shareholders equity:				
Common stock and retained earnings, less treasury stock		**24,853**		26,117
Accumulated other changes in equity from nonowner sources		**2,372**		1,219
Total shareholders equity		**27,295**		27,415
Total capitalization	**$**	**33,547**	$	33,942

The $395 million decrease in total capitalization from December 31, 2009 reflected the impact of the $3.40 billion of common share repurchases made under the Company s share repurchase authorization, shareholder dividends of $515 million and the repayment of $275 million of debt, largely offset by net income of $2.32 billion in the first nine months of 2010 and the $1.15 billion increase in accumulated other changes in equity from nonowner sources.

The following table provides a reconciliation of total capitalization excluding net unrealized gain on investments to total capitalization presented in the foregoing table.

(dollars in millions)		**September 30, 2010**		**December 31, 2009**
Total capitalization excluding net unrealized gain on investments	**$**	**30,557**	$	32,081
Net unrealized gain on investments, net of taxes		**2,990**		1,861
Total capitalization	**$**	**33,547**	$	33,942
Debt-to-total capital ratio		**18.6%**		19.2%
Debt-to-total capital ratio excluding net unrealized gain on investments		**20.5%**		20.3%

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The debt-to-total capital ratio excluding net unrealized gain on investments is calculated by dividing (a) debt by (b) total capitalization excluding net unrealized investment gains and losses, net of taxes. Net unrealized investment gains and losses can be significantly impacted by both discretionary and other economic factors and are not necessarily indicative of operating trends. Accordingly, in the opinion of the Company s management, the debt-to-capital ratio calculated on this basis provides another useful metric to understand the Company s financial leverage position. The Company s debt-to-total capital ratio of 20.5% at September 30, 2010 calculated on this basis was within the Company s target range.

Catastrophe Reinsurance Coverage

The Company utilizes several catastrophe reinsurance treaties with unaffiliated reinsurers and a catastrophe bond program to help manage its exposure to losses resulting from catastrophes.

General Catastrophe Reinsurance Treaty. The general catastrophe reinsurance treaty covers the accumulation of net property losses arising out of one occurrence. The treaty covers all of the Company s exposures in the United States and Canada and their possessions and waters contiguous thereto, the Caribbean and Mexico. The treaty only provides coverage for terrorism events in limited circumstances and excludes entirely losses arising from nuclear, biological, chemical or radiological attacks.

The following table summarizes the Company s coverage under its General Catastrophe Treaty, effective for the period July 1, 2010 through June 30, 2011:

Layer of Loss	**Reinsurance Coverage In-Force**
$0 - $1.0 billion	Loss 100% retained by the Company, except for certain losses covered by the Earthquake Excess-of-Loss Treaty as described below
$1.0 billion - $1.5 billion	20.0% ($100 million) of loss covered by treaty; 80.0% ($400 million) of loss retained by Company
$1.5 billion - $2.25 billion	56.7% ($425 million) of loss covered by treaty; 43.3% ($325 million) of loss retained by Company
Greater than $2.25 billion	100% of loss retained by Company, except for certain losses incurred in the Northeastern United States, which are covered by the Catastrophe Bond Program and Northeast Catastrophe Treaty as described below.

Catastrophe Bond Program. On December 18, 2009, Longpoint Re II, Ltd. (Longpoint Re II), a newly formed independent Cayman Islands insurance company, successfully completed an offering to unrelated investors of $500 million aggregate principal amount of catastrophe bonds. In connection with the offering, the Company and Longpoint Re II entered into two reinsurance agreements (covering a three-year and four-year period, respectively), each providing up to $250 million of reinsurance to the Company from losses resulting from certain hurricane events in the northeastern United States.

Under the terms of these reinsurance agreements, the Company is obligated to pay annual reinsurance premiums to Longpoint Re II for the reinsurance coverage. The reinsurance agreements entered into by the Company with Longpoint Re II utilize a dual trigger that is based upon the Company s covered losses incurred and an index that is created by applying predetermined percentages to insured industry losses in each state in the covered area as reported by Property Claim Services, a division of Insurance Services Offices, Inc. (owned by Verisk Analytics, Inc.). The reinsurance agreements entered into with Longpoint Re II as part of the catastrophe bond program meet the requirements to be accounted for as reinsurance in

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accordance with the guidance for reinsurance contracts. Amounts payable to the Company under the reinsurance agreements will be determined by the index-based losses, which are designed to approximate the Company s actual losses from any covered event. The amount of actual losses and index losses from any covered event may differ. The principal amount of the catastrophe bonds will be reduced by any amounts paid to the Company under the reinsurance agreements.

The index-based losses attachment point and maximum limit are reset annually to maintain modeled probabilities of attachment and expected loss on the respective catastrophe bonds equal to the initial modeled probabilities of attachment and expected loss. With regard to the Longpoint Re II program, the two reinsurance agreements entered into on December 18, 2009 provide protection for covered events occurring before or on December 18, 2012 and December 18, 2013, respectively. The Company will be entitled to begin recovering amounts under the two reinsurance agreements if the index-based losses in the covered area for a single occurrence reach an initial attachment amount of $2.250 billion. The full $250 million coverage amount of each agreement is available on a proportional basis until index-based losses reach a maximum $2.850 billion limit. The Company has not incurred any losses that have resulted in a recovery under the Longpoint Re II agreements since their inception.

As with any reinsurance agreement, there is credit risk associated with collecting amounts due from reinsurers. With regard to Longpoint Re II, the credit risk is mitigated by two reinsurance trust accounts, one for each agreement. Each reinsurance trust account has been funded by Longpoint Re II with money market funds that invest solely in direct government obligations backed by the U.S. government with maturities of no more than 13 months. The money market funds must have a principal stability rating of at least AAAm by Standard & Poor s. Other permissible investments include repurchase and reverse repurchase agreements collateralized by direct government obligations backed by the U.S. government with terms of no more than 397 calendar days, and cash.

At the time the agreements were entered into, the Company determined that Longpoint Re II was a variable interest entity (VIE), but concluded that it did not have a variable interest in the entity. Accordingly, the Company does not consolidate Longpoint Re II in its consolidated financial statements. Refer to the Catastrophe Reinsurance section of the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for further discussion of the Company s evaluation and conclusion with regard to Longpoint Re II s status as a VIE.

Northeast Catastrophe Reinsurance Treaty. In addition to its General Catastrophe treaty and its multi-year catastrophe bond program, the Company also is party to a Northeast General Catastrophe treaty which provides up to $600 million of coverage, subject to a $2.25 billion retention, for losses arising from hurricanes, earthquakes and winter storm or freeze losses from Virginia to Maine for the period July 1, 2010 through June 30, 2011. Losses from a covered event (occurring over several days) anywhere in the United States, Canada, the Caribbean and Mexico may be used to satisfy the retention. Recoveries under the catastrophe bond programs (if any) would be first applied to reduce losses subject to this treaty.

Earthquake Excess-of-Loss Reinsurance Treaty. The Company s earthquake treaty provides for up to $150 million of coverage, subject to a $125 million retention, for earthquake losses incurred under polices written by the National Property business unit in the Company s Business Insurance segment for the period July 1, 2010 through June 30, 2011.

International Reinsurance Treaties. For business underwritten in Canada, the United Kingdom, Republic of Ireland and in the Company s operations at Lloyd s, separate reinsurance protections are purchased locally that have lower net retentions more commensurate with the size of the respective local balance sheet. The Company conducts an ongoing review of its risk and catastrophe coverages and makes changes as it deems appropriate.

CRITICAL ACCOUNTING ESTIMATES

For a description of the Company s critical accounting estimates, refer to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The Company considers its most significant accounting estimates to be those applied to claims and claim adjustment expense reserves and related reinsurance recoverables, investment valuation and impairments, and goodwill impairments. Except as discussed below, there have been no material changes to the Company s critical accounting estimates since December 31, 2009.

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Claims and Claim Adjustment Expense Reserves

The table below displays the Company s gross claims and claim adjustment expense reserves by product line. A portion of the Company s gross claims and claim adjustment expense reserves (totaling $3.44 billion at September 30, 2010) are for asbestos and environmental claims and related litigation. While the ongoing review of asbestos and environmental claims and associated liabilities considers the inconsistencies of court decisions as to coverage, plaintiffs expanded theories of liability and the risks inherent in complex litigation and other uncertainties, in the opinion of the Company s management, it is possible that the outcome of the continued uncertainties regarding these claims could result in liability in future periods that differs from current reserves by an amount that could be material to the Company s future operating results. See the preceding discussion of Asbestos Claims and Litigation and Environmental Claims and Litigation.

Gross claims and claim adjustment expense reserves by product line were as follows:

	September 30, 2010			December 31, 2009		
(in millions)	**Case**	**IBNR**	**Total**	**Case**	**IBNR**	**Total**
General liability	**$ 5,929**	**$ 10,747**	**$ 16,676**	$ 6,368	$ 11,542	$ 17,910
Property	**933**	**687**	**1,620**	1,211	771	1,982
Commercial multi-peril	**1,892**	**1,793**	**3,685**	1,878	1,762	3,640
Commercial automobile	**2,260**	**1,089**	**3,349**	2,262	1,294	3,556
Workers compensation	**9,411**	**7,104**	**16,515**	9,355	7,122	16,477
Fidelity and surety	**581**	**1,194**	**1,775**	661	1,091	1,752
Personal automobile	**1,437**	**939**	**2,376**	1,457	994	2,451
Homeowners and personal other	**665**	**853**	**1,518**	633	717	1,350
International and other	**2,380**	**2,009**	**4,389**	2,003	1,933	3,936
Property-casualty	**25,488**	**26,415**	**51,903**	25,828	27,226	53,054
Accident and health	**62**	**8**	**70**	64	9	73
Claims and claim adjustment expense reserves	**$ 25,550**	**$ 26,423**	**$ 51,973**	$ 25,892	$ 27,235	$ 53,127

The $1.15 billion decline in gross claims and claim adjustment expense reserves since December 31, 2009 reflected ongoing claims and claim adjustment expense activity, including losses incurred and payments, as well as favorable prior year reserve development and payments related to operations in runoff, partially offset by the impact of the high level of catastrophe losses incurred during the first nine months of 2010.

Asbestos and environmental reserves are included in the General liability, Commercial multi-peril and International and other lines in the summary table above. Asbestos and environmental reserves are discussed separately; see Asbestos Claims and Litigation , Environmental Claims and Litigation and Uncertainty Regarding Adequacy of Asbestos and Environmental Reserves.

FUTURE APPLICATION OF ACCOUNTING STANDARDS

See note 1 to the consolidated financial statements for a discussion of recently issued accounting pronouncements.

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FORWARD LOOKING STATEMENTS

This report contains, and management may make, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, may be forward-looking statements. Specifically, earnings guidance, statements about the Company s share repurchase plans and statements about the potential impact of investment markets and other economic conditions on the Company s investment portfolio and underwriting results, among others, are forward looking, and the Company may also make forward-looking statements about, among other things:

- its results of operations and financial condition (including, among other things, premium volume, premium rates, net and operating income, investment income and performance, return on equity, and expected current returns and combined ratios);
- the sufficiency of the Company s asbestos and other reserves (including, among other things, asbestos claim payment patterns);
- the impact of emerging claims issues;
- the cost and availability of reinsurance coverage;
- catastrophe losses;
- the impact of investment, economic and underwriting market conditions; and
- strategic initiatives.

The Company cautions investors that such statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the Company s control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some of the factors that could cause actual results to differ include, but are not limited to, the following:

- catastrophe losses could materially and adversely affect the Company s results of operations, its financial position and/or liquidity, and could adversely impact the Company s ratings, the Company s ability to raise capital and the availability and cost of reinsurance;
- during or following a period of financial market disruption or prolonged economic downturn, the Company s business could be materially and adversely affected;
- the Company s investment portfolio may suffer reduced returns or material losses, including as a result of a challenging economic environment that impacts the credit of municipal or other issuers in its portfolio;
- if actual claims exceed the Company s loss reserves, or if changes in the estimated level of loss reserves are necessary, the Company s financial results could be materially and adversely affected;

- the Company s business could be harmed because of its potential exposure to asbestos and environmental claims and related litigation;

- the Company is exposed to, and may face adverse developments involving, mass tort claims such as those relating to exposure to potentially harmful products or substances;

- the effects of emerging claim and coverage issues on the Company s business are uncertain;

- the intense competition that the Company faces could harm its ability to maintain or increase its business volumes and profitability;

- the Company may not be able to collect all amounts due to it from reinsurers, and reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all;

- the Company is exposed to credit risk in certain of its business operations;

- the Company s businesses are heavily regulated and changes in regulation (including as a result of the adoption of financial services reform legislation) may reduce the Company s profitability and limit its growth;

- a downgrade in the Company s claims-paying and financial strength ratings could adversely impact the Company s business volumes, adversely impact the Company s ability to access the capital markets and increase the Company s borrowing costs;

- the inability of the Company s insurance subsidiaries to pay dividends to the Company s holding company in sufficient amounts would harm the Company s ability to meet its obligations and to pay future shareholder dividends;

- disruptions to the Company s relationships with its independent agents and brokers could adversely affect the Company;

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- the Company s efforts to develop new products (including its direct to consumer initiative in Personal Insurance) or expand in targeted markets may not be successful, may create enhanced risks and may adversely impact results;

- the Company s business success and profitability depend, in part, on effective information technology systems and on continuing to develop and implement improvements in technology;

- if the Company experiences difficulties with technology, data security and/or outsourcing relationships the Company s ability to conduct its business could be negatively impacted;

- acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences;

- the Company is subject to a number of risks associated with conducting business outside the United States;

- the Company could be adversely affected if its controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective;

- the Company s businesses may be adversely affected if it is unable to hire and retain qualified employees;

- loss of or significant restriction on the use of credit scoring in the pricing and underwriting of Personal Insurance products could reduce the Company s future profitability; and

- the operation of the Company s repurchase plans depend on a variety of factors, including the Company s financial position, earnings, capital requirements of the Company s operating subsidiaries, legal requirements, regulatory constraints, catastrophe losses, other investment opportunities (including mergers and acquisitions), market conditions and other factors.

The Company s forward-looking statements speak only as of the date of this report or as of the date they are made, and the Company undertakes no obligation to update forward-looking statements. For a more detailed discussion of these factors, see Item 1A Risk Factors herein and in the Company s most recent annual report on Form 10-K filed with the Securities and Exchange Commission and Management s Discussion and Analysis of Financial Condition and Results of Operations herein and in the Company s most recent annual report on Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the Company s market risk components since December 31, 2009.

Item 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in the Company s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures as of September 30, 2010. Based upon that evaluation and subject to the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2010, the design and operation of the Company s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

There were no changes in the Company s internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information required with respect to this item can be found under Contingencies in Note 12 to the Company s unaudited condensed consolidated financial statements contained in this quarterly report and is incorporated by reference into this Item 1.

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Item 1A. RISK FACTORS

For a discussion of the Company s potential risks or uncertainties, please see Risk Factors in Part I, Item 1A of the Company s 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In addition, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook and Critical Accounting Estimates herein and in the 2009 Form 10-K. Other than as may be described below, there have been no material changes to the risk factors disclosed in Part I, Item 1A of the Company s 2009 Annual Report on Form 10-K.

Our businesses are heavily regulated and changes in regulation may reduce our profitability and limit our growth. We are extensively regulated and supervised in the jurisdictions in which we conduct business, including licensing and supervision by governmental regulatory agencies in such jurisdictions.

These regulatory systems are generally designed to protect the interests of policyholders, and not necessarily the interests of insurers, their shareholders and other investors. For example, to protect policyholders whose insurance company becomes financially insolvent, guaranty funds have been established in all fifty states to pay the covered claims of policyholders in the event of an insolvency of an insurer. The funding of guaranty funds is provided through assessments levied against remaining insurers in the marketplace. As a result, the insolvency of one or more insurance companies could result in additional assessments levied against us.

These regulatory systems also address authorization for lines of business, capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer s business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the National Association of Insurance Commissioners (NAIC) and state insurance regulators continually reexamine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. In a time of financial uncertainty or a prolonged economic downturn, regulators may choose to adopt more restrictive insurance laws and regulations. For example, insurance regulators may choose to restrict the ability of insurance subsidiaries to make payments to their parent companies or reject rate increases due to the economic environment.

Although the U.S. federal government has not historically regulated the insurance business, there have been proposals from time to time, and especially after the financial crisis in 2008 and 2009, to impose federal regulation on the insurance industry. On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Among other things, the Dodd-Frank Act establishes a Federal Insurance Office within the U.S. Treasury. The Federal Insurance Office initially has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers, including conducting a study for submission to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. Further, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of financial services companies, including insurance companies, if they are designated by a two-thirds vote of a Financial Stability Oversight Council (the Council) as systemically important. While we do not believe that we are systemically important, as defined in the Dodd-Frank Act, it is possible that, at some point in the future, the Council may not agree with us. If we were designated as systemically important, the Federal Reserve s supervisory authority could include the ability to impose heightened financial regulation and could impact requirements regarding our capital, liquidity and leverage as well as our business and investment conduct. As a result of the foregoing, the Dodd-Frank Act, or other additional federal regulation that is adopted in the future, could impose significant burdens on us, including impacting the ways in which we conduct our business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage.

Even if we are not subject to additional regulation by the federal government, significant financial sector regulatory reform, including the Dodd-Frank Act, could have a significant impact on us. For example, regulatory reform could have an unexpected impact on our rights as a creditor or on our competitive position. In particular, the Dodd-Frank Act authorizes assessments to pay for the resolution of systemically important financial institutions that have become insolvent. We (as a financial company with more than $50 billion in assets) could be assessed, and, although any such assessment is required to be risk weighted (i.e., riskier firms pay more), such costs could be material to us and difficult for us to estimate.

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Other potential changes in U.S. federal legislation, regulation and/or administrative policies, including the potential repeal of the McCarran-Ferguson Act and potential changes in federal taxation, could also significantly harm the insurance industry, including us.

Outside of the U.S., the European Union s executive body, the European Commission, is implementing new capital adequacy and risk management regulations called Solvency II that would apply to our businesses across the European Union, particularly in our U.K. businesses, beginning after October 31, 2012. Under Solvency II, it is possible that the U.S. parent of a European Union subsidiary could be subject to certain Solvency II requirements if the regulator determines that the subsidiary s capital position is dependent on the parent company and the U.S. company is not already subject to regulations deemed equivalent to Solvency II. In addition, regulators in countries where we have operations are working with the International Association of Insurance Supervisors (and in the U.S., with the National Association of Insurance Commissioners) to consider changes to insurance company supervision, including solvency requirements and group supervision. While it is not yet known how these actions will impact the Company, such regulations could result in a need for additional capital, increased costs of compliance, increased disclosure and less flexibility in our capital management.

U.S. or non-U.S. insurance laws or regulations that are adopted or amended may be more restrictive than current laws or regulations and may result in lower revenues and/or higher costs of compliance and thus could materially and adversely affect our results of operations and limit our growth.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding repurchases by the Company of its common stock during the periods indicated.

ISSUER PURCHASES OF EQUITY SECURITIES

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
July 1, 2010	July 31, 2010	1,477,036	$ 50.14	1,475,300	$ 3,635,504,848
Aug. 1, 2010	Aug. 31, 2010	6,415,990	49.86	6,415,300	3,315,621,896
Sept. 1, 2010	Sept. 30, 2010	3,942,003	52.36	3,938,125	3,109,424,920
Total		11,835,029	$ 50.73	11,828,725	$ 3,109,424,920

The Company repurchased 6,304 shares during the three-month period ended September 30, 2010 that were not part of the publicly announced share repurchase authorization, representing shares repurchased to cover payroll withholding taxes in connection with the vesting of restricted stock awards and exercises of stock options, and shares used to cover the exercise price of certain stock options that were exercised. Since May 2006, the Company s board of directors has approved four common share repurchase authorizations, for a cumulative authorization of up to $16 billion of shares of the Company s common stock.

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Item 5. OTHER INFORMATION

All of the Company s executive officers hold equity in the Company in excess of the required level under the Company s executive stock ownership policy. For a summary of this policy as currently in effect, see Stock Ownership Guidelines under Executive Compensation Compensation Discussion and Analysis in the Company s proxy statement filed with the SEC on March 17, 2010. From time to time, some of the Company s executives may determine that it is advisable to diversify their investments for personal financial planning reasons, or may seek liquidity for other reasons, and may sell shares of common stock of the Company in the open market, in private transactions or to the Company. To effect such sales, some of the Company s executives have entered into, and may in the future enter into, trading plans designed to comply with the Company s Securities Trading Policy and the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934. The trading plans will not reduce any of the executives ownership of the Company s shares below the applicable executive stock ownership guidelines. The Company does not undertake any obligation to report Rule 10b5-1 plans that may be adopted by any employee or director of the Company in the future, or to report any modifications or termination of any publicly announced plan.

As of September 30, 2010, Jay S. Fishman, Chairman of the Board and Chief Executive Officer, and Alan D. Schnitzer, Vice Chairman and Chief Legal Officer and Executive Vice President Financial, Professional & International Insurance, were the only named executive officers (i.e., an executive officer named in the compensation disclosures in the Company s proxy statement) that have entered into Rule 10b5-1 trading plans that remain in effect. The trading plans extend up to approximately four months from the date of this report. Under the Company s stock ownership guidelines, Mr. Fishman has a target ownership level established as the lesser of 150,000 shares or the equivalent value of 500% of base salary, and Mr. Schnitzer has a target ownership level established as the lesser of 30,000 shares or the equivalent value of 300% of base salary (as such amounts are calculated for purposes of the stock ownership guidelines). See Executive Compensation Compensation Discussion and Analysis Stock Ownership Guidelines in the Company s proxy statement filed with the SEC on March 17, 2010.

Item 6. EXHIBITS

See Exhibit Index.

SIGNATURES

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

THE TRAVELERS COMPANIES, INC.
(Registrant)

Date: October 21, 2010

By /S/ MATTHEW S. FURMAN
Matthew S. Furman
Senior Vice President
(Authorized Signatory)

Date:	October 21, 2010	By	/S/ DOUGLAS K. RUSSELL
			Douglas K. Russell
			Senior Vice President and Corporate Controller
			(Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of The Travelers Companies, Inc. (the Company), effective as of May 1, 2007, were filed as Exhibit 3.1 to the Company s quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007, and are incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Company, effective as of February 18, 2009, were filed as Exhibit 3.2 to the Company s annual report on Form 10-K for the fiscal year ended December 31, 2008, and are incorporated herein by reference.
10.1	Amended and Restated Time Sharing Agreement, effective August 3, 2010, by and between the Company and Jay S. Fishman.
10.2	Current Director Compensation Program, effective as of August 3, 2010.
12.1	Statement regarding the computation of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preferred stock dividends.
31.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jay S. Fishman, Chairman and Chief Executive Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Jay S. Benet, Vice Chairman and Chief Financial Officer of the Company, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial information from The Travelers Companies, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 formatted in XBRL: (i) Consolidated Statement of Income for the three months and nine months ended September 30, 2010 and 2009; (ii) Consolidated Balance Sheet at September 30, 2010 and December 31, 2009; (iii) Consolidated Statement of Changes in Shareholders Equity for the nine months ended September 30, 2010 and 2009; (iv) Consolidated Statement of Cash Flows for the nine months ended September 30, 2010 and 2009; and (v) Notes to Consolidated Financial Statements.

Filed herewith.

Copies of any of the exhibits referred to above will be furnished to security holders who make written request therefor to The Travelers Companies, Inc., 385 Washington Street, Saint Paul, MN 55102, Attention: Corporate Secretary.

The total amount of securities authorized pursuant to any instrument defining rights of holders of long-term debt of the Company does not exceed 10% of the total assets of the Company and its consolidated subsidiaries. Therefore, the Company is not filing any instruments evidencing long-term debt. However, the Company will furnish copies of any such instrument to the Securities and Exchange Commission upon request.

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