ALLSTATE CORP
Form 10-Q
April 28, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3871531**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062

(Address of principal executive offices) (Zip Code)

(847) 402-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes _X_ No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_	Accelerated filer ___
Non-accelerated filer ___ (Do not check if a smaller reporting company)	Smaller reporting company ___

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

Yes __ No _X_

As of April 23, 2010, the registrant had 537,903,261 common shares, $.01 par value, outstanding.

THE ALLSTATE CORPORATION

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March 31, 2010

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

($ in millions, except per share data)	Three Months Ended March 31, 2010	2009
	(unaudited)	
Revenues		
Property-liability insurance premiums	$ 6,503	$ 6,582
Life and annuity premiums and contract charges	544	484
Net investment income	1,050	1,176
Realized capital gains and losses:		
Total other-than-temporary impairment losses	(250)	(725)
Portion of loss recognized in other comprehensive income	(5)	--
Net other-than-temporary impairment loss recognized in earnings	(255)	(725)
Sales and other realized capital gains and losses	(93)	366
Total realized capital gains and losses	(348)	(359)
	7,749	7,883
Costs and expenses		
Property-liability insurance claims and claims expense	4,792	4,720
Life and annuity contract benefits	442	387
Interest credited to contractholder funds	463	579
Amortization of deferred policy acquisition costs	1,014	1,397
Operating costs and expenses	829	801
Restructuring and related charges	11	45
Interest expense	92	88
	7,643	8,017
Gain on disposition of operations	1	3
Income (loss) from operations before income tax (benefit) expense	107	(131)
Income tax (benefit) expense	(13)	143
Net income (loss)	$ 120	$ (274)
Earnings per share:		
Net income (loss) per share - Basic	$ 0.22	$ (0.51)
Weighted average shares - Basic	540.5	538.9
Net income (loss) per share - Diluted	$ 0.22	$ (0.51)
Weighted average shares - Diluted	541.8	538.9
Cash dividends declared per share	$ 0.20	$ 0.20

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ in millions, except par value data)		**March 31, 2010**		**December 31, 2009**
Assets		(unaudited)		
Investments				
Fixed income securities, at fair value (amortized cost $82,486 and $81,243)	$	81,284	$	78,766
Equity securities, at fair value (cost $3,436 and $4,845)		3,807		5,024
Mortgage loans		7,639		7,935
Limited partnership interests		2,802		2,744
Short-term, at fair value (amortized cost $2,482 and $3,056)		2,482		3,056
Other		2,209		2,308
Total investments		100,223		99,833
Cash		704		612
Premium installment receivables, net		4,823		4,839
Deferred policy acquisition costs		5,186		5,470
Reinsurance recoverables, net		6,415		6,355
Accrued investment income		904		864
Deferred income taxes		1,440		1,870
Property and equipment, net		954		990
Goodwill		874		875
Other assets		1,804		1,872
Separate Accounts		9,059		9,072
Total assets	$	132,386	$	132,652
Liabilities				
Reserve for property-liability insurance claims and claims expense	$	19,420	$	19,167
Reserve for life-contingent contract benefits		13,052		12,910
Contractholder funds		51,027		52,582
Unearned premiums		9,575		9,822
Claim payments outstanding		763		742
Other liabilities and accrued expenses		5,992		5,726
Long-term debt		5,910		5,910
Separate Accounts		9,059		9,072
Total liabilities		114,798		115,931
Commitments and Contingent Liabilities (Note 10)				
Equity				
Preferred stock, $1 par value, 25 million shares authorized, none issued		--		--
Common stock, $.01 par value, 2.0 billion shares authorized and 900 million issued, 538 million and 537 million shares outstanding		9		9
Additional capital paid-in		3,152		3,172
Retained income		31,514		31,492
Deferred ESOP expense		(44)		(47)
Treasury stock, at cost (362 million and 363 million shares)		(15,782)		(15,828)
Accumulated other comprehensive income:				
Unrealized net capital gains and losses:				
Unrealized net capital losses on fixed income securities with OTTI		(384)		(441)
Other unrealized net capital gains and losses		(172)		(1,072)
Unrealized adjustment to DAC, DSI and insurance reserves		472		643
Total unrealized net capital gains and losses		(84)		(870)
Unrealized foreign currency translation adjustments		60		46
Unrecognized pension and other postretirement benefit cost		(1,265)		(1,282)
Total accumulated other comprehensive loss		(1,289)		(2,106)
Total shareholders equity		17,560		16,692
Noncontrolling interest		28		29
Total equity		17,588		16,721
Total liabilities and equity	$	132,386	$	132,652

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in millions)	Three Months Ended March 31, 2010	2009
Cash flows from operating activities	(unaudited)	
Net income (loss)	$ 120	$ (274)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	16	(74)
Realized capital gains and losses	348	359
Gain on disposition of operations	(1)	(3)
Interest credited to contractholder funds	463	579
Changes in:		
Policy benefits and other insurance reserves	188	(244)
Unearned premiums	(261)	(330)
Deferred policy acquisition costs	30	381
Premium installment receivables, net	24	71
Reinsurance recoverables, net	(72)	(81)
Income taxes	73	1,443
Other operating assets and liabilities	36	(305)
Net cash provided by operating activities	964	1,522
Cash flows from investing activities		
Proceeds from sales		
Fixed income securities	4,930	4,483
Equity securities	1,990	1,872
Limited partnership interests	146	154
Mortgage loans	3	12
Other investments	37	16
Investment collections		
Fixed income securities	1,122	1,203
Mortgage loans	263	472
Other investments	18	31
Investment purchases		
Fixed income securities	(7,099)	(5,425)
Equity securities	(556)	(1,933)
Limited partnership interests	(185)	(144)
Mortgage loans	(1)	(10)
Other investments	(43)	--
Change in short-term investments, net	411	707
Change in other investments, net	(49)	(48)
Disposition of operations	--	12
Purchases of property and equipment, net	(24)	(53)
Net cash provided by investing activities	963	1,349
Cash flows from financing activities		
Contractholder fund deposits	828	1,298
Contractholder fund withdrawals	(2,569)	(3,577)
Dividends paid	(107)	(220)
Treasury stock purchases	(5)	(3)
Shares reissued under equity incentive plans, net	14	--
Excess tax benefits on share-based payment arrangements	(2)	(6)
Other	6	59
Net cash used in financing activities	(1,835)	(2,449)
Net increase in cash	92	422
Cash at beginning of period	612	415
Cash at end of period	$ 704	$ 837

See notes to condensed consolidated financial statements.

THE ALLSTATE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Basis of presentation

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

The condensed consolidated financial statements and notes as of March 31, 2010, and for the three-month periods ended March 31, 2010 and 2009 are unaudited. The condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Adopted accounting standards

Disclosures about Fair Value Measurements

In January 2010, the FASB issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010, except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are required for fiscal years beginning after December 15, 2010. Disclosures are not required for earlier periods presented for comparative purposes. The new guidance affects disclosures only; and therefore, the adoption had no impact on the Company s results of operations or financial position.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued new accounting guidance which requires an entity to perform a qualitative analysis to determine whether it holds a controlling financial interest (i.e., is a primary beneficiary) in a variable interest entity (VIE). The analysis identifies the primary beneficiary of a VIE as the entity that has both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. **The Company adopted the new guidance as of January 1, 2010.** The adoption resulted in the consolidation of four VIEs for which the Company concluded it is the primary beneficiary as of **January 1, 2010**.

Two of the consolidated VIEs hold investments managed by Allstate Investment Management Company (AIMCO), a subsidiary of the Company. Consolidation as of January 1, 2010 resulted in an increase in total assets of $696 million, an increase in total liabilities of $679 million, an increase in retained income of $7 million and an increase in noncontrolling interest of $10 million. During the first quarter of 2010, the Company sold substantially all its variable interests in these two VIEs. As a result, the Company deconsolidated the VIEs as of March 26, 2010. Since the deconsolidation was effective prior to March 31, 2010, the Condensed Consolidated Statement of Financial Position as of March 31, 2010 does not reflect the assets, liabilities and noncontrolling interests in the VIEs. The Condensed Consolidated Statement of Operations for the first quarter of 2010 does, however, reflect the effects of the consolidation for the portion of the quarter the Company was the primary beneficiary, which were not material.

The adoption also resulted in the consolidation of two insurance company affiliates, Allstate Texas Lloyds and Allstate County Mutual Insurance Company, that underwrite homeowners and auto insurance polices, respectively, and reinsure all of their net business to AIC. Consolidation as of January 1, 2010 resulted in an increase in total assets of $38 million, an increase in total liabilities of $34 million, an increase in retained income of $3 million and an increase in unrealized net capital gains and losses of $1 million.

In the normal course of investing activities, the Company invests in variable interests issued by VIEs. These variable interests include structured investments such as asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities as well as limited partnerships, special purpose entities and trusts. For these variable interests, the Company concluded it is not the primary beneficiary due to the amount of the Company s interest in the VIEs and the Company s lack of power to direct the activities that are most significant to the economic performance of the VIEs. The Company s maximum exposure to loss on these interests is limited to the amount of the Company s investment.

Pending accounting standards

Embedded Credit Derivatives Scope Exception

In March 2010, the FASB issued accounting guidance that clarifies the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The guidance addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed for potential bifurcation and separate accounting under the existing accounting guidance for embedded derivatives. The guidance is effective for fiscal quarters beginning after June 15, 2010. The Company is evaluating the impact of adoption on the Company s results of operations or financial position.

Consolidation Analysis Considering Investments Held through Separate Accounts

In April 2010, the FASB issued guidance clarifying that an insurer is not required to combine interests in investments held in a qualifying separate account with its interests in the same investments held in the general account when performing a consolidation evaluation. The guidance is effective for fiscal years and interim periods beginning after December 15, 2010 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company s results of operations or financial position.

2. Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding, including unvested restricted stock units. Diluted earnings per share is computed based on the weighted average number of common and dilutive potential common shares outstanding. For Allstate, dilutive potential common shares consist of outstanding stock options.

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

($ in millions, except per share data)	Three months ended March 31,	
	2010	2009

Numerator:				
Net income (loss)	$	120	$	(274)
Denominator:				
Weighted average common shares outstanding		540.5		538.9
Effect of dilutive potential common shares:				
Stock options		1.3		--
Weighted average common and dilutive potential common shares outstanding		541.8		538.9
Earnings per share - Basic	$	0.22	$	(0.51)
Earnings per share - Diluted	$	0.22	$	(0.51)

The effect of dilutive potential common shares does not include the effect of options with an anti-dilutive effect on earnings per share because their exercise prices exceed the average market price of Allstate common shares during the period or for which the unrecognized compensation cost would have an anti-dilutive effect. Options to purchase 24.4 million and 27.3 million Allstate common shares, with exercise prices ranging from $27.36 to $64.53 and $23.72 to $65.38, were outstanding at March 31, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share for the three-month periods.

As a result of the net loss for the three-month period ended March 31, 2009, weighted average dilutive potential common shares outstanding resulting from stock options of 0.6 million were not included in the computation of diluted earnings per share since inclusion of these securities would have an anti-dilutive effect. In the absence of the net loss, weighted average common and dilutive potential common shares outstanding would have totaled 539.5 million for the three-month period ended March 31, 2009.

3. Supplemental Cash Flow Information

Non-cash investment exchanges, including modifications of certain mortgage loans, fixed income securities, and other investments, as well as mergers completed with equity securities and limited partnerships, totaled $51 million and $75 million for the three-month periods ended March 31, 2010 and 2009, respectively.

Liabilities for collateral received in conjunction with the Company s securities lending and over-the-counter (OTC) derivatives are reported in other liabilities and accrued expenses or other investments in the Condensed Consolidated Statements of Financial Position. The accompanying cash flows are included in cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows along with the activities resulting from management of the proceeds, which are as follows:

($ in millions)	Three months ended March 31,	
	2010	**2009**
Net change in proceeds managed		
Net change in fixed income securities	$ --	$ --
Net change in short-term investments	171	67
Operating cash flow provided	171	67
Net change in cash	6	--
Net change in proceeds managed	$ 177	$ 67
Net change in liabilities		
Liabilities for collateral and security repurchase, beginning of year	$ (658)	$ (340)
Liabilities for collateral and security repurchase, end of period	(481)	(273)
Operating cash flow used	$ (177)	$ (67)

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4. Investments

Fair values

The amortized cost, gross unrealized gains and losses and fair value for fixed income securities are as follows:

($ in millions)	Amortized cost	Gross unrealized Gains	Losses	Fair value
At March 31, 2010				
U.S. government and agencies	$ 8,204	$ 238	$ (20)	$ 8,422
Municipal	20,404	517	(773)	20,148
Corporate	33,585	1,413	(499)	34,499
Foreign government	3,008	315	(9)	3,314
Residential mortgage-backed securities (RMBS)	10,343	173	(1,404)	9,112
Commercial mortgage-backed securities (CMBS)	3,220	44	(812)	2,452
Asset-backed securities (ABS)	3,684	80	(467)	3,297
Redeemable preferred stock	38	2	--	40
Total fixed income securities	$ 82,486	$ 2,782	$ (3,984)	$ 81,284
At December 31, 2009				
U.S. government and agencies	$ 7,333	$ 219	$ (16)	$ 7,536
Municipal	21,683	537	(940)	21,280
Corporate	32,770	1,192	(847)	33,115
Foreign government	2,906	306	(15)	3,197
RMBS	9,487	130	(1,630)	7,987
CMBS	3,511	30	(955)	2,586
ABS	3,514	62	(550)	3,026
Redeemable preferred stock	39	1	(1)	39
Total fixed income securities	$ 81,243	$ 2,477	$ (4,954)	$ 78,766

Scheduled maturities

The scheduled maturities for fixed income securities are as follows at March 31, 2010:

($ in millions)	Amortized cost	Fair value
Due in one year or less	$ 2,731	$ 2,767
Due after one year through five years	24,024	24,731
Due after five years through ten years	15,082	15,757
Due after ten years	26,622	25,620
	68,459	68,875
RMBS and ABS	14,027	12,409
Total	$ 82,486	$ 81,284

Actual maturities may differ from those scheduled as a result of prepayments by the issuers. Because of the potential for prepayment on RMBS and ABS, they are not categorized by contractual maturity. The CMBS are categorized by contractual maturity because they generally are not subject to prepayment risk.

Net investment income

Net investment income is as follows:

($ in millions)		**Three months ended March 31,**		
		2010		**2009**
Fixed income securities	$	959	$	1,042
Equity securities		21		16
Mortgage loans		104		137
Limited partnership interests		6		3
Short-term investments		2		13
Other		1		1
Investment income, before expense		1,093		1,212
Investment expense		(43)		(36)
Net investment income	$	1,050	$	1,176

Realized capital gains and losses

Realized capital gains and losses by security type are as follows:

($ in millions)		**Three months ended March 31,**		
		2010		**2009**
Fixed income securities	$	(136)	$	107
Equity securities		14		(163)
Mortgage loans		(25)		(32)
Limited partnership interests		(21)		(339)
Derivatives		(185)		95
Other		5		(27)
Realized capital gains and losses	$	(348)	$	(359)

Realized capital gains and losses by transaction type are as follows:

($ in millions)		**Three months ended March 31,**		
		2010		**2009**
Impairment write-downs	$	(223)	$	(620)
Change in intent write-downs		(32)		(105)
Net OTTI losses recognized in earnings		(255)		(725)
Sales		88		418
Valuation of derivative instruments		(155)		103
Settlements of derivative instruments		(30)		(12)
EMA limited partnership income		4		(143)

Realized capital gains and losses	$	(348)	$	(359)

Gross gains of $142 million and $480 million and gross losses of $74 million and $82 million were realized on sales of fixed income securities during the three months ended March 31, 2010 and 2009, respectively.

Other-than-temporary impairment losses by asset type for the three months ended March 31, 2010 are as follows:

($ in millions)	**Total**	**Included in OCI**	**Net**
Fixed income securities:			
Municipal	$ (37)	$ --	$ (37)
Corporate	(47)	3	(44)
RMBS	(88)	(7)	(95)
CMBS	(26)	--	(26)
ABS	(3)	(1)	(4)
Total fixed income securities	(201)	(5)	(206)
Equity securities	(6)	--	(6)
Mortgage loans	(19)	--	(19)
Limited partnership interests	(24)	--	(24)
Other-than-temporary impairment losses	$ (250)	$ (5)	$ (255)

The total amount of other-than-temporary impairment losses included in accumulated other comprehensive income for fixed income securities, which were not included in earnings, are presented in the following table. The amount excludes $269 million and $192 million as of March 31, 2010 and December 31, 2009, respectively, of net unrealized gains related to changes in valuation of the fixed income securities subsequent to the impairment measurement date.

($ in millions)	**March 31, 2010**	**December 31, 2009**
Municipal	$ (9)	$ (10)
Corporate	(51)	(51)
RMBS	(590)	(594)
CMBS	(121)	(127)
ABS	(88)	(89)
Total	$ (859)	$ (871)

A rollforward of the amount recognized in earnings related to credit losses for fixed income securities is presented in the following table.

($ in millions)	
Beginning balance at December 31, 2009	$ (1,187)
Additional credit loss for securities previously other-than-temporarily impaired	(101)
Additional credit loss for securities not previously other-than-temporarily impaired	(79)
Reduction in credit loss for securities disposed or collected	131
Reduction in credit loss for securities other-than-temporarily impaired to fair value	--
Change in credit loss due to accretion of increase in cash flows and time value of cash flows for securities previously other-than-temporarily impaired	--
Ending balance at March 31, 2010	$ (1,236)

The Company uses its best estimate of future cash flows expected to be collected from the fixed income security discounted at the security s original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, foreign exchange rates, the financial condition of the issue or issuer(s), expected defaults, expected recoveries, the value of underlying collateral and current subordination levels, vintage, geographic concentration, available reserves or escrows, third party guarantees and other credit enhancements. Additionally, other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The unrealized loss deemed to be related to factors other than credit remains classified in OCI. If the Company determines that the fixed income security does not have sufficient cash flow or other information to determine a recovery value for the security, the Company may conclude that the entire decline in fair value is deemed to be credit related and is recorded in earnings.

Unrealized net capital gains and losses

Unrealized net capital gains and losses included in accumulated other comprehensive income are as follows:

($ in millions)	**Fair**	**Gross unrealized**		**Unrealized net**
At March 31, 2010	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities (1)	$ 81,284	$ 2,782	$ (3,984)	$ (1,202)
Equity securities	3,807	457	(86)	371
Short-term investments	2,482	--	--	--
Derivative instruments (2)	(14)	3	(21)	(18)
Unrealized net capital gains and losses, pre-tax				(849)
Amounts recognized for:				
Insurance reserves (3)				--
DAC and DSI (4)				726
Amounts recognized				726
Deferred income taxes				39
Unrealized net capital gains and losses, after-tax				$ (84)

(1) Unrealized net capital gains and losses for fixed income securities as of March 31, 2010 comprises $(590) million related to unrealized net capital losses on fixed income securities with OTTI and $(612) million related to other unrealized net capital gains and losses.

(2) Included in the fair value of derivative securities are $2 million classified as assets and $16 million classified as liabilities.

(3) The insurance reserves adjustment represents the amount by which the reserve balance would increase if the net unrealized gains in the applicable product portfolios were realized and reinvested at current lower interest rates, resulting in a premium deficiency. Although the Company evaluates premium deficiencies on the combined performance of life insurance and immediate annuities with life contingencies, the adjustment primarily relates to structured settlement annuities with life contingencies, in addition to annuity buy-outs and certain payout annuities with life contingencies.

(4) The DAC and DSI adjustment balance represents the amount by which the amortization of DAC and DSI would increase or decrease if the unrealized gains or losses in the respective product portfolios were realized.

	Fair	**Gross unrealized**		**Unrealized net**
At December 31, 2009	**value**	**Gains**	**Losses**	**gains (losses)**
Fixed income securities	$ 78,766	$ 2,477	$ (4,954)	$ (2,477)
Equity securities	5,024	381	(202)	179
Short-term investments	3,056	--	--	--

Derivative instruments (1)	(20)	2	(25)		(23)
Unrealized net capital gains and losses, pre-tax					(2,321)
Amounts recognized for:					
Insurance reserves					--
DAC and DSI					990
Amounts recognized					990
Deferred income taxes					461
Unrealized net capital gains and losses, after-tax				$	(870)

(1) Included in the fair value of derivative securities are $(2) million classified as assets and $18 million classified as liabilities.

Change in unrealized net capital gains and losses

The change in unrealized net capital gains and losses for the three months ended March 31, 2010 is as follows:

($ in millions)		
Fixed income securities	$	1,275
Equity securities		192
Short-term investments		--
Derivative instruments		5
Total		1,472
Amounts recognized for:		
Insurance reserves		--
DAC and DSI		(264)
Decrease in amounts recognized		(264)
Deferred income taxes		(422)
Increase in unrealized net capital gains and losses	$	786

Portfolio monitoring

The Company has a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, the Company assesses whether management with the appropriate authority has made a decision to sell or whether it is more likely than not the Company will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security s decline in fair value is deemed other than temporary and is recorded in earnings.

If the Company has not made the decision to sell the fixed income security and it is not more likely than not the Company will be required to sell the fixed income security before recovery of its amortized cost basis, the Company evaluates if it expects to receive cash flows sufficient to recover the entire amortized cost basis of the security by comparing the estimated recovery value calculated by discounting the best estimate of future cash flows at the security s original or current effective rate, as appropriate, with the amortized cost of the security. If the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss deemed to be related to other factors and recognized in OCI.

For equity securities, the Company considers various factors, including whether the Company has the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security s decline in fair value is considered other than temporary and is recorded in earnings. For equity securities managed by a third party, the Company has contractually retained its decision making authority as it pertains to selling equity securities that are in an unrealized loss position.

The Company s portfolio monitoring process includes a quarterly review of all securities through a screening process which identifies instances where the fair value compared to amortized cost for fixed income securities and cost for equity securities is below established thresholds, and also includes the monitoring of other criteria such as ratings, ratings downgrades or payment defaults. The securities identified, in addition to other securities for which the Company may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in the Company s evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition of the issue or issuer and its future earnings potential. Some of the factors considered in evaluating whether a decline in fair value is other than temporary are: 1) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities, or cost for equity securities; 2) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and 3) the specific reasons that a security is in a significant unrealized loss position, including overall market conditions which could affect liquidity.

The following table summarizes the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position.

($ in millions)	**Less than 12 months**			**12 months or more**			**Total**
	Number of issues	**Fair value**	**Unrealized losses**	**Number of issues**	**Fair value**	**Unrealized losses**	**unrealized losses**
At March 31, 2010							
Fixed income securities							
U.S. government and agencies	46	$ 1,486	$ (20)	1	$ 2	$ --	$ (20)
Municipal	556	2,499	(61)	752	4,909	(712)	(773)
Corporate	327	4,169	(105)	322	4,136	(394)	(499)
Foreign government	58	524	(7)	3	10	(2)	(9)
RMBS	233	889	(10)	439	2,490	(1,394)	(1,404)
CMBS	7	97	(5)	221	1,487	(807)	(812)
ABS	42	440	(17)	157	1,369	(450)	(467)
Redeemable preferred stock	1	--	--	--	--	--	--
Total fixed income securities (1)	1,270	10,104	(225)	1,895	14,403	(3,759)	(3,984)
Equity securities	509	530	(44)	14	284	(42)	(86)
Total fixed income and equity securities	1,779	$ 10,634	$ (269)	1,909	$ 14,687	$ (3,801)	$ (4,070)
Investment grade fixed income securities	1,168	$ 9,477	$ (187)	1,429	$ 11,440	$ (2,156)	$ (2,343)
Below investment grade fixed income securities	102	627	(38)	466	2,963	(1,603)	(1,641)
Total fixed income securities	1,270	$ 10,104	$ (225)	1,895	$ 14,403	$ (3,759)	$ (3,984)
At December 31, 2009							
Fixed income securities							
U.S. government and agencies	38	$ 3,523	$ (16)	--	$ --	$ --	$ (16)
Municipal	761	3,646	(123)	747	5,024	(817)	(940)
Corporate	399	5,072	(178)	421	5,140	(669)	(847)
Foreign government	50	505	(15)	1	1	--	(15)
RMBS	387	1,092	(23)	453	2,611	(1,607)	(1,630)
CMBS	25	232	(4)	259	1,790	(951)	(955)
ABS	39	352	(20)	173	1,519	(530)	(550)
Redeemable preferred stock	1	--	--	1	21	(1)	(1)
Total fixed income securities	1,700	14,422	(379)	2,055	16,106	(4,575)	(4,954)
Equity securities	1,665	1,349	(113)	28	450	(89)	(202)
Total fixed income and equity securities	3,365	$ 15,771	$ (492)	2,083	$ 16,556	$ (4,664)	$ (5,156)
Investment grade fixed income securities	1,587	$ 13,891	$ (293)	1,561	$ 13,127	$ (2,848)	$ (3,141)
Below investment grade fixed income securities	113	531	(86)	494	2,979	(1,727)	(1,813)
Total fixed income securities	1,700	$ 14,422	$ (379)	2,055	$ 16,106	$ (4,575)	$ (4,954)

(1) Gross unrealized losses resulting from factors other than credit on fixed income securities with other-than-temporary impairments for which the Company has recorded a credit loss in earnings total $8 million for the less than 12 month category and $688 million for the 12 months or greater category.

As of March 31, 2010, $1.18 billion of unrealized losses are related to securities with an unrealized loss position less than 20% of cost or amortized cost, the degree of which suggests that these securities do not pose a high risk of being other-than-temporarily impaired. Of the $1.18 billion, $921 million are related to unrealized losses on investment grade fixed income securities. Investment grade is defined as a security having a rating of Aaa, Aa, A or Baa from Moody s, a rating of AAA, AA, A or BBB from S&P, Fitch, Dominion or Realpoint, a rating of aaa, aa, a or bbb from A.M. Best, or a comparable internal rating if an externally provided rating is not available, which is consistent with the National Association of Insurance Commissioners (NAIC) rating. Unrealized losses on investment grade securities are principally related to rising interest rates or changes in credit spreads since the securities were acquired.

As of March 31, 2010, the remaining $2.89 billion of unrealized losses are related to securities in unrealized loss positions greater than or equal to 20% of cost or amortized cost. Investment grade securities comprising $1.42 billion of these unrealized losses were evaluated based on factors such as discounted cash flows, the financial condition and near-term and long-term prospects of the issue or issuer and were determined to have adequate resources to fulfill contractual obligations, such as recent financings or bank loans, cash flows from operations, collateral or the position of a subsidiary with respect to its parent s bankruptcy. Of the $2.89 billion, $1.45 billion are related to below investment grade fixed income securities and $17 million are related to equity securities. Of these amounts, $1.38 billion of the below investment grade fixed income securities had been in an unrealized loss position for a period of twelve or more consecutive months as of March 31, 2010. Unrealized losses on below investment grade securities are principally related to RMBS, ABS and CMBS and were the result of wider credit spreads than at initial purchase which was largely due to the impact of macroeconomic conditions and credit market deterioration on real estate valuations. Securities in an unrealized loss position were evaluated based on discounted cash flows and credit ratings, as well as the performance of the underlying collateral relative to the securities positions in the securities respective capital structure. RMBS and ABS in an unrealized loss position were evaluated with credit enhancements from bond insurers where applicable. Municipal bonds in an unrealized loss position were evaluated based on the quality of the underlying security, as well as with credit enhancements from bond insurers, where applicable. Unrealized losses on equity securities are primarily related to equity market fluctuations.

As of March 31, 2010, the Company has not made a decision to sell and it is not more likely than not the Company will be required to sell fixed income securities with unrealized losses before recovery of the amortized cost basis. As of March 31, 2010, the Company had the intent and ability to hold the equity securities with unrealized losses for a period of time sufficient for them to recover.

Limited partnership impairment

As of March 31, 2010 and December 31, 2009, the carrying value of equity method limited partnership interests totaled $1.69 billion and $1.64 billion, respectively. The Company recognizes an impairment loss in value for equity method investments when evidence demonstrates that it is other-than-temporarily impaired. Evidence of a loss in value that is other than temporary may include the absence of an ability to recover the carrying amount of the investment or the inability of the investee to sustain an earnings potential that would justify the carrying amount of the investment. The Company had no write-downs for the three months ended March 31, 2010 and had write-downs of $10 million for the three months ended March 31, 2009, related to equity method limited partnership interests.

As of March 31, 2010 and December 31, 2009, the carrying value for cost method limited partnership interests was $1.11 billion and $1.10 billion, respectively. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether an impairment indicator has occurred in the period that may have a significant adverse effect on the carrying value of the investment. Impairment indicators may include: actual recent cash flows received being significantly less than expected cash flows; reduced valuations based on financing completed at a lower value; completed sale of a material underlying investment at a price significantly lower than expected; significantly reduced valuations of the investments held by limited partnerships; or any other adverse events since the last financial statements received that might affect the fair value of the investee s capital. Additionally, the Company uses a screening process to identify those investments whose net asset value is below established thresholds for certain periods of time as well as investments that are performing below expectations, for further impairment consideration. If a cost method limited partnership is deemed other-than-temporarily impaired, the carrying value is written down to fair value, generally estimated to be equivalent to the reported net asset value of the underlying funds. The Company had write-downs of $24 million and $187 million for the three months ended March 31, 2010 and 2009, respectively, related to cost method investments that were other-than-temporarily impaired.

5. Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Assets and liabilities recorded on the Condensed Consolidated Statements of Financial Position at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Assets and liabilities whose values are based on the following:

(a) Quoted prices for similar assets or liabilities in active markets;

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or

(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect the Company s estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs varies by instrument. In situations where fair value is based on internally developed pricing models or inputs that are unobservable in the market, the determination of fair value requires more judgment. The degree of judgment exercised by the Company in determining fair value is typically greatest for instruments categorized in Level 3. In many instances, valuation inputs used to measure fair value fall into different levels of the fair value hierarchy. The category level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments.

The Company has two types of situations where investments are classified as Level 3 in the fair value hierarchy. The first is where quotes continue to be received from independent third-party valuation service providers and all significant inputs are market observable; however, there has been a significant decrease in the volume and level of activity for the asset when compared to normal market activity such that the degree of market observability has declined to a point where categorization as a Level 3 measurement is considered appropriate. Among the indicators considered in determining whether a significant decrease in the volume and level of activity for a specific asset has occurred include the level of new issuances in the primary market, trading volume in the secondary market, level of credit spreads over historical levels, bid-ask spread, and price consensus among market participants and sources.

The second situation where the Company has classified securities in Level 3 is where specific inputs significant to the fair value estimation models are not market observable. This has occurred in two primary categories. The first is for broker quotes. The second is for ARS backed by student loans for which a key assumption, the anticipated date liquidity will return to this market, is not market observable.

Certain assets are not carried at fair value on a recurring basis, including investments such as mortgage loans, limited partnership interests, bank loans and policy loans. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to remeasurement at fair value after initial recognition and the resulting remeasurement is reflected in the condensed consolidated financial statements. In addition, equity options embedded in fixed income securities are not disclosed in the hierarchy with free-standing derivatives as the embedded derivatives are presented with the host contract in fixed income securities. As of March 31, 2010, 73.5% of total assets are measured at fair value and 0.5% of total liabilities are measured at fair value.

In determining fair value, the Company principally uses the market approach which generally utilizes market transaction data for the same or similar instruments. To a lesser extent, the Company uses the income approach which involves determining fair values from discounted cash flow methodologies. For the majority of Level 2 and Level 3 valuations, a combination of market and income approaches is used.

Summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis

Level 1 measurements

- Fixed income securities: Comprise U.S. Treasuries. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

- Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

- Short-term: Comprise actively traded money market funds that have daily quoted net asset values for identical assets that the Company can access.

- Separate account assets: Comprise actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access. Net asset values for the actively traded mutual funds in which the separate account assets are invested are obtained daily from the fund managers.

Level 2 measurements

- Fixed income securities:

U.S. government and agencies: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Municipal: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate, including privately placed: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. Also includes privately placed securities valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Foreign government: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

RMBS - U.S. government sponsored entities (U.S. Agency), Prime residential mortgage-backed securities (Prime) and Alt-A residential mortgage-backed securities (Alt-A); ABS - auto and student loans: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads.

Redeemable preferred stock: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

CMBS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, collateral performance and credit spreads.

- Equity securities: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

- Short-term: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. For certain short-term investments, amortized cost is used as the best estimate of fair value.

- Other investments: Free-standing exchange listed derivatives that are not actively traded are valued based on quoted prices for identical instruments in markets that are not active.

OTC derivatives, including interest rate swaps, foreign currency swaps, foreign exchange forward contracts, certain credit default swaps, and commodity swaps, are valued using models that rely on inputs such as interest rate yield curves, currency rates, counterparty credit spreads and commodity prices that are observable for substantially the full term of the contract. The valuation techniques underlying the models are widely accepted in the financial services industry and do not involve significant judgment.

- Contractholder funds: Derivatives embedded in certain annuity contracts are valued based on internal models that rely on inputs such as interest rate yield curves and equity index volatility assumptions that are market observable for substantially the full term of the contract. The valuation techniques are widely accepted in the financial services industry and do not include significant judgment.

Level 3 measurements

- Fixed income securities:

Municipal: Auction rate securities (ARS) primarily backed by student loans that have become illiquid due to failures in the auction market are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, including estimates of future coupon rates if auction failures continue, maturity assumptions and illiquidity premium. Also includes municipal bonds that are not rated by third party credit rating agencies but are generally rated by the NAIC, in addition to other high-yield municipal bonds. The primary inputs to the valuation of these municipal bonds include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields and credit spreads.

Corporate, including privately placed: Valued based on non-binding broker quotes. Also includes equity-indexed notes which are valued using a discounted cash flow model that is widely accepted in the financial services industry and uses significant non-market observable inputs, such as volatility. Other inputs include an interest rate curve, as well as published credit spreads for similar assets that incorporate the credit quality and industry sector of the issuer.

RMBS - Subprime residential mortgage-backed securities (Subprime) and Alt-A: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads. Also includes certain Subprime and Alt-A that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, Subprime and certain Alt-A are categorized as Level 3.

Foreign government: Valued based on non-binding broker quotes.

CMBS: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields, collateral performance and credit spreads. Also includes CMBS that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain CMBS are categorized as Level 3.

ABS - Collateralized debt obligations (CDO): Valued based on non-binding broker quotes received from brokers who are familiar with the investments. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, all CDO are categorized as Level 3.

ABS - student loans and other: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements, contractual cash flows, benchmark yields, prepayment speeds, collateral performance and credit spreads. Also includes ABS that are valued based on non-binding broker quotes. Due to the reduced availability of actual market prices or relevant observable inputs as a result of the decrease in liquidity that has been experienced in the market for these securities, certain ABS are categorized as Level 3.

- Other investments: Certain OTC derivatives, such as interest rate caps and floors, certain credit default swaps and OTC options (including swaptions), are valued using models that are widely accepted in the financial services industry. Non-market observable inputs such as volatility assumptions may be significant to the valuation of the instruments. Other primary inputs include interest rate yield curves and credit spreads.

- Contractholder funds: Derivatives embedded in certain annuity contracts are valued internally using models widely accepted in the financial services industry that determine a single best estimate of fair value for the embedded derivatives within a block of contractholder liabilities. The models use stochastically determined cash flows based on the contractual elements of embedded derivatives and other applicable market data. These are categorized as Level 3 as a result of the significance of non-market observable inputs.

Assets and liabilities measured at fair value on a non-recurring basis

Mortgage loans written-down to fair value in connection with recognizing other-than-temporary impairments are valued based on the fair value of the underlying collateral. Limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments are valued using net asset values and other sources.

The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of March 31, 2010:

($ in millions)	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Counterparty and cash collateral netting**	**Balance as of March 31, 2010**
Assets					
Fixed income securities:					
U.S. government and agencies	$ 4,550	$ 3,872	$ --		$ 8,422
Municipal	--	17,666	2,482		20,148
Corporate	--	32,322	2,177		34,499
Foreign government	--	3,314	--		3,314
RMBS	--	7,033	2,079		9,112
CMBS	--	1,322	1,130		2,452
ABS	--	894	2,403		3,297
Redeemable preferred stock	--	38	2		40
Total fixed income securities	4,550	66,461	10,273		81,284
Equity securities	3,568	167	72		3,807
Short-term investments	275	2,207	--		2,482
Other investments:					
Free-standing derivatives	--	653	58	$ (276)	435
Separate account assets	9,059	--	--		9,059
Other assets	--	--	2		2
Total recurring basis assets	17,452	69,488	10,405	(276)	97,069
Non-recurring basis (1)	--	--	197		197
Total assets at fair value	$ 17,452	$ 69,488	$ 10,602	$ (276)	$ 97,266
% of total assets at fair value	17.9 %	71.5 %	10.9 %	(0.3) %	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ --	$ (220)	$ 86		$ (134)
Other liabilities:					
Free-standing derivatives	(1)	(548)	(96)	$ 238	(407)
Total liabilities at fair value	$ (1)	$ (768)	$ (10)	$ 238	$ (541)
% of total liabilities at fair value	0.2 %	142.0 %	1.8 %	(44.0) %	100.0%

(1) Includes $147 million of mortgage loans and $50 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

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The following table summarizes the Company s assets and liabilities measured at fair value on a recurring and non-recurring basis as of December 31, 2009:

($ in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Counterparty and cash collateral netting	Balance as of December 31, 2009
Assets					
Fixed income securities:					
U.S. government and agencies	$ 4,415	$ 3,121	$ --		$ 7,536
Municipal	--	18,574	2,706		21,280
Corporate	--	30,874	2,241		33,115
Foreign government	--	3,177	20		3,197
RMBS	--	6,316	1,671		7,987
CMBS	--	1,182	1,404		2,586
ABS	--	1,025	2,001		3,026
Redeemable preferred stock	--	37	2		39
Total fixed income securities	4,415	64,306	10,045		78,766
Equity securities	4,821	134	69		5,024
Short-term investments	278	2,778	--		3,056
Other investments:					
Free-standing derivatives	--	882	146	$ (482)	546
Separate account assets	9,072	--	--		9,072
Other assets	--	--	2		2
Total recurring basis assets	18,586	68,100	10,262	(482)	96,466
Non-recurring basis (1)	--	--	235		235
Total assets at fair value	$ 18,586	$ 68,100	$ 10,497	$ (482)	$ 96,701
% of total assets at fair value	19.2%	70.4%	10.9%	(0.5)%	100.0%
Liabilities					
Contractholder funds:					
Derivatives embedded in annuity contracts	$ --	$ (217)	$ (110)		$ (327)
Other liabilities:					
Free-standing derivatives	(2)	(596)	(91)	$ 276	(413)
Total liabilities at fair value	$ (2)	$ (813)	$ (201)	$ 276	$ (740)
% of total liabilities at fair value	0.3%	109.9%	27.1%	(37.3)%	100.0%

(1) Includes $211 million of mortgage loans and $24 million of limited partnership interests written-down to fair value in connection with recognizing other-than-temporary impairments.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three-month period ended March 31, 2010.

($ in millions)	**Balance as of December 31, 2009**	**Total realized and unrealized gains (losses) included in: Net income** (1)	**OCI on Statement of Financial Position**	**Purchases, sales, issuances and settlements, net**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance as of March 31, 2010**
Assets							
Fixed income securities:							
Municipal	$ 2,706	$ (16)	$ 37	$ (216)	$ --	$ (29)	$ 2,482
Corporate	2,241	(27)	75	(11)	12	(113)	2,177
Foreign government	20	--	--	(20)	--	--	--
RMBS	1,671	(58)	163	303	--	--	2,079
CMBS	1,404	(34)	108	(163)	24	(209)	1,130
ABS	2,001	15	93	331	--	(37)	2,403
Redeemable preferred stock	2	--	--	--	--	--	2
Total fixed income securities	10,045	(120)	476	224	36	(388)	10,273
Equity securities	69	--	3	4	--	(4)	72
Other investments:							
Free-standing derivatives, net	55	(133)	--	40	--	--	(38)(2)
Other assets	2	--	--	--	--	--	2
Total recurring Level 3 assets	$ 10,171	$ (253)	$ 479	$ 268	$ 36	$ (392)	$ 10,309
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (110)	$ 194	$ --	$ 2	$ --	$ --	$ 86
Total recurring Level 3 liabilities	$ (110)	$ 194	$ --	$ 2	$ --	$ --	$ 86

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(1) The effect to net income totals $(59) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(286) million in realized capital gains and losses, $32 million in net investment income, $(1) million in interest credited to contractholder funds and $(194) million in life and annuity contract benefits.

(2) Comprises $58 million of assets and $(96) million of liabilities.

Transfers between level categorizations may occur due to changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. Transfers between level categorizations may also occur due to changes in the valuation source. For example, in situations where a fair value quote is not provided by the Company s independent third-party valuation service provider and as a result the price is stale or has been replaced with a broker quote, the security is transferred into Level 3. Transfers in and out of level categorizations are reported as having occurred at the beginning of the quarter in which the transfer occurred. Therefore, for all transfers into Level 3, all realized and changes in unrealized gains and losses in the quarter of transfer are reflected in the Level 3 rollforward table.

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2010.

During the three months ended March 31, 2010, certain CMBS were transferred into Level 2 from Level 3 as a result of increased liquidity in the market and the availability of market observable quoted prices for similar assets. When transferring these securities into Level 2, the Company does not change the source of fair value estimates or modify the estimates received from independent third-party valuation service providers or the internal valuation approach. Accordingly, for securities included within this group, there was no change in fair value resulting in a realized or unrealized gain or loss.

Transfers into Level 3 during the three months ended March 31, 2010 included situations where a fair value quote is not provided by the Company s independent third-party valuation service provider and as a result the price is stale or has been replaced with a broker quote resulting in the security being classified as Level 3. Transfers out of Level 3 during the three-months ended March 31, 2010 also included situations where a broker quote was used in the prior period and a fair value quote is now available from the Company s independent third-party valuation service provider. A quote utilizing the new pricing source is not available as of the prior period, and any gains or losses related to the change in valuation source for individual securities are not significant.

The following table provides the total gains and (losses) included in net income for Level 3 assets and liabilities still held at March 31, 2010.

($ in millions)		
Assets		
Fixed income securities:		
Municipal	$	(13)
Corporate		(28)
Foreign government		--
RMBS		(58)
CMBS		(23)
ABS		1
Redeemable preferred stock		--
Total fixed income securities		(121)
Equity securities		--
Other investments:		
Free-standing derivatives, net		(85)
Other assets		--
Total recurring Level 3 assets	$	(206)
Liabilities		
Contractholder funds:		
Derivatives embedded in annuity contracts	$	194
Total recurring Level 3 liabilities	$	194

The amounts in the table above represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(12) million and are reported in the Condensed Consolidated Statements of Operations as follows: $(237) million in realized capital gains and losses, $31 million in net investment income, and $(194) million in life and annuity contract benefits.

The following table presents the rollforward of Level 3 assets and liabilities held at fair value on a recurring basis during the three-month period ended March 31, 2009.

($ in millions)	Balance as of December 31, 2008	Total realized and unrealized gains (losses) included in: Net income (1)	OCI on Statement of Financial Position	Purchases, sales, issuances and settlements, net	Net transfers in and/or (out) of Level 3	Balance as of March 31, 2009	Total gains (losses) included in net income for assets and liabilities still held at March 31, 2009 (3)
Assets							
Fixed income securities:							
Municipal	$ 2,463	$ 1	$ (34)	$ 9	$ (44)	$ 2,395	$ 1
Corporate	10,195	(50)	52	(326)	(53)	9,818	(49)
RMBS	2,988	(4)	(324)	(143)	(11)	2,506	(12)
CMBS	457	(34)	(81)	(5)	438	775	(17)
ABS	1,714	(140)	18	(136)	(77)	1,379	(140)
Redeemable preferred stock	2	--	--	--	--	2	--
Total fixed income securities	17,819	(227)	(369)	(601)	253	16,875	(217)
Equity securities	74	--	(4)	3	--	73	--
Other investments:							
Free-standing derivatives, net	(101)	6	--	(8)	--	(103) (2)	8
Other assets	1	2	--	--	--	3	2
Total recurring Level 3 assets	$ 17,793	$ (219)	$ (373)	$ (606)	$ 253	$ 16,848	$ (207)
Liabilities							
Contractholder funds:							
Derivatives embedded in annuity contracts	$ (265)	$ (25)	$ --	$ (1)	$ --	$ (291)	$ (25)
Total recurring Level 3 liabilities	$ (265)	$ (25)	$ --	$ (1)	$ --	$ (291)	$ (25)

(1) The effect to net income totals $(244) million and is reported in the Condensed Consolidated Statements of Operations as follows: $(268) million in realized capital gains and losses, $50 million in net investment income, $1 million in interest credited to contractholder funds, and $25 million in life and annuity contract benefits.

(2) Comprises $69 million of assets and $(172) million of liabilities.

(3) The amounts represent gains and losses included in net income for the period of time that the asset or liability was determined to be in Level 3. These gains and losses total $(232) million and are reported in the Condensed Consolidated Statements of Operations as follows: $(257) million in realized capital gains and losses, $50 million in net investment income, and $25 million in life and annuity contract benefits.

Presented below are the carrying values and fair value estimates of financial instruments not carried at fair value.

Financial assets

($ in millions)	March 31, 2010 Carrying value	Fair value	December 31, 2009 Carrying value	Fair value
Mortgage loans	$ 7,639	$ 6,355	$ 7,935	$ 6,336

Limited partnership interests - cost basis	1,112	1,139	1,103	1,098
Bank loans	406	392	420	391

The fair value of mortgage loans is based on discounted contractual cash flows or, if the loans are impaired due to credit reasons, the fair value of collateral less costs to sell. Risk adjusted discount rates are selected using current rates at which similar loans would be made to borrowers with similar characteristics, using similar types of properties as collateral. The fair value of limited partnership interests accounted for on the cost basis is determined using reported net asset values of the underlying funds. The fair value of bank loans, which are reported in other investments on the Condensed Consolidated Statements of Financial Position, are valued based on broker quotes from brokers familiar with the loans and current market conditions.

Financial liabilities

($ in millions)	March 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
Contractholder funds on investment contracts	$ 39,290	$ 38,179	$ 40,943	$ 39,328
Long-term debt	5,910	6,108	5,910	6,016
Liability for collateral	481	481	658	658

The fair value of contractholder funds on investment contracts is based on the terms of the underlying contracts utilizing prevailing market rates for similar contracts adjusted for credit risk. Deferred annuities included in contractholder funds are valued using discounted cash flow models which incorporate market value margins, which are based on the cost of holding economic capital, and the Company s own credit risk. Immediate annuities without life contingencies and fixed rate funding agreements are valued at the present value of future benefits using market implied interest rates which include the Company s own credit risk.

The fair value of long-term debt is based on market observable data (such as the fair value of the debt when traded as an asset) or, in certain cases, is determined using discounted cash flow calculations based on current interest rates for instruments with comparable terms and considers the Company s own credit risk. The liability for collateral is valued at carrying value due to its short-term nature.

6. Derivative Financial Instruments

The Company primarily uses derivatives for risk management and asset replication. In addition, the Company has derivatives embedded in non-derivative host contracts, which are required to be separated from the host contracts and accounted for at fair value as derivative instruments. With the exception of non-hedge derivatives used for asset replication and non-hedge embedded derivatives, all of the Company s derivatives are evaluated for their ongoing effectiveness as either accounting hedge or non-hedge derivative financial instruments on at least a quarterly basis. The Company does not use derivatives for trading purposes. Non-hedge accounting is generally used for portfolio level hedging strategies where the terms of the individual hedged items do not meet the strict homogeneity requirements to permit the application of hedge accounting.

The Company primarily uses derivatives to partially mitigate potential adverse impacts from changes in risk-free interest rates, negative equity market valuations and increases in credit spreads. Property-Liability uses interest rate swaption contracts and exchange traded options on Treasury futures to offset potential declining fixed income market values resulting from potential rising interest rates. Property-Liability also uses interest rate swaps to mitigate municipal bond interest rate risk within the municipal bond portfolio. Exchange traded equity put options are utilized by Property-Liability for overall equity portfolio protection from significant declines in equity market values below a targeted level. Equity index futures are used by Property-Liability to offset valuation losses in the equity portfolio during periods of declining equity market values. Credit default swaps are typically used to mitigate the credit risk within the Property-Liability fixed income portfolio.

Portfolio duration management is a risk management strategy that is principally employed by Property-Liability wherein, depending on the current portfolio duration relative to a designated target and the expectations of future interest rate movements, the Company uses financial futures and interest rate swaps to change the duration of the portfolio in order to mitigate the economic effect that interest rates would otherwise have on the fair value of its fixed income securities.

Property-Liability uses futures to hedge the market risk related to deferred compensation liability contracts and forward contracts to hedge foreign currency risk.

Allstate Financial uses foreign currency swaps primarily to reduce the foreign currency risk associated with issuing foreign currency denominated funding agreements and holding foreign currency denominated investments. Credit default swaps are also typically used to mitigate the credit risk within the Allstate Financial fixed income portfolio.

Asset-liability management is a risk management strategy that is principally employed by Allstate Financial to balance the respective interest-rate sensitivities of its assets and liabilities. Depending upon the attributes of the assets acquired and liabilities issued, derivative instruments such as interest rate swaps, caps, floors and futures are acquired to change the interest rate characteristics of existing assets and liabilities to ensure the relationship is maintained within specified ranges and to reduce exposure to rising or falling interest rates. Allstate Financial uses financial futures and interest rate swaps to hedge anticipated asset purchases and liability issuances and financial futures and options for hedging the Company s equity exposure contained in equity indexed annuity product contracts that offer equity returns to contractholders. In addition, Allstate Financial uses interest rate swaps to hedge interest rate risk inherent in funding agreements.

When derivatives meet specific criteria, they may be designated as accounting hedges and accounted for as fair value, cash flow, foreign currency fair value or foreign currency cash flow hedges. Allstate Financial designates certain of its interest rate and foreign currency swap contracts and certain investment risk transfer reinsurance agreements as fair value hedges when the hedging instrument is highly effective in offsetting the risk of changes in the fair value of the hedged item. Allstate Financial designates certain of its foreign currency swap contracts as cash flow hedges when the hedging instrument is highly effective in offsetting the exposure of variations in cash flows for the hedged risk that could affect net income. Amounts are reclassified to net investment income or realized capital gains and losses as the hedged item affects net income.

Asset replication refers to the synthetic creation of assets through the use of derivatives and primarily investment grade host bonds to replicate securities that are either unavailable in the cash markets or more economical to acquire in synthetic form. The Company replicates fixed income securities using a combination of a credit default swap and one or more highly rated fixed income securities to synthetically replicate the economic characteristics of one or more cash market securities. The Company also creates synthetic exposure to equity markets through the use of exchange traded equity index future contracts and an investment grade host bond.

The Company s primary embedded derivatives are conversion options in fixed income securities, which provide the Company with the right to convert the instrument into a predetermined number of shares of common stock; equity options in Allstate Financial annuity product contracts, which provide equity returns to contractholders; and equity-indexed notes containing equity call options, which provide a coupon payout that is determined using one or more equity-based indices.

The notional amounts specified in the contracts are used to calculate the exchange of contractual payments under the agreements and are generally not representative of the potential for gain or loss on these agreements. However, the notional amounts specified in selling protection credit default swaps represent the maximum amount of potential loss, assuming no recoveries.

Fair value, which is equal to the carrying value, is the estimated amount that the Company would receive (pay) to terminate the derivative contracts at the reporting date. The carrying value amounts for OTC derivatives have been further adjusted for the effects, if any, of legally enforceable master netting agreements and are presented on a net basis in the Condensed Consolidated Statements of Financial Position. For certain exchange traded derivatives, the exchange requires margin deposits as well as daily cash settlements of margin accounts. As of March 31, 2010, the Company pledged $19 million of securities and cash in the form of margin deposits.

The net impact to pre-tax income for derivatives includes valuation and settlements of derivatives. For those derivatives which qualify for fair value hedge accounting, net income includes the changes in the fair value of the hedged risk, and therefore reflects any hedging ineffectiveness. For cash flow hedges, gains and losses amortized from accumulated other comprehensive income are reported in net income. For embedded derivatives in convertible fixed income securities and equity-indexed notes, net income includes the change in fair value of the embedded derivative and accretion income related to the host instrument. For non-hedge derivatives, net income includes changes in fair value and accrued periodic settlements.

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Condensed Consolidated Statements of Financial Position at March 31, 2010.

($ in millions, except number of contracts)		**Asset derivatives**				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$63	n/a	$(6)	$ --	$ (6)
Foreign currency swap agreements	Other investments	41	n/a	3	3	--
Foreign currency and interest rate swap agreements	Other investments	288	n/a	28	28	--
Total		$ 392	n/a	$ 25	$ 31	$ (6)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 1,457	n/a	$ 36	$ 45	$ (9)
Interest rate swaption agreements	Other investments	4,000	n/a	12	12	--
Interest rate cap and floor agreements	Other investments	251	n/a	5	5	--
Financial futures contracts and options	Other investments	n/a	15,000	5	5	--
Equity and index contracts						
Options, financial futures and warrants (2)	Other investments	55	38,250	379	379	--
Options, financial futures and warrants	Other assets	n/a	347	--	--	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	54	n/a	5	5	--
Foreign currency forwards and options	Other investments	182	n/a	6	7	(1)
Embedded derivative financial instruments						
Conversion options in fixed income securities	Fixed income securities	903	n/a	298	303	(5)
Equity-indexed call options in fixed income securities	Fixed income securities	475	n/a	85	85	--
Other embedded derivative financial instruments	Other investments	1,000	n/a	2	2	--
Credit default contracts						
Credit Default Swaps -- Buying Protection	Other investments	214	n/a	(4)	1	(5)
Credit Default Swaps -- Selling Protection	Other investments	294	n/a	(33)	--	(33)
Other contracts						
Other contracts	Other investments	46	n/a	--	--	--
Other contracts	Other assets	6	n/a	2	2	--
Total		$ 8,937	53,597	$ 798	$ 851	$ (53)
Total derivative assets		$ 9,329	53,597	$ 823	$ 882	$ (59)

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts which is the basis on which they are traded. (n/a = not applicable)

(2) In addition to the number of contracts presented in the table, the Company held 1,352,432 stock warrants. Stock warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

($ in millions, except number of contracts)		**Liability derivatives**				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 4,019	n/a	$ (214)	$ --	$ (214)
Foreign currency swap agreements	Other liabilities & accrued expenses	161	n/a	(17)	1	(18)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	267	n/a	82	82	--
Foreign currency and interest rate swap agreements	Contractholder funds	--	n/a	13	13	--
Total		$ 4,447	n/a	$ (136)	$ 96	$ (232)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 7,252	n/a	$ (7)	$ 67	$ (74)
Interest rate swaption agreements	Other liabilities & accrued expenses	7,000	n/a	33	33	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,502	n/a	(29)	1	(30)
Financial futures contracts and options	Other liabilities & accrued expenses	n/a	727	--	--	--
Equity and index contracts						
Options, financial futures and warrants	Other liabilities & accrued expenses	60	20,747	(180)	3	(183)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	49	n/a	3	3	--
Foreign currency forwards and options	Other liabilities & accrued expenses	193	n/a	--	4	(4)
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,125	n/a	(56)	--	(56)
Guaranteed withdrawal benefits	Contractholder funds	808	n/a	(32)	--	(32)
Equity-indexed options in life and annuity product contracts	Contractholder funds	4,282	n/a	(220)	--	(220)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(2)	--	(2)
Credit default contracts						
Credit Default Swaps -- Buying Protection	Other liabilities & accrued expenses	758	n/a	(15)	6	(21)
Credit Default Swaps -- Selling Protection	Other liabilities & accrued expenses	672	n/a	(39)	8	(47)
Total		$ 25,786	21,474	$ (544)	$ 125	$ (669)
Total derivative liabilities		$ 30,233	21,474	$ (680)	$ 221	$ (901)
Total derivatives		$ 39,562	75,071	$ 143		

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts which is the basis on which they are traded. (n/a = not applicable)

The following table provides a summary of the volume and fair value positions of derivative instruments as well as their reporting location in the Consolidated Statements of Financial Position at December 31, 2009.

($ in millions, except number of contracts)		Asset derivatives				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other investments	$45	n/a	$(3)	$ --	$ (3)
Foreign currency swap agreements	Other investments	23	n/a	(2)	--	(2)
Total		$ 68	n/a	$ (5)	$ --	$ (5)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other investments	$ 1,206	n/a	$ 49	$ 62	$ (13)
Interest rate swaption agreements	Other investments	8,500	n/a	95	95	--
Interest rate cap and floor agreements	Other investments	52	n/a	2	2	--
Financial futures contracts and options	Other investments	n/a	30,000	12	12	--
Financial futures contracts and options	Other assets	n/a	404	--	--	--
Equity and index contracts						
Options, financial futures and warrants (2)	Other investments	62	43,850	435	435	--
Options, financial futures and warrants	Other assets	n/a	102	--	--	--
Foreign currency contracts						
Foreign currency swap agreements	Other investments	53	n/a	1	1	--
Foreign currency forwards and options	Other investments	476	n/a	5	8	(3)
Embedded derivative financial instruments						
Conversion options in fixed income securities	Fixed income securities	936	n/a	312	316	(4)
Equity-indexed call options in fixed income securities	Fixed income securities	475	n/a	89	89	--
Other embedded derivative financial instruments	Other investments	1,000	n/a	2	2	--
Credit default contracts						
Credit Default Swaps -- Buying Protection	Other investments	329	n/a	(6)	2	(8)
Credit Default Swaps -- Selling Protection	Other investments	93	n/a	(8)	2	(10)
Other contracts						
Other contracts	Other investments	75	n/a	--	--	--
Other contracts	Other assets	6	n/a	2	2	--
Total		$ 13,263	74,356	$ 990	$ 1,028	$ (38)
Total derivative assets		$ 13,331	74,356	$ 985	$ 1,028	$ (43)

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts which is the basis on which they are traded. (n/a = not applicable)

(2) In addition to the number of contracts presented in the table, the Company held 101,255 stock rights and 1,352,432 stock warrants. Stock rights and stock warrants can be converted to cash upon sale of those instruments or exercised for shares of common stock.

($ in millions, except number of contracts)		Liability derivatives				
		Volume (1)				
	Balance sheet location	Notional amount	Number of contracts	Fair value, net	Gross asset	Gross liability
Derivatives designated as accounting hedging instruments						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 2,443	n/a	$ (230)	$ --	$ (230)
Foreign currency swap agreements	Other liabilities & accrued expenses	179	n/a	(18)	3	(21)
Foreign currency and interest rate swap agreements	Other liabilities & accrued expenses	870	n/a	231	231	--
Foreign currency and interest rate swap agreements	Contractholder funds	--	n/a	44	44	--
Total		$ 3,492	n/a	$ 27	$ 278	$ (251)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts						
Interest rate swap agreements	Other liabilities & accrued expenses	$ 6,187	n/a	$ 28	$ 68	$ (40)
Interest rate swaption agreements	Other liabilities & accrued expenses	2,000	n/a	34	34	--
Interest rate cap and floor agreements	Other liabilities & accrued expenses	3,896	n/a	(16)	9	(25)
Equity and index contracts						
Options, financial futures and warrants	Other liabilities & accrued expenses	45	21,098	(214)	3	(217)
Foreign currency contracts						
Foreign currency swap agreements	Other liabilities & accrued expenses	54	n/a	3	3	--
Foreign currency forwards and options	Other liabilities & accrued expenses	185	n/a	2	2	--
Embedded derivative financial instruments						
Guaranteed accumulation benefits	Contractholder funds	1,113	n/a	(66)	--	(66)
Guaranteed withdrawal benefits	Contractholder funds	810	n/a	(41)	--	(41)
Equity-indexed options in life and annuity product contracts	Contractholder funds	4,321	n/a	(217)	--	(217)
Other embedded derivative financial instruments	Contractholder funds	85	n/a	(3)	--	(3)
Credit default contracts						
Credit Default Swaps -- Buying Protection	Other liabilities & accrued expenses	839	n/a	(40)	5	(45)
Credit Default Swaps -- Selling Protection	Other liabilities & accrued expenses	1,195	n/a	(65)	7	(72)
Total		$ 20,730	21,098	$ (595)	$ 131	$ (726)
Total derivative liabilities		$ 24,222	21,098	$ (568)	$ 409	$ (977)
Total derivatives		$ 37,553	95,454	$ 417		

(1) Volume for OTC derivative contracts is represented by their notional amounts. Volume for exchange traded derivatives is represented by the number of contracts which is the basis on which they are traded. (n/a = not applicable)

The following table provides a summary of the impacts of the Company s foreign currency contracts in cash flow hedging relationships in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Financial Position for the three-month periods ended March 31. Amortization of net gains from accumulated other comprehensive income related to cash flow hedges is expected to be less than $1 million during the next twelve months.

($ in millions)				
Effective portion		**2010**		**2009**
Gain recognized in OCI on derivatives during the period	$	6	$	4
(Loss) gain recognized in OCI on derivatives during the term of the hedging relationship	$	(18)	$	20
Gain reclassified from AOCI into income (net investment income)	$	1	$	1
Gain reclassified from AOCI into income (realized capital gains and losses)	$	--	$	--
Ineffective portion and amount excluded from effectiveness testing				
Gain recognized in income on derivatives (realized capital gains and losses)	$	--	$	--

The following table presents gains and losses from valuation, settlements and hedge ineffectiveness reported on derivatives used in fair value hedging relationships and derivatives not designated as accounting hedging instruments in the Condensed Consolidated Statements of Operations.

($ in millions)	Three months ended March 31, 2010					
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ (41)	$ --	$ --	$ (1)	$ --	$ (42)
Foreign currency and interest rate contracts	--	--	--	(24)	--	(24)
Subtotal	(41)	--	--	(25)	--	(66)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	(156)	--	--	--	(156)
Equity and index contracts	--	(39)	--	34	6	1
Embedded derivative financial instruments	--	(13)	20	(2)	--	5
Foreign currency contracts	--	17	--	--	(5)	12
Credit default contracts	--	6	--	--	--	6
Subtotal	--	(185)	20	32	1	(132)
Total	$ (41)	$ (185)	$ 20	$ 7	$ 1	$ (198)

	Three months ended March 31, 2009					
	Net investment income	Realized capital gains and losses	Life and annuity contract benefits	Interest credited to contractholder funds	Operating costs and expenses	Total gain (loss) recognized in net income on derivatives
Derivatives in fair value accounting hedging relationships						
Interest rate contracts	$ 7	$ 4	$ --	$ (12)	$ --	$ (1)
Foreign currency and interest rate contracts	--	(1)	--	(30)	--	(31)
Subtotal	7	3	--	(42)	--	(32)
Derivatives not designated as accounting hedging instruments						
Interest rate contracts	--	39	--	--	--	39
Equity and index contracts	--	47	--	(23)	(13)	11
Embedded derivative financial instruments	--	(23)	(23)	(14)	--	(60)
Foreign currency contracts	--	1	--	--	--	1
Credit default contracts	--	28	--	--	--	28
Subtotal	--	92	(23)	(37)	(13)	19
Total	$ 7	$ 95	$ (23)	$ (79)	$ (13)	$ (13)

The following table provides a summary of the changes in fair value of the Company s fair value hedging relationships in the Condensed Consolidated Statements of Operations.

($ in millions)	Three months ended March 31, 2010			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
Location of gain or (loss) recognized in net income on derivatives	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Interest credited to contractholder funds	$ (1)	$ (33)	$ 34	$ --
Net investment income	(13)	--	--	13
Realized capital gains and losses	--	--	--	--
Total	$ (14)	$ (33)	$ 34	$ 13

	Three months ended March 31, 2009			
	Gain (loss) on derivatives		Gain (loss) on hedged risk	
Location of gain or (loss) recognized in net income on derivatives	Interest rate contracts	Foreign currency & interest rate contracts	Contractholder funds	Investments
Interest credited to contractholder funds	$ (26)	$ (35)	$ 61	$ --
Net investment income	40	--	--	(40)
Realized capital gains and losses	4	(1)	--	--
Total	$ 18	$ (36)	$ 61	$ (40)

The Company manages its exposure to credit risk by utilizing highly rated counterparties, establishing risk control limits, executing legally enforceable master netting agreements (MNAs) and obtaining collateral where appropriate. The Company uses MNAs for OTC derivative transactions, including interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap, forward and certain option agreements (including swaptions). These agreements permit either party to net payments due for transactions covered by the agreements. Under the provisions of the agreements, collateral is either pledged or obtained when certain predetermined exposure limits are exceeded. As of March 31, 2010, counterparties pledged $38 million in cash and $5 million in securities to the Company, and the Company pledged $4 million in cash and $192 million in securities to counterparties which includes $140 million of collateral posted under MNAs for contracts containing credit-risk-contingent provisions that are in a liability position and $56 million of collateral posted under MNAs for contracts without credit-risk-contingent liabilities. The Company has not incurred any losses on derivative financial instruments due to counterparty nonperformance. Other derivatives including futures and certain option contracts are traded on organized exchanges, which require margin deposits and guarantee the execution of trades, thereby mitigating any potential credit risk associated with transactions executed on organized exchanges.

Counterparty credit exposure represents the Company s potential loss if all of the counterparties concurrently fail to perform under the contractual terms of the contracts and all collateral, if any, becomes worthless. This exposure is measured by the fair value of OTC derivative contracts with a positive fair value at the reporting date reduced by the effect, if any, of legally enforceable master netting agreements.

The following table summarizes the counterparty credit exposure by counterparty credit rating as it relates to interest rate swap, foreign currency swap, interest rate cap, interest rate floor, credit default swap, forward and certain option agreements (including swaptions).

($ in millions)	March 31, 2010	December 31, 2009
Rating (1)		

	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)	Number of counter-parties	Notional amount (2)	Credit exposure (2)	Exposure, net of collateral (2)
AA-	3	$ 5,725	$ 33	$ 16	2	$ 3,269	$ 26	$ 1
A+	2	6,482	23	3	5	12,359	204	57
A	3	4,192	14	11	3	2,551	62	30
A-	1	115	25	25	1	145	23	23
Total	9	$ 16,514	$ 95	$ 55	11	$ 18,324	$ 315	$ 111

(1) Rating is the lower of S&P or Moody s ratings.

(2) Only OTC derivatives with a net positive fair value are included for each counterparty.

Market risk is the risk that the Company will incur losses due to adverse changes in market rates and prices. Market risk exists for all of the derivative financial instruments the Company currently holds, as these instruments may become less valuable due to adverse changes in market conditions. To limit this risk, the Company s senior management has established risk control limits. In addition, changes in fair value of the derivative financial instruments that the Company uses for risk management purposes are generally offset by the change in the fair value or cash flows of the hedged risk component of the related assets, liabilities or forecasted transactions.

Certain of the Company s derivative instruments contain credit-risk-contingent termination events, cross-default provisions and credit support annex agreements. Credit-risk-contingent termination events allow the counterparties to terminate the derivative on certain dates if AIC s, ALIC s or Allstate Life Insurance Company of New York s (ALNY) financial strength credit ratings by Moody s or S&P fall below a certain level or in the event AIC, ALIC or ALNY are no longer rated by both Moody s and S&P. Credit-risk-contingent cross-default provisions allow the counterparties to terminate the derivative instruments if the Company defaults by pre-determined threshold amounts on certain debt instruments. Credit-risk-contingent credit support annex agreements specify the amount of collateral the Company must post to counterparties based on AIC s, ALIC s or ALNY s financial strength credit ratings by Moody s or S&P, or in the event AIC, ALIC or ALNY are no longer rated by both Moody s and S&P.

The following summarizes the fair value of derivative instruments with termination, cross-default or collateral credit-risk-contingent features that are in a liability position, as well as the fair value of assets and collateral that are netted against the liability in accordance with provisions within legally enforceable MNAs.

($ in millions)	March 31, 2010	December 31, 2009
Gross liability fair value of contracts containing credit-risk-contingent features	$ 411	$ 429
Gross asset fair value of contracts containing credit-risk-contingent features and subject to MNAs	(231)	(265)
Collateral posted under MNAs for contracts containing credit-risk-contingent features	(140)	(122)
Maximum amount of additional exposure for contracts with credit-risk-contingent features if all features were triggered concurrently	$ 40	$ 42

Credit derivatives - selling protection

Credit default swaps (CDS) are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the reference entity or a portfolio of reference entities), for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of March 31, 2010:

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
Single name						
Investment grade corporate debt	$ 55	$ 134	$ 121	$ 30	$ 340	$ (9)
High yield debt	--	--	--	16	16	(1)
Municipal	165	--	--	--	165	(9)
Subtotal	220	134	121	46	521	(19)
Baskets						
Tranche						
Investment grade corporate debt	--	--	--	65	65	(28)
First-to-default						
Investment grade corporate debt	--	15	15	--	30	--
Municipal	--	100	--	--	100	(28)
Subtotal	--	115	15	65	195	(56)
Index						
Investment grade corporate debt	6	66	170	8	250	3
Total	$ 226	$ 315	$ 306	$ 119	$ 966	$ (72)

The following table shows the CDS notional amounts by credit rating and fair value of protection sold as of December 31, 2009:

($ in millions)	Notional amount					
	AA	A	BBB	BB and lower	Total	Fair value
Single name						
Investment grade corporate debt	$ 63	$ 86	$ 84	$ 30	$ 263	$ (12)
High yield debt	--	--	--	10	10	--
Municipal	135	--	--	--	135	(10)
Subtotal	198	86	84	40	408	(22)
Baskets						
Tranche						
Investment grade corporate debt	--	--	--	65	65	(27)
First-to-default						
Investment grade corporate debt	--	45	15	--	60	--
Municipal	20	135	--	--	155	(28)
Subtotal	20	180	15	65	280	(55)
Index						
Investment grade corporate debt	14	159	408	19	600	4
Total	$ 232	$ 425	$ 507	$ 124	$ 1,288	$ (73)

In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default (FTD) structure or a specific tranche of a basket, or credit derivative index (CDX) that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the referenced entity s public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With a FTD basket or a tranche of a basket, because of the additional credit risk inherent in a basket of named credits, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX index is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference credit. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at time of settlement. When a credit event occurs in a tranche of a basket, there is no immediate impact to the Company until cumulative losses in the basket exceed the contractual subordination. To date, realized losses have not exceeded the subordination. For CDX index, the reference entity s name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

The Company monitors risk associated with credit derivatives through individual name credit limits at both a credit derivative and a combined cash instrument/credit derivative level. The ratings of individual names for which protection has been sold are also monitored.

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

The Company establishes reserves for claims and claims expense (loss) on reported and unreported claims of insured losses. The Company s reserving process takes into account known facts and interpretations of circumstances and factors including the Company s experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, law changes, court decisions, changes to regulatory requirements and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

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

Management believes that the reserve for property-liability insurance claims and claims expense, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the Condensed Consolidated Statements of Financial Position based on available facts, technology, laws and regulations.

8. Reinsurance

Property-liability insurance premiums earned and life and annuity premiums and contract charges have been reduced by the reinsurance premium ceded amounts shown in the following table:

($ in millions)	Three months ended March 31, 2010	2009
Property-liability insurance premiums earned	$ 268	$ 265
Life and annuity premiums and contract charges	191	204

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Property-liability insurance claims and claims expense and life and annuity contract benefits and interest credited to contractholder funds have been reduced by the reinsurance recovery amounts shown in the following table.

($ in millions)	**Three months ended March 31, 2010**	**2009**
Property-liability insurance claims and claims expense	$ 80	$ 111
Life and annuity contract benefits	130	461
Interest credited to contractholder funds	7	6

9. Company Restructuring

The Company undertakes various programs to reduce expenses. These programs generally involve a reduction in staffing levels, and in certain cases, office closures. Restructuring and related charges include employee termination and relocation benefits, and post-exit rent expenses in connection with these programs, and non-cash charges resulting from pension benefit payments made to agents in connection with the 1999 reorganization of Allstate s multiple agency programs to a single exclusive agency program. In the first quarter of 2010, restructuring programs primarily relate to Allstate Protection s claim office consolidations and realignment of litigation services. The expenses related to these activities are included in the Condensed Consolidated Statements of Operations as restructuring and related charges, and totaled $11 million and $45 million during the three-month period ended March 31, 2010 and 2009, respectively.

The following table presents changes in the restructuring liability during the three-month period ended March 31, 2010.

($ in millions)	**Employee costs**	**Exit costs**	**Total liability**
Balance at December 31, 2009	$ 45	$ 6	$ 51
Expense incurred	8	--	8
Adjustments to liability	(5)	--	(5)
Payments applied against liability	(3)	(1)	(4)
Balance at March 31, 2010	$ 45	$ 5	$ 50

The payments applied against the liability for employee costs primarily reflect severance costs, and the payments for exit costs generally consist of post-exit rent expenses and contract termination penalties. As of March 31, 2010, the cumulative amount incurred to date for active programs totaled $161 million for employee costs and $45 million for exit costs.

10. Guarantees and Contingent Liabilities

State facility assessments

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

Shared markets

As a condition of maintaining its licenses to write personal property and casualty insurance in various states, the Company is required to participate in assigned risk plans, reinsurance facilities and joint underwriting associations that provide various types of insurance coverage to individuals or entities that otherwise are unable to purchase such coverage from private insurers. Underwriting results related to these arrangements, which tend to be adverse, have been immaterial to the Company s results of operations.

Guarantees

The Company owns certain fixed income securities that obligate the Company to exchange credit risk or to forfeit principal due, depending on the nature or occurrence of specified credit events for the referenced entities. In the event all such specified credit events were to occur, the Company s maximum amount at risk on these fixed income securities, as measured by the amount of the aggregate initial investment, was $160 million at March 31,

2010. The obligations associated with these fixed income securities expire at various dates during the next five years.

Related to the disposal through reinsurance of substantially all of Allstate Financial s variable annuity business to The Prudential Insurance Company of America, a subsidiary of Prudential Financial, Inc. (collectively Prudential) in 2006, the Company and its consolidated subsidiaries, ALIC and ALNY, have agreed to indemnify Prudential for certain pre-closing contingent liabilities (including extra-contractual liabilities of ALIC and ALNY and liabilities specifically excluded from the transaction) that ALIC and ALNY have agreed to retain. In addition, the Company, ALIC and ALNY will each indemnify Prudential for certain post-closing liabilities that may arise from the acts of ALIC, ALNY and their agents, including in connection with ALIC s and ALNY s provision of transition services. The reinsurance agreements contain no limitations or indemnifications with regard to insurance risk transfer, and transferred all of the future risks and responsibilities for performance on the underlying variable annuity contracts to Prudential, including those related to benefit guarantees. Management does not believe this agreement will have a material adverse effect on results of operations, cash flows or financial position of the Company.

The Company provides residual value guarantees on Company leased automobiles. If all outstanding leases were terminated effective March 31, 2010, the Company s maximum obligation pursuant to these guarantees, assuming the automobiles have no residual value, would be $11 million at March 31, 2010. The remaining term of each residual value guarantee is equal to the term of the underlying lease that ranges from less than one year to three years. Historically, the Company has not made any material payments pursuant to these guarantees.

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

The aggregate liability balance related to all guarantees was not material as of March 31, 2010.

Regulation and Compliance

The Company is subject to changing social, economic and regulatory conditions. From time to time, regulatory authorities or legislative bodies seek to influence and restrict premium rates, require premium refunds to policyholders, require reinstatement of terminated policies, restrict the ability of insurers to cancel or non-renew policies, require insurers to continue to write new policies or limit their ability to write new policies, limit insurers ability to change coverage terms or to impose underwriting standards, impose additional regulations regarding agent and broker compensation, and otherwise expand overall regulation of insurance products and the insurance industry. The Company has established procedures and policies to facilitate compliance with laws and regulations, to foster prudent business operations, and to support financial reporting. The Company routinely reviews its practices to validate compliance with laws and regulations and with internal procedures and policies. As a result of these reviews, from time to time the Company may decide to modify some of its procedures and policies. Such modifications, and the reviews that led to them, may be accompanied by payments being made and costs being incurred. The ultimate changes and eventual effects of these actions on the Company s business, if any, are uncertain.

A multi-state market conduct examination of Allstate s claims handling practices is in process and Florida, Illinois, Iowa, and New York are serving as the lead states. The official notice of the examination was issued by the Illinois Department of Insurance (formerly Illinois Division of Insurance) on March 30, 2009.

<u>Legal and regulatory proceedings and inquiries</u>

Background

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

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

- The outcome of these matters may be affected by decisions, verdicts, and settlements, and the timing of such decisions, verdicts, and settlements, in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state or federal legislation, the timing or substance of which cannot be predicted.

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

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

- For the reasons specified above, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the matters described below in the Proceedings subsection. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals.

- Due to the complexity and scope of the matters disclosed in the Proceedings subsection below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in one or more of these matters, the ultimate liability may be in excess of amounts currently reserved, if any, and may be material to the Company s operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters described below, as they are resolved over time, is not likely to have a material adverse effect on the financial position of the Company.

Proceedings

There are a number of state and nationwide class action lawsuits pending in various state courts challenging the legal propriety of Allstate s medical bill review processes on a number of grounds, including the manner in which Allstate determines reasonableness and necessity. These lawsuits, which to a large degree mirror similar lawsuits filed against other carriers in the industry, allege these processes are used by Allstate systematically to undervalue claims. Plaintiffs seek monetary damages in the form of contractual and extra-contractual damages. The Company denies these allegations and continues to vigorously defend the pending lawsuits. Management believes that the