

LOEWS CORP
Form 10-Q
October 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

13-2646102
(I.R.S. Employer Identification No.)

667 Madison Avenue, New York, N.Y. 10065-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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

Class	Outstanding at October 17, 2008
Common stock, \$0.01 par value	436,091,267 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 2008	December 31, 2007
(In millions)		
Assets:		
Investments:		
Fixed maturities, amortized cost of \$33,003 and \$34,816	\$ 29,733	\$ 34,663
Equity securities, cost of \$1,776 and \$1,143	1,516	1,347
Limited partnership investments	2,207	2,321
Other investments	149	108
Short term investments	8,673	8,230
Total investments	42,278	46,669
Cash	236	140
Receivables	12,201	11,469
Property, plant and equipment	12,809	10,218
Deferred income taxes	1,466	441
Goodwill and other intangible assets	1,358	1,353
Assets of discontinued operations	1	2,841
Other assets	1,481	1,347
Deferred acquisition costs of insurance subsidiaries	1,157	1,161
Separate account business	430	476
Total assets	\$ 73,417	\$ 76,115
Liabilities and Shareholders' Equity:		
Insurance reserves:		
Claim and claim adjustment expense	\$ 28,023	\$ 28,588
Future policy benefits	7,442	7,106
Unearned premiums	3,549	3,597
Policyholders' funds	454	930
Total insurance reserves	39,468	40,221
Payable to brokers	1,593	580
Collateral on loaned securities	6	63
Short term debt	273	358
Long term debt	7,401	6,900
Reinsurance balances payable	367	401
Liabilities of discontinued operations		1,637
Other liabilities	3,970	3,990
Separate account business	430	476

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Total liabilities	53,508	54,626
Minority interest	4,168	3,898
Preferred stock, \$0.10 par value, Authorized – 100,000,000 shares		
Common stock:		
Loews common stock, \$0.01 par value: Authorized – 1,800,000,000 shares		
Issued – 436,402,567 and 529,683,628 shares	4	5
Former Carolina Group stock		1
Additional paid-in capital	3,288	3,967
Earnings retained in the business	14,435	13,691
Accumulated other comprehensive income (loss)	(1,974)	(65)
	15,753	17,599
Less treasury stock, at cost (314,000 shares of Loews common stock at September 30, 2008 and 340,000 shares of former Carolina Group stock at December 31, 2007)	12	8
Total shareholders' equity	15,741	17,591
Total liabilities and shareholders' equity	\$ 73,417	\$ 76,115

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions, except per share data)				
Revenues:				
Insurance premiums	\$ 1,799	\$ 1,882	\$ 5,385	\$ 5,616
Net investment income	355	647	1,531	2,165
Investment losses	(650)	(54)	(812)	(183)
Gain on issuance of subsidiary stock			2	139
Contract drilling revenues	882	628	2,589	1,854
Other	584	422	1,809	1,119
Total	2,970	3,525	10,504	10,710
Expenses:				
Insurance claims and policyholders' benefits	1,519	1,575	4,380	4,496
Amortization of deferred acquisition costs	355	384	1,083	1,137
Contract drilling expenses	314	281	872	715
Other operating expenses	741	566	1,982	1,584
Interest	82	81	259	230
Total	3,011	2,887	8,576	8,162
Income (loss) before income tax and minority interest	(41)	638	1,928	2,548
Income tax expense (benefit)	(56)	182	537	774
Minority interest	159	147	615	482
Total	103	329	1,152	1,256
Income (loss) from continuing operations	(144)	309	776	1,292
Discontinued operations, net:				
Results of operations	7	246	350	685
Gain on disposal			4,362	
Net income (loss)	\$ (137)	\$ 555	\$ 5,488	\$ 1,977
Net income (loss) attributable to:				
Loews common stock:				
Income (loss) from continuing operations	\$ (144)	\$ 309	\$ 776	\$ 1,292
Discontinued operations, net	7	100	4,501	280
Loews common stock	(137)	409	5,277	1,572
Former Carolina Group stock - discontinued operations, net				
		146	211	405
Total	\$ (137)	\$ 555	\$ 5,488	\$ 1,977

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions, except per share data)				
Basic net income (loss) per Loews common share:				
Income (loss) from continuing operations	\$ (0.33)	\$ 0.58	\$ 1.58	\$ 2.41
Discontinued operations, net	0.02	0.19	9.16	0.52
Net income (loss)	\$ (0.31)	\$ 0.77	\$ 10.74	\$ 2.93
Diluted net income (loss) per Loews common share:				
Income (loss) from continuing operations	\$ (0.33)	\$ 0.58	\$ 1.58	\$ 2.40
Discontinued operations, net	0.02	0.19	9.14	0.52
Net income (loss)	\$ (0.31)	\$ 0.77	\$ 10.72	\$ 2.92
Basic and Diluted net income per former Carolina Group share:				
Discontinued operations, net	\$ -	\$ 1.34	\$ 1.95	\$ 3.73
Basic weighted average number of shares outstanding:				
Loews common stock	436.32	531.86	491.19	536.53
Former Carolina Group stock	-	108.44	108.47	108.42
Diluted weighted average number of shares outstanding:				
Loews common stock	436.32	533.19	492.40	537.71
Former Carolina Group stock	-	108.58	108.60	108.55

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

	Comprehensive Income (Loss)	Loews Common Stock	Former Carolina Group Stock	Additional Paid-in Capital	Earnings Retained in the Business	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury
(In millions, except per share data)							
Balance, January 1, 2007		\$ 5	\$ 1	\$ 4,018	\$ 12,099	\$ 387	\$ (8)
Adjustment to initially apply: FASB Interpretation No. 48, "Accounting For Uncertainty in Income Taxes an interpretation of FASB No. 109," net of minority interest					(37)		
FASB Staff Position Technical Bulletin No. 85-4-1, "Accounting For Life Settlement Contracts by Third-Party Investors," net of tax and minority interest					34		
Balance, January 1, 2007, as adjusted		5	1	4,018	12,096	387	(8)
Comprehensive income:							
Net income	\$ 1,977				1,977		
Other comprehensive loss	(327)					(327)	
Comprehensive income	\$ 1,650						
Dividends paid:							
Loews common stock, \$0.19 per share					(101)		
Former Carolina Group stock, \$1.37 per share					(148)		
Purchase of Loews treasury stock							(672)
Issuance of Loews common stock				3			
Issuance of former Carolina Group stock				3			
Stock-based compensation				19			
Other				2	(2)		
Deferred tax benefit related to interest expense imputed on Diamond Offshore's 1.5% debentures (Note 13)				26			
Balance, September 30, 2007		\$ 5	\$ 1	\$ 4,071	\$ 13,822	\$ 60	\$ (680)
Balance, January 1, 2008		\$ 5	\$ 1	\$ 3,967	\$ 13,691	\$ (65)	\$ (8)
Comprehensive loss:							
Net income	\$ 5,488				5,488		
Other comprehensive loss	(1,962)					(1,962)	

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Comprehensive income	\$	3,526										
Dividends paid:												
Loews common stock, \$0.19												
per share				(94)								
Former Carolina Group stock, \$0.911												
per share				(99)								
Purchase of Loews treasury stock							(12)					
Issuance of Loews common stock			4									
Redemption of former Carolina												
Group stock (Note 2)	(1)			(602)	53		8					
Exchange of Lorillard common stock												
for Loews common stock (Note 2)							(4,650)					
Stock-based compensation			17									
Retirement of treasury stock	(1)		(700)	(3,949)			4,650					
Balance, September 30, 2008	\$	4	\$	-	\$	3,288	\$	14,435	\$	(1,974)	\$	(12)

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Nine Months Ended September 30 (In millions)	2008	2007
Operating Activities:		
Net income	\$ 5,488	\$ 1,977
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	(2,741)	(36)
Changes in operating assets and liabilities, net:		
Reinsurance receivables	691	591
Other receivables	(131)	(71)
Federal income tax	(360)	(93)
Prepaid reinsurance premiums	(6)	22
Deferred acquisition costs	4	1
Insurance reserves	(238)	(271)
Reinsurance balances payable	(34)	(56)
Other liabilities	(172)	97
Trading securities	(1,145)	1,677
Other, net	(121)	(183)
Net cash flow operating activities - continuing operations	1,235	3,655
Net cash flow operating activities - discontinued operations	142	719
Net cash flow operating activities - total	1,377	4,374
Investing Activities:		
Purchases of fixed maturities	(39,989)	(53,496)
Proceeds from sales of fixed maturities	36,545	53,002
Proceeds from maturities of fixed maturities	3,374	3,720
Purchases of equity securities	(170)	(157)
Proceeds from sales of equity securities	177	182
Purchases of property, plant and equipment	(2,937)	(1,352)
Proceeds from sales of property, plant and equipment	71	13
Change in collateral on loaned securities	(57)	(3,518)
Change in short term investments	1,567	196
Change in other investments	(147)	(103)
Acquisition of business, net of cash acquired		(4,029)
Net cash flow investing activities - continuing operations	(1,566)	(5,542)
Net cash flow investing activities - discontinued operations, including proceeds from dispositions	620	
Net cash flow investing activities - total	(946)	(5,542)

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Nine Months Ended September 30 (In millions)	2008	2007
Financing Activities:		
Dividends paid	\$ (193)	\$ (249)
Dividends paid to minority interest	(354)	(339)
Purchases of treasury shares	(12)	(672)
Purchases of treasury shares by subsidiary	(70)	
Issuance of common stock	4	6
Proceeds from subsidiaries' equity issuances	246	315
Principal payments on debt	(902)	(4)
Issuance of debt	1,320	2,110
Receipts of investment contract account balances	3	2
Return of investment contract account balances	(421)	(59)
Excess tax benefits from share-based payment arrangements	4	6
Other	26	10
Net cash flow financing activities - continuing operations	(349)	1,126
Net cash flow financing activities - discontinued operations		2
Net cash flow financing activities - total	(349)	1,128
Effect of foreign exchange rate on cash - continuing operations	(6)	
Net change in cash	76	(40)
Net cash transactions from:		
Continuing operations to discontinued operations	782	760
Discontinued operations to continuing operations	(782)	(760)
Cash, beginning of period	160	174
Cash, end of period	\$ 236	\$ 134
Cash, end of period:		
Continuing operations	\$ 236	\$ 116
Discontinued operations		18
Total	\$ 236	\$ 134

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (“CNA”), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (“Diamond Offshore”), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (“HighMount”), a wholly owned subsidiary); the operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 70% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary). Unless the context otherwise requires, the terms “Company,” “Loews” and “Registrant” as used herein mean Loews Corporation excluding its subsidiaries.

In June of 2008, the Company disposed of its entire ownership interest in its wholly owned subsidiary, Lorillard, Inc. (“Lorillard”). The Consolidated Condensed Financial Statements have been reclassified to reflect Lorillard as a discontinued operation. Accordingly, Lorillard’s assets, liabilities, revenues, expenses and cash flows have been excluded from the respective captions in the Consolidated Condensed Balance Sheets, Consolidated Condensed Statements of Operations, and Consolidated Condensed Statements of Cash Flows and have been included in Assets and Liabilities of discontinued operations, Discontinued Operations, net and Net cash flows - discontinued operations, respectively.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2008 and December 31, 2007 and the results of operations for the three and nine months ended September 30, 2008 and 2007 and changes in cash flows for the nine months ended September 30, 2008 and 2007.

Net income (loss) for the third quarter and first nine months of each of the years is not necessarily indicative of net income (loss) for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2007 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

Supplementary cash flow information – As discussed in Note 2, in June of 2008, the Company disposed of its entire ownership interest in Lorillard resulting in a non-cash gain on disposal of \$4.3 billion. Investing activities include accrued capital expenditures of \$168 million and \$103 million for the nine months ended September 30, 2008 and 2007.

Accounting changes – In September of 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. A one year deferral has been granted for the implementation of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities. As a result, the Company has partially applied the provisions of SFAS No. 157 upon adoption at January 1, 2008. The assets and liabilities that are recognized or disclosed at fair value for which the Company has not applied the provisions of SFAS No. 157 include goodwill, other intangible assets, long term debt and asset retirement obligations. The effect of partially adopting SFAS No. 157 did not have a significant impact on

the Company's financial condition at the date of adoption or the results of operations for the period ended September 30, 2008. See Note 4.

In October of 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157- 3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," which clarifies the application of SFAS No. 157 in an inactive market. The FSP addresses application issues such as how management's internal assumptions should be considered when measuring fair value when relevant observable data do not exist; how observable market information in a market that is not active should be considered when measuring fair value and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. FSP No. FAS 157-3 was effective upon issuance. The Company's adoption of FSP No. FAS 157-3 had no impact on the financial condition or results of operations as of or for the three and nine months ended September 30, 2008.

In April of 2007, the FASB issued FSP No. FIN 39-1, "Amendment of FASB Interpretation ("FIN") No. 39." FSP FIN No. 39-1 permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in the statement of financial position in accordance with FIN No. 39. Additionally, FSP No. FIN 39-1 requires that a reporting entity shall not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. The Company adopted FSP No. FIN 39-1 in 2008, by electing to not offset cash collateral amounts recognized for derivative instruments under the same master netting arrangements and as a result will no longer offset fair value amounts recognized for derivative instruments. The Company presented the effect of adopting FSP No. FIN 39-1 as a change in accounting principle through retrospective application. The effect on the Consolidated Condensed Balance Sheet as of December 31, 2007 was an increase of \$36 million in Other investments and Payable to brokers. The adoption of FSP No. FIN 39-1 had no impact on the Company's financial condition or results of operations as of or for the nine months ended September 30, 2008.

2. Separation of Lorillard, Inc.

The Company disposed of Lorillard through the following two integrated transactions, collectively referred to as the "Separation":

- On June 10, 2008, the Company distributed 108,478,429 shares, or approximately 62%, of the outstanding common stock of Lorillard in exchange for and in redemption of all of the 108,478,429 outstanding shares of the Company's former Carolina Group stock, in accordance with the Company's Restated Certificate of Incorporation (the "Redemption"); and
- On June 16, 2008, the Company distributed the remaining 65,445,000 shares, or approximately 38%, of the outstanding common stock of Lorillard in exchange for 93,492,857 shares of Loews common stock, reflecting an exchange ratio of 0.70 (the "Exchange Offer").

As a result of the Separation, Lorillard is no longer a subsidiary of Loews and Loews no longer owns any interest in the outstanding stock of Lorillard. As of the completion of the Redemption, the former Carolina Group and former Carolina Group stock have been eliminated. In addition, at that time all outstanding stock options and stock appreciation rights ("SARs") awarded under the Company's former Carolina Group 2002 Stock Option Plan were assumed by Lorillard and converted into stock options and SARs which are exercisable for shares of Lorillard common stock.

The Loews common stock acquired by the Company in the Exchange Offer was recorded as a decrease in the Company's Shareholders' equity, reflecting Loews common stock at market value of the shares of Loews common stock delivered in the Exchange Offer. This decline was offset by a \$4.3 billion gain to the Company from the Exchange Offer, which was reported as a gain on disposal of the discontinued business.

Prior to the Redemption, the Company had a two class common stock structure: Loews common stock and former Carolina Group stock. Former Carolina Group stock, commonly called a tracking stock, was intended to reflect the performance of a defined group of Loews's assets and liabilities referred to as the former Carolina Group. The principal assets and liabilities attributable to the former Carolina Group were Loews's 100% ownership of Lorillard, including all dividends paid by Lorillard to Loews, and any and all liabilities, costs and expenses arising out of or relating to tobacco or tobacco-related businesses. Immediately prior to the Separation, outstanding former Carolina Group stock represented an approximately 62% economic interest in the performance of the former Carolina Group. The Loews Group consisted of all of Loews's assets and liabilities other than those allocated to the former Carolina

Group, including an approximately 38% interest in the former Carolina Group.

3. Investments

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net investment income consisted of:				
Fixed maturity securities	\$ 501	\$ 501	\$ 1,495	\$ 1,523
Short term investments	36	79	125	243
Limited partnerships	(77)	19	(70)	142
Equity securities	18	7	62	18
Trading portfolio	(117)	33	(66)	221
Other	6	19	27	60
Total investment income	367	658	1,573	2,207
Investment expense	(12)	(11)	(42)	(42)
Net investment income	\$ 355	\$ 647	\$ 1,531	\$ 2,165

Investment gains (losses) are as follows:

Fixed maturities	\$ (315)	\$ (39)	\$ (475)	\$ (322)
Equity securities, including short positions	(376)	16	(405)	30
Derivative instruments	35	(45)	47	94
Short term investments	5	7	12	7
Other, including guaranteed separate account business	1	7	9	8
Investment losses	(650)	(54)	(812)	(183)
Gain on issuance of subsidiary stock (Note 13)			2	139
	(650)	(54)	(810)	(44)
Income tax benefit	227	19	284	14
Minority interest	44	3	54	15
Investment losses, net	\$ (379)	\$ (32)	\$ (472)	\$ (15)

For the three months ended September 30, 2008, other-than-temporary impairment (“OTTI”) losses of \$584 million were recorded primarily in the non-redeemable preferred equity securities and corporate and other taxable bonds sectors. This compared to OTTI losses for the three months ended September 30, 2007 of \$188 million recorded primarily in the corporate and other taxable bonds and asset-backed bonds sectors. The OTTI losses for 2008 were primarily driven by credit issues.

For the three months ended September 30, 2008, the Company recorded realized investment losses, including OTTI losses, of \$305 million related to securities issued by Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”), \$100 million related to securities issued by Washington Mutual, \$96 million related to securities issued by Icelandic banks and \$35 million related to securities issued by American International Group.

Realized investment losses for the nine months ended September 30, 2008 included OTTI losses of \$840 million, recorded primarily in the non-redeemable preferred equity securities, corporate and other taxable bonds and asset-backed bonds sectors. This compared to OTTI losses for the nine months ended September 30, 2007 of \$451 million recorded primarily in the corporate and other taxable bonds and asset-backed bonds sectors. The OTTI losses

for 2008 were primarily driven by credit issues.

The Company's investment policies emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

In 2008, the Company re-evaluated its classification of preferred stocks between redeemable and non-redeemable and determined that certain securities that were previously classified as redeemable preferred stock have characteristics similar to equities. These securities are presented as preferred stock securities included in Equity securities available-for-sale in the September 30, 2008 Consolidated Condensed Balance Sheet.

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The amortized cost and market values of securities are as follows:

September 30, 2008 (In millions)	Amortized Cost	Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	12 Months or Greater	Fair Value
Fixed maturity securities:					
U.S. government and obligations of government agencies					
	\$ 1,431	\$ 88	\$ 1		\$ 1,518
Asset-backed securities					
	9,982	27	484	\$ 746	8,779
States, municipalities and political subdivisions-tax exempt					
	7,781	21	596	240	6,966
Corporate					
	9,495	73	797	352	8,419
Other debt					
	3,618	59	193	103	3,381
Redeemable preferred stocks					
	72	3	2		73
Fixed maturities available-for-sale					
	32,379	271	2,073	1,441	29,136
Fixed maturities, trading					
	624	1	11	17	597
Total fixed maturities					
	33,003	272	2,084	1,458	29,733
Equity securities:					
Equity securities available-for-sale					
	1,112	187	166	169	964
Equity securities, trading					
	664	53	102	63	552
Total equity securities					
	1,776	240	268	232	1,516
Short term investments:					
Short term investments available-for-sale					
	5,387	6	1		5,392
Short term investments, trading					
	3,281				3,281
Total short term investments					
	8,668	6	1	-	8,673
Total					
	\$ 43,447	\$ 518	\$ 2,353	\$ 1,690	\$ 39,922
December 31, 2007					
Fixed maturity securities:					
U.S. government and obligations of government agencies					
	\$ 594	\$ 93			\$ 687
Asset-backed securities					
	11,777	39	\$ 223	\$ 183	11,410
States, municipalities and political subdivisions-tax exempt					
	7,615	144	82	2	7,675
Corporate					
	8,867	246	149	12	8,952
Other debt					
	4,143	208	48	4	4,299
Redeemable preferred stocks					
	1,216	2	160		1,058
Fixed maturities available-for-sale					
	34,212	732	662	201	34,081
Fixed maturities, trading					
	604	6	19	9	582
Total fixed maturities					
	34,816	738	681	210	34,663
Equity securities:					
Equity securities available-for-sale					
	366	214	12		568
Equity securities, trading					
	777	99	69	28	779
Total equity securities					
	1,143	313	81	28	1,347
Short term investments:					

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Short term investments available-for-sale	5,600	3	1	5,602	
Short term investments, trading	2,628			2,628	
Total short term investments	8,228	3	1	-	8,230
Total	\$ 44,187	\$ 1,054	\$ 763	\$ 238	\$ 44,240

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The following table summarizes, available-for-sale securities in an unrealized loss position at September 30, 2008 and December 31, 2007, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	September 30, 2008		December 31, 2007	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
(In millions)				
Available-for-sale fixed income securities:				
Investment grade:				
0-6 months	\$ 10,068	\$ 698	\$ 4,771	\$ 228
7-12 months	6,269	1,048	1,584	193
13-24 months	2,775	937	690	57
Greater than 24 months	1,880	325	3,869	138
Total investment grade available-for-sale	20,992	3,008	10,914	616
Non-investment grade:				
0-6 months	1,037	122	1,527	73
7-12 months	839	203	125	8
13-24 months	798	168	26	4
Greater than 24 months	16	11	9	2
Total non-investment grade available-for-sale	2,690	504	1,687	87
Total fixed income securities available-for-sale	23,682	3,512	12,601	703
Redeemable and non-redeemable preferred stocks:				
0-6 months	21	3	893	143
7-12 months	371	156	104	28
13-24 months	172	167		
Total redeemable and non-redeemable preferred stocks available-for-sale	564	326	997	171
Available-for-sale equity securities:				
0-6 months	12	9	34	1
7-12 months	1		1	
13-24 months	11	2		
Greater than 24 months	3		3	
Total equity securities available-for-sale	27	11	38	1
Total fixed maturity and equity securities available-for-sale	\$ 24,273	\$ 3,849	\$ 13,636	\$ 875

At September 30, 2008, the fair value of the available-for-sale fixed maturities was \$29,136 million, representing 68.9% of the total investment portfolio. The unrealized position associated with the fixed maturity portfolio included \$3,514 million in gross unrealized losses, consisting of asset-backed securities which represented 35.0%, corporate bonds which represented 32.7%, tax-exempt bonds which represented 23.8%, and all other fixed maturity securities which represented 8.5%. The gross unrealized loss for any single issuer was no greater than 0.3% of the carrying value of the total general account fixed maturity portfolio. The total fixed maturity portfolio gross unrealized losses included

2,520 securities which were, in aggregate, approximately 13.0% below amortized cost.

Given the current facts and circumstances, the Company has determined that the securities presented in the above unrealized gain/loss tables were temporarily impaired when evaluated at September 30, 2008 or December 31, 2007, and therefore no related realized losses were recorded. A discussion of some of the factors reviewed in making that determination as of September 30, 2008 is presented below.

Asset-Backed Securities

The unrealized losses on the Company's investments in asset-backed securities were caused by a combination of factors related to the market disruption caused by credit concerns surrounding the sub-prime issue, but also extended into other asset-backed securities in the Company's portfolio.

The majority of the holdings in this category are collateralized mortgage obligations ("CMOs") typically collateralized with prime residential mortgages and corporate asset-backed structured securities. The holdings in these sectors include 662 securities in a gross unrealized loss position aggregating \$1,226 million. Of these securities in a gross unrealized loss position, 61.0% are rated AAA, 17.0% are rated AA, 16.0% are rated A, 4.0% are rated BBB and 2.0% are non-investment grade (rated BB or lower). The aggregate severity of the unrealized loss was approximately 14.0% of amortized cost. The contractual cash flows on the asset-backed structured securities are passed through, but may be structured into classes of preference. The securities in this category are modeled in order to evaluate the risks of default on the performance of the underlying collateral. Within this analysis multiple factors are analyzed including probable risk of default, loss severity upon a default, payment delinquency, over collateralization and interest coverage triggers, credit support from lower-rated tranches and rating agency actions amongst others. Securities are modeled against base-case and reasonable stress scenarios of probable default activity, given current market conditions, and then analyzed for potential impact to our particular holdings. The structured securities held are generally secured by over collateralization or default protection provided by subordinated tranches. Within this category, securities subject to Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" are monitored for significant adverse changes in cash flow projections. If there are adverse changes in cash flows, the amount of accretable yield is prospectively adjusted and an OTTI loss is recognized. As of September 30, 2008, there was no adverse change in estimated cash flows noted for the securities in an unrealized loss position held subject to EITF 99-20, which have a gross unrealized loss of \$299 million. There were OTTI losses of \$30 million and \$209 million recorded on asset-backed securities, \$14 million and \$147 million of which related to specific EITF 99-20 securities for which the most recent evaluation did show an adverse change in cash flows for the three and nine months ended September 30, 2008.

The remainder of the holdings in this category includes mortgage-backed securities guaranteed by an agency of the U.S. Government. There were 183 agency mortgage-backed pass-through securities and 2 agency CMOs in an unrealized loss position aggregating \$4 million as of September 30, 2008. The cumulative unrealized losses on these securities was approximately 4.0% of amortized cost. These securities do not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral.

The Company believes the decline in fair value was primarily attributable to the market disruption caused by sub-prime related issues and other temporary market conditions and is not indicative of the quality of the underlying collateral. Because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at September 30, 2008.

States, Municipalities and Political Subdivisions – Tax-Exempt Securities

The unrealized losses on the Company's investments in tax-exempt municipal securities were caused primarily by changes in credit spreads, and to a lesser extent, changes in interest rates. Market conditions in the tax-exempt sector of the market were driven by significant selling pressure in the market particularly late in the third quarter. This selling pressure was caused by a combination of factors that resulted in forced liquidations of municipal positions that increased supply while demand was decreasing. These conditions increased the yields of the sector far above historical norms sending prices down and increasing the Company's unrealized losses. The Company invests in tax-exempt

municipal securities as an asset class for economic benefits of the returns on the class compared to like after tax returns on alternative classes. The holdings in this category include 821 securities in a gross unrealized loss position aggregating \$836 million with all of these unrealized losses related to investment grade securities (rated BBB- or higher including the impact of mono-line insurance) where the cash flows are supported by the credit of the issuer. The aggregate severity of the unrealized losses was approximately 12.0% of amortized cost. Because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at September 30, 2008. There were OTTI losses of \$1 million recorded on tax-exempt municipal securities for the three and nine months ended September 30, 2008.

Corporate Bonds

The holdings in this category include 681 securities in a gross unrealized loss position aggregating \$1,149 million. Of the unrealized losses in this category, 62.0% relate to securities rated as investment grade. The total holdings in this category are diversified across 11 industry sectors. The aggregate severity of the unrealized losses were approximately 14.0% of amortized cost. Within corporate bonds, the industry sectors with the largest gross unrealized losses were financial, consumer cyclical, communications, consumer non-cyclical and utilities, which as a percentage of total gross unrealized losses were approximately 32.0%, 19.0%, 17.0%, 8.0% and 8.0% at September 30, 2008. The decline in fair value was primarily attributable to deterioration and volatility in the broader credit markets that resulted in widening of credit spreads over risk free rates well beyond historical norms and macro conditions in certain sectors that the market viewed as out of favor. The Company monitors the financial performance of the corporate bond issuers for potential factors that may cause a change in outlook and addresses securities that are deemed to be OTTI promptly. Because these declines were not related to any issuer specific credit events, and because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at September 30, 2008. There were OTTI losses of \$105 million and \$136 million recorded on corporate bonds for the three and nine months ended September 30, 2008.

Preferred Stock

The unrealized losses on the Company's investments in preferred stock were caused by similar factors as those that affected the Company's corporate bond portfolio. Approximately 96.0% of the gross unrealized losses in this category come from securities issued by financial institutions, 3.0% from utilities and less than 1.0% from communications. The holdings in this category include 39 securities in a gross unrealized loss position aggregating \$326 million. Of these securities in a gross unrealized loss position, 56.0% are rated A, 40.0% are rated BBB and 4.0% are rated lower than BBB. The Company believes the holdings in this category have been adversely impacted by significant credit spread widening brought on by a combination of factors in the capital markets. The majority of the securities in this category are related to the banking and mortgage industries and are experiencing what the Company believes to be temporarily depressed valuations. The Company has recorded other-than-temporary impairment losses on securities of those issuers that have been placed in conservatorship, have been acquired or have shown signs of other-than-temporary credit deterioration. The Company has been monitoring the capital raising efforts of the issuers in this sector, their ability to continue paying dividends and all other relevant news and believes, given current facts and circumstances, the remaining issuers in this sector with unrealized losses are sufficiently capitalized and will recover in value. Because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, the Company considers these investments to be temporarily impaired at September 30, 2008. This evaluation was made on the basis that these securities possess characteristics similar to debt securities. There were OTTI losses of \$255 million and \$263 million recorded on preferred stock, primarily on Freddie Mac and Fannie Mae for the three and nine months ended September 30, 2008.

Credit Default Swaps

The Company utilizes credit default swaps ("CDS"), which involve the transfer of credit risk from one party to another in exchange for period payments, to manage credit risk within its overall approach to portfolio management. The Company may purchase CDS protection to mitigate default risk and credit deterioration for fixed income and preferred stock holdings in the investment portfolio. The Company may also sell CDS protection for the purpose of replicating fixed income securities in the cash market where supply is limited in certain issuers or it is more beneficial to transact in the derivative markets. In all cases, the underlying reference obligations for the CDS transactions are single name entities or established indices.

A summary of the contractual or notional amounts and gross fair values related to CDS follows:

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	September 30, 2008			December 31, 2007		
	Contractual/ Notional Amount	Estimated Fair Value Asset	Fair Value (Liability)	Contractual/ Notional Amount	Estimated Fair Value Asset	Fair Value (Liability)
(In millions)						
Credit default swaps - purchased protection	\$ 405	\$ 84	\$ (2)	\$ 978	\$ 79	\$ (4)
Credit default swaps - sold protection	248		(75)	276	1	(47)

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Investment Commitments

As of September 30, 2008 and December 31, 2007, the Company had committed approximately \$331 million and \$461 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of September 30, 2008 and December 31, 2007, the Company had commitments to purchase \$23 million and \$58 million and to sell \$0 million and \$3 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Consolidated Condensed Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of September 30, 2008 and December 31, 2007, the Company had obligations on unfunded bank loan participations in the amount of \$20 million and \$23 million.

4. Fair Value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Company attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates, including discounted cash flow models, prices from recently executed transactions of similar securities or broker/dealer quotes, utilizing market observable information to the extent possible. In conjunction with modeling activities, the Company may use external data as inputs. The modeled inputs are consistent with observable market information, when available, or with the Company's assumptions as to what market participants would use to value the securities. The Company also uses pricing services as a significant source of data. The Company monitors all pricing inputs to determine if the markets from which the data is gathered are active. As further validation of the Company's valuation process, the Company samples its past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

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The fair values of CNA's life settlement contracts investments are included in Other assets. Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2008 (In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Fixed maturity securities	\$ 1,856	\$ 24,658	\$ 3,219	\$ 29,733
Equity securities	1,187	115	214	1,516
Other investments		73	69	142
Short term investments	7,407	1,266		8,673
Receivables		29		29
Assets of discontinued operations	77	69	20	166
Other assets		7	121	128
Separate account business	44	338	43	425
Total	\$ 10,571	\$ 26,555	\$ 3,686	\$ 40,812
Liabilities:				
Payable to brokers	\$ (150)	\$ (129)	\$ (47)	\$ (326)

The tables below presents a reconciliation for all assets and (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2008:

(In millions)	Fixed Maturity Securities	Equity Securities	Short Term Investments	Assets of Discontinued Operations	Other Assets	Separate Account Business	Derivative Financial Instruments, Net
Balance, July 1, 2008	\$ 3,434	\$ 263	\$ -	\$ 23	\$ 118	\$ 45	\$ (83)
Total net realized gains (losses) and net change in Unrealized gains (losses) on investments:							
Included in Net income (loss)	(36)	(1)			4		50
Included in Accumulated other comprehensive income (loss)	(103)	(1)		(2)		(7)	31
Purchases, sales, issuances and settlements	(127)	(24)		(1)	(1)	(1)	24
Net transfers in (out) of Level 3	51	(23)				6	
Balance, September 30, 2008	\$ 3,219	\$ 214	\$ -	\$ 20	\$ 121	\$ 43	\$ 22
Balance, January 1, 2008	\$ 2,909	\$ 199	\$ 85	\$ 42	\$ 115	\$ 30	\$ (19)
Total net realized gains (losses) and net change in Unrealized gains (losses) on investments:							
Included in Net income (loss)	(160)	(4)			34		29

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Included in Accumulated other comprehensive income (loss)	(373)	(4)	(2)	(11)	34		
Purchases, sales, issuances and settlements	(46)	24	(3)	(28)	(2)	(22)	
Net transfers in (out) of Level 3	889	(1)	(85)	(17)	26		
Balance, September 30, 2008	\$ 3,219	\$ 214	\$ -	\$ 20	\$ 121	\$ 43	\$ 22

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The tables below summarize gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in Net income (loss) for Level 3 assets and liabilities for the three and nine months ended September 30, 2008.

	Fixed Maturity Securities	Equity Securities	Other Assets	Derivative Financial Instruments, Net	Total
Three Months Ended September 30, 2008 (In millions)					
Net investment loss	\$ (17)	\$ (1)			\$ (18)
Investment gains (losses)	(19)			\$ 54	35
Other revenues			\$ 4	(4)	-
Total	\$ (36)	\$ (1)	\$ 4	\$ 50	\$ 17

Nine Months Ended September 30, 2008					
Net investment loss	\$ (11)	\$ (2)			\$ (13)
Investment gains (losses)	(149)	(2)		\$ 55	(96)
Other revenues			\$ 34	(26)	8
Total	\$ (160)	\$ (4)	\$ 34	\$ 29	\$ (101)

The tables below summarize changes in unrealized gains or losses recorded in Net income (loss) for the three and nine months ended September 30, 2008 for Level 3 assets and liabilities still held at September 30, 2008.

	Fixed Maturity Securities	Equity Securities	Other Assets	Derivative Financial Instruments, Net	Total
Three Months Ended September 30, 2008 (In millions)					
Net investment income (loss)	\$ (5)	\$ 1			\$ (4)
Investment gains (losses)	(22)			\$ 76	54
Other revenues			\$ 3		3
Total	\$ (27)	\$ 1	\$ 3	\$ 76	\$ 53

Nine Months Ended September 30, 2008					
Net investment loss	\$ (11)				\$ (11)
Investment gains (losses)	(155)	\$ (4)		\$ 7	(152)
Other revenues			\$ 8		8
Total	\$ (166)	\$ (4)	\$ 8	\$ 7	\$ (155)

Securities transferred into Level 3 for the three months ended September 30, 2008 relate primarily to securities for which broker quotes based on unobservable market information have become a significant input to the valuation process. For the nine months ended September 30, 2008, securities transferred into Level 3 relate primarily to tax-exempt auction rate certificates, included within Fixed maturity securities. These were previously valued using observable prices for similar securities, but due to decreased market activity, fair value is determined by cash flow models using market observable and unobservable inputs.

The following section describes the valuation methodologies used to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which the instrument is generally classified.

Fixed Maturity Securities

Level 1 securities include highly liquid government bonds for which quoted market prices are available. The remaining fixed maturity securities are valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves, broker/dealer quotes and other pricing models utilizing observable inputs. The valuation for most fixed income securities, excluding government bonds, is classified as Level 2. Securities within Level 2 include certain corporate bonds, municipal bonds, asset-backed securities, mortgage-backed pass-through securities and redeemable preferred stock. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities include certain corporate bonds, asset-backed securities, municipal bonds and redeemable preferred stock.

Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred securities and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing observable inputs. Level 3 securities include one equity security, which represents 83.2% of the total, in an entity which is not publicly traded and is valued based on a discounted cash flow analysis model which is adjusted for the Company's assumption regarding an inherent lack of liquidity in the security. The remaining non-redeemable preferred stocks and equity securities are primarily valued using inputs including broker/dealer quotes for which there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace.

Derivative Financial Instruments

Exchange traded derivatives are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Level 2 derivatives include forwards valued using observable market spot rates. Over-the-counter derivatives, principally credit default and interest rate swaps, forwards and options, represent the present value of amounts estimated to be received from or paid to a marketplace participant in settlement of these instruments. They are valued using inputs including broker/dealer quotes and are classified within Level 2 or Level 3 of the valuation hierarchy, depending on the amount of transparency as to whether these quotes are based on information that is observable in the marketplace.

Short Term Investments

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 includes commercial paper, for which all inputs are observable.

Life Settlement Contracts

The fair values of life settlement contracts are estimated using discounted cash flows based on CNA's own assumptions for mortality, premium expense, and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Discontinued Operations Investments

Assets relating to CNA's discontinued operations include fixed maturity securities and short term investments. The valuation methodologies for these asset types have been described above.

Separate Account Business

Separate account business includes fixed maturity securities, equities and short term investments. The valuation methodologies for these asset types have been described above.

5. Earnings Per Share

Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to each class of common stock by the weighted average number of common shares of each class of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock

were exercised or converted into common stock.

Prior to the Separation, the Company had two classes of common stock: former Carolina Group stock, a tracking stock intended to reflect the economic performance of a group of the Company's assets and liabilities, called the former Carolina Group, principally consisting of Lorillard, Inc. and Loews common stock, representing the economic performance of the Company's remaining assets, including the interest in the former Carolina Group not represented by former Carolina Group stock.

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The attribution of income (loss) to each class of common stock for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions, except %)				
Loews common stock:				
Consolidated net income (loss)	\$ (137)	\$ 555	\$ 5,488	\$ 1,977
Less income attributable to former Carolina Group stock	-	146	211	405
Income (loss) attributable to Loews common stock	\$ (137)	\$ 409	\$ 5,277	\$ 1,572
Former Carolina Group stock:				
Income available to former Carolina Group stock	\$ -	\$ 233	\$ 339	\$ 649
Weighted average economic interest of the former Carolina Group	-	62.4%	62.4%	62.4%
Income attributable to former Carolina Group stock	\$ -	\$ 146	\$ 211	\$ 405

The following is a reconciliation of basic weighted shares outstanding to diluted weighted shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Loews common stock:				
Weighted average shares outstanding-basic	436.32	531.86	491.19	536.53
Stock options and SARs (a)	-	1.33	1.21	1.18
Weighted average shares outstanding-diluted	436.32	533.19	492.40	537.71
Former Carolina Group stock:				
Weighted average shares outstanding-basic	-	108.44	108.47	108.42
Stock options and SARs	-	0.14	0.13	0.13
Weighted average shares outstanding-diluted	-	108.58	108.60	108.55

(a) For the three months ended September 30, 2008, common equivalent shares, consisting solely of stock options and SARs, are excluded from the calculation of diluted net loss per share as their effects are antidilutive.

Certain options and SARs were not included in the diluted weighted shares amount due to the exercise price being greater than the average stock price for the respective periods. The number of weighted average shares not included in the diluted computations is as follows:

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Loews common stock	5,343,396	705,689	1,337,264	237,034
Former Carolina Group stock	-	101,630	255,983	34,245

6. Reinsurance

CNA cedes insurance to reinsurers to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements. Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Reinsurance contracts are purchased to protect specific lines of business such as property and workers' compensation. Corporate catastrophe reinsurance is also purchased for property and workers' compensation exposure. Most reinsurance contracts are purchased on an excess of loss basis. CNA also utilizes facultative reinsurance in certain lines. In addition, CNA assumes reinsurance as a member of various reinsurance pools and associations.

The following table summarizes the amounts receivable from reinsurers at September 30, 2008 and December 31, 2007.

	September 30, 2008	December 31, 2007
(In millions)		
Reinsurance receivables related to insurance reserves:		
Ceded claim and claim adjustment expense	\$ 6,468	\$ 7,056
Ceded future policy benefits	946	987
Ceded policyholders' funds	41	43
Reinsurance receivables related to paid losses	543	603
Reinsurance receivables	7,998	8,689
Less allowance for uncollectible reinsurance	387	461
Reinsurance receivables, net of allowance for uncollectible reinsurance	\$ 7,611	\$ 8,228

CNA has established an allowance for uncollectible reinsurance receivables. During the third quarter of 2008, CNA revised its estimate of the required allowance for uncollectible reinsurance receivables resulting in a release of \$42 million. There were no significant changes in the allowance for uncollectible reinsurance for the nine months ended September 30, 2007. Changes in the allowance for uncollectible reinsurance receivables are presented as a component of Insurance claims and policyholders' benefits in the Consolidated Condensed Statements of Operations.

7. Receivables

	September 30, 2008	December 31, 2007
(In millions)		
Reinsurance	\$ 7,998	\$ 8,689
Other insurance	2,160	2,284
Security sales	1,084	163
Accrued investment income	391	340
Other	1,262	791

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Total	12,895	12,267
Less: allowance for doubtful accounts on reinsurance receivables	387	461
allowance for other doubtful accounts and cash discounts	307	337
Receivables	\$ 12,201	\$ 11,469

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8. Property, Plant and Equipment

	September 30, 2008	December 31, 2007
(In millions)		
Land	\$ 71	\$ 70
Buildings and building equipment	643	670
Offshore drilling equipment	5,249	4,540
Machinery and equipment	1,360	1,313
Pipeline equipment	3,575	2,445
Natural gas and NGL proved and unproved properties	3,240	2,869
Construction in process	2,245	1,423
Leaseholds and leasehold improvements	75	79
Total	16,458	13,409
Less accumulated depreciation, depletion and amortization	3,649	3,191
Property, plant and equipment	\$ 12,809	\$ 10,218

Diamond Offshore Construction Projects

Construction in process at September 30, 2008, included \$293 million related to the major upgrade of the Ocean Monarch to ultra-deepwater service including accrued capital expenditures aggregating \$39 million related to this project. Diamond Offshore anticipates that the upgrade of the Ocean Monarch will be completed in late 2008. Construction of Diamond Offshore's two new jack-up rigs Ocean Shield and Ocean Scepter was completed in the second quarter and third quarter of 2008, respectively.

Boardwalk Pipeline Expansion Projects

In 2008, Boardwalk Pipeline placed in service the remaining pipeline assets and related compression associated with the East Texas to Mississippi Expansion project from Delhi, Louisiana to Harrisville, Mississippi. In addition, the pipeline assets and two compressor stations related to the Southeast Expansion project were placed in service. As a result, approximately \$1.1 billion was transferred from Construction in process to Pipeline equipment. The assets will generally be depreciated over a term of 35 years.

9. Claim and Claim Adjustment Expense Reserves

CNA's property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including claims that are incurred but not reported ("IBNR") as of the reporting date. CNA's reserve projections are based primarily on detailed analysis of the facts in each case, CNA's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving

determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. Catastrophe losses related to events occurring for the three and nine months ended September 30, 2008, net of reinsurance, were \$248 million and \$348 million. Catastrophe losses in 2008 related primarily to Hurricanes Gustav and Ike. Catastrophe losses related to events occurring for the three and nine months ended September 30, 2007, net of reinsurance, were \$10 million and \$54 million. There can be no assurance that CNA's ultimate cost for catastrophes will not exceed current estimates.

The following provides discussion of CNA's asbestos and environmental pollution ("A&E") reserves.

A&E Reserves

CNA's property and casualty insurance subsidiaries have actual and potential exposures related to A&E claims. The following table provides data related to CNA's A&E claim and claim adjustment expense reserves.

	September 30, 2008		December 31, 2007	
	Asbestos	Environmental Pollution	Asbestos	Environmental Pollution
(In millions)				
Gross reserves	\$ 2,155	\$ 309	\$ 2,352	\$ 367
Ceded reserves	(940)	(115)	(1,030)	(125)
Net reserves	\$ 1,215	\$ 194	\$ 1,322	\$ 242

Asbestos

CNA recorded \$18 million and \$6 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the nine months ended September 30, 2008 and 2007. CNA paid asbestos-related claims, net of reinsurance recoveries, of \$125 million and \$121 million for the nine months ended September 30, 2008 and 2007.

The ultimate cost of reported claims, and in particular A&E claims, is subject to a great many uncertainties, including future developments of various kinds that CNA does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified below in particular, numerous factual and legal issues remain unresolved. Rulings on those issues by the courts are critical to the evaluation of the ultimate cost to CNA. The outcome of the litigation cannot be predicted with any reliability. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Some asbestos-related defendants have asserted that their insurance policies are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called "non-products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed. CNA's policies also contain other limits applicable to these claims and CNA has additional coverage defenses to certain claims. CNA has attempted to manage its asbestos exposure by aggressively seeking to settle claims on acceptable terms. There can be no assurance that any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Where CNA cannot settle a claim on acceptable terms, CNA aggressively litigates the claim. However, adverse developments with respect to such matters could have a material adverse effect on the Company's results of operations and/or equity.

Certain asbestos claim litigation in which CNA is currently engaged is described below:

On February 13, 2003, CNA announced it had resolved asbestos-related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow-Liptak Corporation. Under the agreement, CNA is required to pay \$70 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy

plan of reorganization. The settlement received initial bankruptcy court approval on August 18, 2003. The debtor's plan of reorganization includes an injunction to protect CNA from any future claims. The bankruptcy court issued an opinion on September 24, 2007 recommending confirmation of that plan. Several insurers have appealed that ruling; that appeal is pending at this time.

CNA is engaged in insurance coverage litigation in New York State Court, filed in 2003, with a defendant class of underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company ("Keasbey") (Continental Casualty Co. v. Employers Ins. of Wausau et al., No. 601037/03 (N.Y. County)). Keasbey, a currently dissolved corporation, was a seller and installer of asbestos-containing insulation products in New York and New Jersey. Thousands of plaintiffs have filed bodily injury claims against Keasbey. However, under New York court rules, asbestos claims are not cognizable unless they meet certain minimum medical impairment standards. Since 2002, when these court rules were adopted, only a small portion of such claims have met medical impairment

criteria under New York court rules and as to the remaining claims, Keasbey's involvement at a number of work sites is a highly contested issue.

CNA issued Keasbey primary policies for 1970-1987 and excess policies for 1971-1978. CNA has paid an amount substantially equal to the policies' aggregate limits for products and completed operations claims in the confirmed CNA policies. Claimants against Keasbey allege, among other things, that CNA owes coverage under sections of the policies not subject to the aggregate limits, an allegation CNA vigorously contests in the lawsuit. In the litigation, CNA and the claimants seek declaratory relief as to the interpretation of various policy provisions. On May 8, 2007, the Court in the first phase of the trial held that all of CNA's primary policy products aggregates were exhausted and that past products liability claims could not be recharacterized as operations claims. The Court also found that while operations claims would not be subject to products aggregates, such claims could be made only against the policies in effect when the claimants were exposed to asbestos from Keasbey operations. These holdings limit CNA's exposure to those instances where Keasbey used asbestos in operations between 1970 and 1987. Keasbey largely ceased using asbestos in its operations in the early 1970's. CNA noticed an appeal to the Appellate Division to challenge certain aspects of the Court's ruling. Other insurer parties to the litigation also filed separate notices of appeal to the Court's ruling. The appeal was fully briefed and was argued on December 6, 2007. Numerous legal issues remain to be resolved on appeal with respect to coverage that are critical to the final result, which cannot be predicted with any reliability. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA has insurance coverage disputes related to asbestos bodily injury claims against a bankrupt insured, Burns & Roe Enterprises, Inc. ("Burns & Roe"). These disputes are currently part of coverage litigation (stayed in view of the bankruptcy) and an adversary proceeding in *In re: Burns & Roe Enterprises, Inc.*, pending in the U.S. Bankruptcy Court for the District of New Jersey, No. 00-41610. Burns & Roe provided engineering and related services in connection with construction projects. At the time of its bankruptcy filing, on December 4, 2000, Burns & Roe asserted that it faced approximately 11,000 claims alleging bodily injury resulting from exposure to asbestos as a result of construction projects in which Burns & Roe was involved. CNA allegedly provided primary liability coverage to Burns & Roe from 1956-1969 and 1971-1974, along with certain project-specific policies from 1964-1970. In September of 2007, CNA entered into an agreement with Burns & Roe, the Official Committee of Unsecured Creditors appointed by the Bankruptcy Court and the Future Claims Representative (the "Addendum"), which provides that claims allegedly covered by CNA policies will be adjudicated in the tort system, with any coverage disputes related to those claims to be decided in coverage litigation. With the approval of the Bankruptcy Court, Burns & Roe included the Addendum as part of its Fourth Amended Plan (the "Plan"), which was filed on June 9, 2008 and which will be the subject of a later confirmation hearing. With respect to both confirmation of the Plan and coverage issues, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether CNA has any further responsibility to compensate claimants against Burns & Roe under its policies and, if so, under which; (b) whether CNA's responsibilities under its policies extend to a particular claimant's entire claim or only to a limited percentage of the claim; (c) whether CNA's responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions, including professional liability exclusions, in some of CNA's policies apply to exclude certain claims; (e) the extent to which claimants can establish exposure to asbestos materials as to which Burns & Roe has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Burns & Roe and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; (h) the extent that any liability of Burns & Roe would be shared with other potentially responsible parties; (i) whether the Plan, which includes the Addendum, will be approved by the Bankruptcy Court in its current form; and (j) the impact of bankruptcy proceedings on claims and coverage issue resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Suits have also been initiated directly against the CNA companies and numerous other insurers in two jurisdictions: Texas and Montana. Approximately 80 lawsuits were filed in Texas beginning in 2002, against two CNA companies and numerous other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (e.g. *Boson v. Union Carbide Corp.*, (Nueces County, Texas)). During 2003, several of the Texas suits were dismissed and while certain of the Texas courts' rulings were appealed, plaintiffs later dismissed their appeals. A different Texas court, however, denied similar motions seeking dismissal. After that court denied a related challenge to jurisdiction, the insurers transferred the case, among others, to a state multi-district litigation court in Harris County charged with handling asbestos cases. In February 2006, the insurers petitioned the appellate court in Houston for an order of mandamus, requiring the multi-district litigation court to dismiss the case on jurisdictional and substantive grounds. On February 29, 2008, the appellate court denied the insurers' mandamus petition on procedural grounds, but did not reach a decision on the merits of the petition. Instead, the appellate court allowed to stand the multi-district litigation court's determination that the case remained on its inactive docket and that no further action can be taken unless qualifying reports are filed or the filing of such reports is waived. With

respect to the cases that are still pending in Texas, in June 2008, plaintiffs in the only active case dropped the remaining CNA company from that suit, leaving only inactive cases against CNA companies. In those inactive cases, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the speculative nature and unclear scope of any alleged duties owed to individuals exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the fact that imposing such duties on all insurer and non-insurer corporate defendants would be unprecedented and, therefore, the legal boundaries of recovery are difficult to estimate; (c) the fact that many of the claims brought to date are barred by the Statute of Limitations and it is unclear whether future claims would also be barred; (d) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (e) the existence of hundreds of co-defendants in some of the suits and the applicability of the legal theories pled by the claimants to thousands of potential defendants. Accordingly, the extent of losses beyond any amounts that may be accrued is not readily determinable at this time.

On March 22, 2002, a direct action was filed in Montana (Pennock, et al. v. Maryland Casualty, et al. First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. ("W.R. Grace")) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace's pending bankruptcy. On April 7, 2008, W.R. Grace announced a settlement in principle with the asbestos personal injury claimants committee subject to confirmation of a plan of reorganization by the bankruptcy court. While the confirmation hearing has not been scheduled, W.R. Grace expects the hearing to occur in 2009. The settlement in principle with the asbestos claimants has no present impact on the stay currently imposed on the Montana direct action and with respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA is vigorously defending these and other cases and believes that it has meritorious defenses to the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure represented by these matters. Adverse developments with respect to any of these matters could have a material adverse effect on CNA's business, insurer financial strength and debt ratings, and the Company's results of operations and/or equity.

Environmental Pollution

CNA recorded \$3 million and \$1 million of unfavorable environmental pollution net claim and claim adjustment expense reserve development for the nine months ended September 30, 2008 and 2007. CNA paid environmental pollution-related claims, net of reinsurance recoveries, of \$51 million and \$31 million for the nine months ended September 30, 2008 and 2007.

Net Prior Year Development

The net prior year development presented below includes premium development due to its direct relationship to claim and allocated claim adjustment expense reserve development. The net prior year development presented below

excludes the impact of increases or decreases in the allowance for uncollectible reinsurance, but includes the impact of commutations.

Three Month Comparison

Three Months Ended September 30, 2008 (In millions)	Standard Lines	Specialty Lines	Other Insurance	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$ (4)	\$ (68)	\$ 1	\$ (71)
A&E			13	13
Pretax unfavorable (favorable) net prior year development before impact of premium development	(4)	(68)	14	(58)
Pretax unfavorable (favorable) premium development	3	(2)	(3)	(2)
Total pretax unfavorable (favorable) net prior year development	\$ (1)	\$ (70)	\$ 11	\$ (60)
Three Months Ended September 30, 2007				
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$ (67)	\$ 3	\$ 4	\$ (60)
A&E			3	3
Pretax unfavorable (favorable) net prior year development before impact of premium development	(67)	3	7	(57)
Pretax favorable premium development	(5)	(3)	(2)	(10)
Total pretax unfavorable (favorable) net prior year development	\$ (72)	\$ -	\$ 5	\$ (67)

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages offset by unfavorable experience in workers' compensation (including excess workers' compensation coverages) and large account business.

For general liability excluding construction defect, \$228 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of \$207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property exposures,

\$31 million of favorable development was primarily the result of decreased frequency and severity in recent years. The remaining favorable development was the result of favorable experience across several miscellaneous coverages in Standard Lines.

Unfavorable development of \$248 million for workers' compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of \$161 million for large account business was also driven primarily by workers' compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of \$90 million on excess workers' compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach

excess layers. The remaining unfavorable development was driven primarily by commercial auto liability coverages in recent accident years due to an increase in frequency.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability and surety business, partially offset by unfavorable experience in professional liability coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately \$52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Favorable development of approximately \$22 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006. The remaining favorable development was due primarily to favorable outcomes on individual claims in accident years 2004 through 2006 for miscellaneous professional and general liability coverages.

Unfavorable development of approximately \$18 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years.

Other Insurance

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to the commutation of a ceded reinsurance arrangement. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

2007 Net Prior Year Development

Standard Lines

Approximately \$42 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased severity on open claims within the general liability exposures in accident years 2003 and prior, as well as lower frequency in accident years 2004 through 2006.

Approximately \$25 million of favorable claim and allocated claim adjustment expense development was recorded related to property exposures, primarily due to decreased frequency and severity on claims in accident years 2005 and 2006. The severity change was driven by decreased incurred losses as a result of changes in individual claims reserve estimates.

Nine Month Comparison

Nine Months Ended September 30, 2008 (In millions)	Standard Lines	Specialty Lines	Other Insurance	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$ (54)	\$ (50)	\$ 9	\$ (95)
A&E			21	21

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Pretax unfavorable (favorable) net prior year development before impact of premium development	(54)	(50)	30	(74)
Pretax unfavorable (favorable) premium development	4	(20)	(3)	(19)
Total pretax unfavorable (favorable) net prior year development	\$ (50)	\$ (70)	\$ 27	\$ (93)

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Nine Months Ended September 30, 2007 (In millions)	Standard Lines	Specialty Lines	Other Insurance	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$ (74)	\$ (4)	\$ 12	\$ (66)
A&E			7	7
Pretax unfavorable (favorable) net prior year development before impact of premium development	(74)	(4)	19	(59)
Pretax favorable premium development	(15)	(13)	(5)	(33)
Total pretax unfavorable (favorable) net prior year development	\$ (89)	\$ (17)	\$ 14	\$ (92)

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages including marine exposures, partially offset by unfavorable experience in workers' compensation (including excess workers' compensation coverages) and large account business.

For general liability excluding construction defect, \$254 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of \$207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property coverages including marine exposures, approximately \$95 million of favorable development was primarily the result of decreased frequency and severity in recent years. The \$95 million of favorable property and marine development includes approximately \$29 million due to favorable outcomes on claims relating to catastrophes, primarily in accident year 2005.

Unfavorable development of \$248 million for workers' compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of \$161 million for large account business was also driven primarily by workers' compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of \$114 million on excess workers' compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach excess layers.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability, professional liability coverages in recent years, and surety business, partially offset by unfavorable experience in professional liability coverages in older years.

Favorable claim and allocated claim adjustment expense reserve development of approximately \$52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Approximately \$22 million of favorable development was recorded for professional liability coverages due primarily to favorable outcomes on individual claims in accident years 2004 through 2006. Favorable development of approximately \$14 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006.

Unfavorable development of approximately \$33 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years. The favorable premium development is primarily the result of a change in ultimate premiums within a foreign affiliate's property and financial lines.

Other Insurance

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to commutations of certain ceded reinsurance arrangements. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

2007 Net Prior Year Development

Standard Lines

Approximately \$42 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased severity on open claims within the general liability exposures in accident years 2003 and prior, as well as lower frequency in accident years 2004 through 2006. In addition, approximately \$14 million of unfavorable premium development was taken primarily as a result of favorable claim and allocated claim adjustment expense reserve development on retrospectively rated large account policies relating to the automobile and general liability lines of business in accident years 2001 and subsequent. This favorable claim and allocated claim adjustment expense reserve development was due to lower than anticipated frequency and severity.

Approximately \$58 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity on claims related to property exposures, primarily in accident years 2005 and 2006. The change was driven by decreased incurred losses as a result of changes in individual claims reserve estimates.

Approximately \$42 million of favorable premium development was recorded mainly as a result of additional premium resulting from audits on recent policies related to workers' compensation and general liability books of business. This was partially offset by \$27 million of unfavorable claim and claim adjustment expense reserve development related to this premium.

Approximately \$16 million of unfavorable premium development was recorded due to a change in the estimate of CNA's exposure related to its participation in involuntary pools. This unfavorable premium development was partially offset by \$9 million of favorable claim and allocated claim adjustment expense reserve development.

Additional unfavorable prior year reserve development was recorded in the workers' compensation line of business as a result of continued claim cost inflation in older accident years, driven by increasing medical inflation and advances in medical care. This unfavorable development was offset by favorable development in commercial auto, monoline general liability and umbrella product lines. This favorable development was due to improved severity in recent accident years.

Specialty Lines

Approximately \$9 million of favorable claim and claim adjustment expense reserve development was recorded in the excess and surplus line of business. This favorable development was primarily related to improved frequency and severity on excess general liability claims across several accident years.

Approximately \$9 million of favorable premium development was recorded mainly as a result of additional premium resulting from audits on recent policies related primarily to general liability coverages. Unfavorable claim and allocated claim adjustment expense reserve development was recorded related to those premiums.

Other Insurance

Approximately \$9 million of unfavorable claim and allocated claim adjustment expense reserve development was related to commutation activity, a portion of which was offset by a release of a previously established allowance for uncollectible reinsurance.

10. Debt

In January of 2008, CNA repaid its \$150 million 6.45% senior note at maturity.

In March of 2008, Texas Gas Transmission, LLC, a wholly owned subsidiary of Boardwalk Pipeline, issued \$250 million aggregate principal amount of 5.5% senior notes due 2013 in a private placement. The proceeds from this offering were primarily used to finance a portion of its expansion projects.

11. Statutory Accounting Practices

CNA's ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNA by its insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Dividends from Continental Casualty Company ("CCC") are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department of Financial and Professional Regulation – Division of Insurance (the "Department"), may be paid only from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of September 30, 2008, CCC is in a negative earned surplus position. Any future dividend payments made during 2008 would be subject to the Department's prior approval.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the National Association of Insurance Commissioners ("NAIC") to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of September 30, 2008 and December 31, 2007, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Combined statutory capital and surplus and net income, determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities for the property and casualty and the life insurance subsidiaries, were as follows:

	Statutory Capital and Surplus	
	September 30, 2008	December 31, 2007
(In millions)		
Property and casualty companies (a)	\$ 7,967	\$ 8,511
Life company	514	471

(a) Surplus includes the property and casualty companies' equity ownership of the life company's capital and surplus.

	Statutory Net Income (Loss)	
	Three Months Ended	Nine Months Ended

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September 30,
2008 2007 September 30,
2008 2007

(In millions)

Property and casualty companies	\$	(259)	\$	164	\$	-	\$	570
Life company		(26)		(3)		5		26

In conformity with accounting practices prescribed by insurance regulatory authorities, preliminary statutory capital and surplus as of September 30, 2008, presented above, reflects the impact of a \$1.0 billion surplus note, which will be issued subsequent to September 30, 2008 but prior to the filing of CCC's third quarter statutory statements. See Note 20 of the Notes to Consolidated Condensed Financial Statements for further discussion.

12. Comprehensive Income (Loss)

The components of Accumulated other comprehensive income (loss) are as follows:

(In millions)	Unrealized Gains (Losses) on Investments	Foreign Currency	Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2007	\$ 584	\$ 86	\$ (283)	\$ 387
Unrealized holding losses, net of tax of \$163	(263)			(263)
Adjustment for items included in net income, net of tax of \$59	(102)			(102)
Foreign currency translation adjustment, net of tax of \$2		31		31
Pension liability adjustment, net of tax of \$2			7	7
Balance, September 30, 2007	\$ 219	\$ 117	\$ (276)	\$ 60
Balance, January 1, 2008	\$ 12	\$ 117	\$ (194)	\$ (65)
Unrealized holding losses, net of tax of \$1,265	(2,062)			(2,062)
Adjustment for items included in net income, net of tax of \$79 and \$20	133		34	167
Foreign currency translation adjustment, net of tax		(56)		(56)
Pension liability adjustment, net of tax of \$5			(11)	(11)
Disposal of discontinued operations, net of tax of \$33			53	53
Balance, September 30, 2008	\$ (1,917)	\$ 61	\$ (118)	\$ (1,974)

13. Significant Transactions

Diamond Offshore

In the first nine months of 2007, the holders of \$451 million in principal amount of Diamond Offshore's 1.5% debentures converted their outstanding debentures into 9.2 million shares of Diamond Offshore's common stock at a price of \$49.02 per share. In addition, the holders of \$2 million aggregate principal amount of Diamond Offshore's Zero Coupon Debentures converted their outstanding debentures into 20,658 shares of Diamond Offshore's common stock at a price of \$73.00 per share.

The Company's ownership interest in Diamond Offshore declined from approximately 54% to 51% due to these transactions. In accordance with Securities and Exchange Commission Staff Accounting Bulletin Topic 5-H, "Accounting for Sales of Stock by a Subsidiary" ("SAB No. 51"), the Company recognized a pretax gain of \$142 million (\$92 million after provision for deferred income taxes) on the issuance of subsidiary stock.

Prior to the conversion of Diamond Offshore's 1.5% convertible debentures, the Company carried a deferred tax liability related to interest expense imputed on the bonds for U.S. federal income tax purposes. As a result of the conversion, the deferred tax liability was settled and a tax benefit of \$26 million, net of minority interest, was included in Shareholders' equity as an increase in Additional paid-in capital.

Boardwalk Pipeline

In the second quarter of 2008, Boardwalk Pipeline sold 10 million common units at a price of \$25.30 per unit in a public offering and received net proceeds of \$243 million. In addition, the Company contributed \$5 million to maintain its 2% general partner interest. The Company's percentage ownership interest in Boardwalk Pipeline declined as a result of this transaction. The issuance price of the common units exceeded the Company's carrying amount, increasing the amount of cumulative pretax SAB No. 51 gains to approximately \$536 million at September 30, 2008, from \$472 million at December 31, 2007. In accordance with SAB No. 51, recognition of a gain is only appropriate if the class of securities sold by the subsidiary does not contain any preference over the subsidiary's other classes of securities. As a result, the Company has deferred gain recognition until the common units no longer have preference over other classes of securities.

In June of 2008, the Company purchased 22,866,667 of Boardwalk Pipeline's newly created class B units representing limited partner interests ("class B units") for \$30 per class B unit, or an aggregate purchase price of \$686 million. The Company contributed an additional \$14 million to maintain its 2% general partner interest. Boardwalk Pipeline intends to use the proceeds of approximately \$700 million to fund a portion of the costs of its ongoing expansion projects.

Beginning with the distribution in respect of the quarter ending September 30, 2008, the class B units share in quarterly distributions of available cash from operating surplus with Boardwalk Pipeline's common units, until each common unit and class B unit has received a quarterly distribution of \$0.30. The class B units do not participate in quarterly distributions above \$0.30 per unit and are convertible into common units of Boardwalk Pipeline on a one-for-one basis at any time after June 30, 2013.

14. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. The benefits for certain plans which cover salaried employees and certain union employees are based on formulas which include, among others, years of service and average pay. The benefits for one plan which covers union workers under various union contracts and certain salaried employees are based on years of service multiplied by a stated amount. Benefits for another plan are determined annually based on a specified percentage of annual earnings (based on the participant's age) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements.

Other Postretirement Benefit Plans - The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company funds certain of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

At December 31, 2007, the Company expected to contribute \$24 million to its pension plans and \$13 million to its postretirement healthcare and life insurance benefit plans in 2008. During the nine months ended September 30, 2008, CNA decided to contribute an additional \$43 million to their pension plan bringing the expected pension contributions to \$67 million.

During the first nine months of 2008, the Company made \$71 million of total contributions to the pension plans and \$9 million to the postretirement healthcare and life insurance benefit plans.

Net periodic benefit cost components:

Pension Benefits	
Three Months Ended	Nine Months Ended
September 30,	September 30,

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	2008	2007	2008	2007
(In millions)				
Service cost	\$ 8	\$ 7	\$ 23	\$ 24
Interest cost	41	40	123	121
Expected return on plan assets	(49)	(47)	(145)	(141)
Amortization of net loss	1	2	2	2
Amortization of prior service cost		(1)		(1)
Actuarial loss	1	3	3	9
Settlement costs				4
Net periodic benefit cost	\$ 2	\$ 4	\$ 6	\$ 18

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Other Postretirement Benefits

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(In millions)				
Service cost	\$	1	\$	2
Interest cost		3	\$	4
Expected return on plan assets		(2)		(1)
Amortization of prior service benefit		(5)		(6)
Actuarial loss				1
Regulatory asset decrease		1		1
Net periodic benefit cost	\$	(2)	\$	(1)
			\$	2
			\$	9
			\$	11
			\$	(4)
			\$	(3)
			\$	(17)
			\$	(19)
			\$	4
			\$	4
			\$	(5)
			\$	(4)

15. Business Segments

The Company's reportable segments are primarily based on its individual operating subsidiaries. Each principal operating subsidiary is headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position. Investment gains (losses) and the related income taxes, excluding those of CNA Financial, are included in the Corporate and other segment.

CNA's core property and casualty commercial insurance operations are reported in two business segments: Standard Lines and Specialty Lines. Standard Lines includes standard property and casualty coverages sold to small businesses and middle market entities and organizations in the U.S. primarily through an independent agency distribution system. Standard Lines also includes commercial insurance and risk management products sold to large corporations in the U.S. primarily through insurance brokers. Specialty Lines provides a broad array of professional, financial and specialty property and casualty products and services, including excess and surplus lines, primarily through insurance brokers and managing general underwriters. Specialty Lines also includes insurance coverages sold globally through CNA's foreign operations. The non-core operations are managed in Life & Group Non-Core segment and Other Insurance segment. Life & Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Reinsurance Company Limited. This segment also includes the results related to the centralized adjusting and settlements of A&E.

Diamond Offshore's business primarily consists of operating 46 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. The majority of these rigs are located in the Gulf of Mexico region with the remainder operating in Brazil, the North Sea, and various other foreign markets.

HighMount's business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama, with estimated proved reserves totaling approximately 2.5 trillion cubic feet equivalent as of December 31, 2007.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of interstate natural gas pipeline systems located in the Southeast and running north and east through Texas, Louisiana, Mississippi, Alabama, Florida, Arkansas, Tennessee, Kentucky, Indiana, Ohio and Illinois.

Loews Hotels owns and/or operates 18 hotels, 16 of which are in the United States and two are in Canada.

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-insurance subsidiaries, corporate interest expenses and other corporate administrative costs.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

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The following tables set forth the Company's consolidated revenues and income (loss) by business segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues (a):				
CNA Financial:				
Standard Lines	\$ 734	\$ 1,032	\$ 2,601	\$ 3,127
Specialty Lines	947	1,074	3,035	3,140
Life and Group Non-Core	(11)	308	534	972
Other Insurance	(11)	70	92	231
Total CNA Financial	1,659	2,484	6,262	7,470
Diamond Offshore	868	655	2,630	1,935
HighMount	200	100	590	100
Boardwalk Pipeline	222	141	641	490
Loews Hotels	90	90	292	285
Corporate and other	(69)	55	89	430
Total	\$ 2,970	\$ 3,525	\$ 10,504	\$ 10,710
Income (loss) before income tax and minority interest (a):				
CNA Financial:				
Standard Lines	\$ (272)	\$ 232	\$ (39)	\$ 584
Specialty Lines	120	239	512	697
Life and Group Non-Core	(369)	(224)	(472)	(281)
Other Insurance	(17)	2	(17)	19
Total CNA Financial	(538)	249	(16)	1,019
Diamond Offshore	446	285	1,441	945
HighMount	74	30	225	30
Boardwalk Pipeline	73	40	226	156
Loews Hotels	7	7	57	47
Corporate and other	(103)	27	(5)	351
Total	\$ (41)	\$ 638	\$ 1,928	\$ 2,548
Net income (loss) (a):				
CNA Financial:				
Standard Lines	\$ (151)	\$ 141	\$ 1	\$ 357
Specialty Lines	64	128	284	385
Life and Group Non-Core	(207)	(121)	(250)	(141)
Other Insurance	(9)	8	(5)	22
Total CNA Financial	(303)	156	30	623
Diamond Offshore	145	95	475	320
HighMount	47	19	142	19
Boardwalk Pipeline	31	19	98	74

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Loews Hotels	6	4	36	29
Corporate and other	(70)	16	(5)	227
Income (loss) from continuing operations	(144)	309	776	1,292
Discontinued operations	7	246	4,712	685
Total	\$ (137)	\$ 555	\$ 5,488	\$ 1,977

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(a) Investment gains (losses) included in Revenues, Income (loss) before income tax and minority interest and Net income (loss) are as follows:

	Three Months Ended September 30, 2008		2007		Nine Months Ended September 30, 2008		2007	
Revenues and Income (loss) before income tax and minority interest:								
CNA Financial:								
Standard Lines	\$	(178)	\$	(29)	\$	(254)	\$	(116)
Specialty Lines		(115)		(13)		(154)		(62)
Life and Group Non-Core		(298)		(9)		(321)		(26)
Other Insurance		(60)		(6)		(84)		(13)
Total CNA Financial		(651)		(57)		(813)		(217)
Corporate and other		1		3		3		173
Total	\$	(650)	\$	(54)	\$	(810)	\$	(44)
Net income (loss):								
CNA Financial:								
Standard Lines	\$	(103)	\$	(17)	\$	(148)	\$	(68)
Specialty Lines		(66)		(7)		(88)		(36)
Life and Group Non-Core		(175)		(5)		(188)		(15)
Other Insurance		(35)		(4)		(49)		(7)
Total CNA Financial		(379)		(33)		(473)		(126)
Corporate and other				1		1		111
Total	\$	(379)	\$	(32)	\$	(472)	\$	(15)

16. Legal Proceedings

California Long Term Care Litigation

Shaffer v. Continental Casualty Company, et al., U.S. District Court, Central District of California, CV06-2235 RGK, is a class action on behalf of certain California individual long term health care policyholders, alleging that CCC and CNA knowingly or negligently used unrealistic actuarial assumptions in pricing these policies. On January 8, 2008, CCC, CNA and the plaintiffs entered into a binding agreement settling the case on a nationwide basis for the policy forms potentially affected by the allegations of the complaint. Following a fairness hearing, the Court entered an order approving the settlement. This order was appealed to the Ninth Circuit Court of Appeals. The appellants' brief is due to be filed on December 22, 2008. CNA believes it has meritorious defenses to this appeal and intends to defend the appeal vigorously. The agreement did not have a material adverse effect on the financial condition, cash flows or results of operations of the Company, however it still remains subject to the favorable resolution of the appeal.

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNA and several of its insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (FSH). The plaintiffs allege bid rigging and improprieties

in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations (“RICO”) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs have appealed the dismissal of their complaint to the Third Circuit Court of Appeals. The parties have filed their briefs on the appeal. Oral argument, if granted, will be held on April 20, 2009. CNA believes it has meritorious defenses to this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

Global Crossing Limited Litigation

CCC has been named as a defendant in an action brought by the bankruptcy estate of Global Crossing Limited (“Global Crossing”) in the United States Bankruptcy Court for the Southern District of New York, Global Crossing Estate Representative, for itself and as the Liquidating Trustee of the Global Crossing Liquidating Trust v. Gary Winnick, et al., Case No. 04 Civ. 2558 (GEL). In the complaint, plaintiff seeks damages from CCC and the other defendants for alleged fraudulent transfers and alleged breaches of fiduciary duties arising from actions taken by Global Crossing while CCC was a shareholder of Global Crossing. The Court dismissed some of the claims against CCC as a matter of law. Pretrial proceedings are ongoing and no trial date has been set. CCC believes it has meritorious defenses to the claims in this action and continues to defend the case vigorously. However, adverse developments could have a material adverse effect on CNA’s business and the Company’s results of operations and/or equity.

CNA is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note 9 for further discussion.

The Company has been named as a defendant in the following four cases alleging substantial damages based on alleged health effects caused by smoking cigarettes or exposure to tobacco smoke, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Cochran vs. R.J. Reynolds Tobacco Company, et al.* (2002, Circuit Court, George County, Mississippi), the Company filed a motion to dismiss the complaint for lack of personal jurisdiction during 2003, which remains pending. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company plans to file a motion to dismiss the complaint for lack of personal jurisdiction in the event it receives personal service of this action. In *Clalit vs. Philip Morris, Inc., et al.* (1998, Jerusalem District Court of Israel), the court dismissed the Company from this action for lack of personal jurisdiction during 2006, and the plaintiff has noticed an appeal. In *Young vs. The American Tobacco Company, Inc. et al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending.

The Company does not believe it is a proper defendant in any of the foregoing tobacco related cases and as a result, does not believe the outcome will have a material affect on the Company’s results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Company and Lorillard and its subsidiaries, Lorillard and its subsidiaries have agreed to indemnify and hold the Company harmless from all costs and expenses based upon or arising out of the operation or conduct of Lorillard’s business, including among other things, smoking and health claims and litigation such as the four cases described above.

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company’s results of operations or equity.

17. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2008, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$873 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2008, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire. As of September 30, 2008 and December 31, 2007, CNA has recorded approximately \$23 million and \$27 million of liabilities related to these indemnification agreements.

In connection with the issuance of preferred securities by CNA Surety Capital Trust I, CNA Surety, a 62% owned and consolidated subsidiary of CNA, issued a guarantee of \$80 million to guarantee the payment by CNA Surety

Capital Trust I of annual dividends of \$1.9 million over 26 years and redemption of \$30 million of preferred securities.

Diamond Offshore Construction Projects

As of September 30, 2008 Diamond Offshore had purchase obligations aggregating approximately \$61 million related to the major upgrade of the Ocean Monarch. Diamond Offshore expects to complete funding of this project in 2008. However, the actual timing of these expenditures will vary based on the completion of various construction milestones and the timing of the delivery of equipment, which are beyond Diamond Offshore's control.

HighMount Volumetric Production Payment Transactions

As part of the acquisition of exploration and production assets from Dominion Resources, Inc., HighMount assumed an obligation to deliver approximately 15 Bcf of natural gas through February 2009 under previously existing Volumetric Production Payment ("VPP") agreements. Under these agreements, certain HighMount acquired properties are subject to fixed-term overriding royalty interests which had been conveyed to the VPP purchaser. While HighMount is obligated under the agreement to produce and deliver to the purchaser its portion of future natural gas production from the properties, HighMount retains control of the properties and rights to future development drilling. If production from the properties subject to the VPP is inadequate to deliver the natural gas provided for in the VPP, HighMount has no obligation to make up the shortfall. At September 30, 2008, the remaining obligation under these agreements is approximately 3.7 Bcf of natural gas.

Boardwalk Pipeline Purchase Commitments

Boardwalk Pipeline is engaged in several major expansion projects that will require the investment of significant capital resources. As of September 30, 2008, Boardwalk Pipeline had purchase commitments of \$295 million primarily related to its expansion projects.

18. Discontinued Operations

Lorillard

As discussed in Note 2, in June of 2008, the Company disposed of its entire ownership interest in Lorillard. The Consolidated Condensed Financial Statements have been reclassified to reflect Lorillard as a discontinued operation. Accordingly, the assets and liabilities, revenues and expenses and cash flows of Lorillard have been excluded from the respective captions in the Consolidated Condensed Balance Sheets, Consolidated Condensed Statements of Operations, and Consolidated Condensed Statements of Cash Flows, and have been included in Assets and Liabilities of discontinued operations, Discontinued operations, net and Net cash flows - discontinued operations, respectively.

CNA

CNA has discontinued operations, which consist of run-off insurance and reinsurance operations acquired in its merger with The Continental Corporation in 1995. As of September 30, 2008, the remaining run-off business is administered by Continental Reinsurance Corporation International, Ltd., a wholly owned Bermuda subsidiary. The business consists of facultative property and casualty, treaty excess casualty and treaty pro-rata reinsurance with underlying exposure to a diverse, multi-line domestic and international book of business encompassing property, casualty and marine liabilities.

The income (loss) from discontinued operations reported below related to CNA primarily represents the net investment income, realized investment gains and losses, foreign currency gains and losses, effects of the accretion of the loss reserve discount and re-estimation of the ultimate claim and claim adjustment expense reserve of the discontinued operations.

In the third quarter of 2008, CNA recognized a change in estimate of the tax benefit related to the 2007 sale of its United Kingdom discontinued operations subsidiary.

Bulova

The Company sold Bulova for approximately \$263 million in January of 2008. The Company recorded a pretax gain of approximately \$126 million, \$75 million after tax, for the nine months ended September 30, 2008.

Results of Discontinued Operations

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Net investment income	\$ 2	\$ 33	\$ 20	\$ 99
Manufactured products		1,094	1,750	3,148
Investment gains	1	5	3	8
Other				1
Total	3	1,132	1,773	3,256
Expenses:				
Insurance related expenses	3	3	8	23
Cost of manufactured products sold		638	1,039	1,839
Other operating expenses		105	173	305
Interest		2	2	4
Total	3	748	1,222	2,171
Income before income tax and minority interest	-	384	551	1,085
Income tax (expense) benefit	8	(138)	(200)	(401)
Minority interest	(1)		(1)	1
Results of discontinued operations	7	246	350	685
Gain on disposal (net of tax of \$51)			4,362	
Net income from discontinued operations	\$ 7	\$ 246	\$ 4,712	\$ 685

Lorillard's revenues amounted to 99.5% of total revenues of discontinued operations for the nine months ended September 30, 2008 and 95.1% and 95.3% for the three and nine months ended September 30, 2007. Lorillard's pretax income amounted to 100% of total pretax income of discontinued operations for the nine months ended September 30, 2008 and 99.2% and 99.5% for the three and nine months ended September 30, 2007.

The components of discontinued operations included in the Consolidated Condensed Balance Sheets are as follows:

	September 30, 2008	December 31, 2007
(In millions)		
Assets of discontinued operations:		
Investments	\$ 166	\$ 1,495
Cash		20
Receivables		293
Reinsurance receivables	6	1
Property, plant and equipment		218
Deferred income taxes		575
Goodwill and other intangible assets		5
Other assets	1	408
Insurance reserves and other liabilities	(172)	(174)
Assets of discontinued operations	\$ 1	\$ 2,841

Liabilities of discontinued operations:

Other liabilities	\$	-	\$	1,637
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The assets and liabilities of Lorillard totaling \$2.6 billion and \$1.6 billion, and Bulova totaling \$218 million and \$50 million, respectively, as of December 31, 2007 are included in Assets of discontinued operations and Liabilities of discontinued operations in the Consolidated Condensed Balance Sheet. The assets of CNA's discontinued operations totaling \$1 million and \$23 million as of September 30, 2008 and December 31, 2007 are included in Assets of discontinued operations in the Consolidated Condensed Balance Sheets.

CNA's accounting and reporting for discontinued operations is in accordance with APB No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." In accordance with APB No. 30, CNA's assets and liabilities

of discontinued operations are presented in net assets. At September 30, 2008 and December 31, 2007, the insurance reserves are net of discounts of \$76 million and \$73 million, respectively.

19. Consolidating Financial Information

The following schedules present the Company's consolidating balance sheet information at September 30, 2008 and December 31, 2007, and consolidating statements of operations information for the nine months ended September 30, 2008 and 2007. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income tax and minority interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

The Corporate and Other column primarily reflects the parent company's investment in its subsidiaries, invested cash portfolio, the assets and liabilities of discontinued operations of Lorillard and Bulova and corporate long term debt. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company's investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

Loews Corporation
Consolidating Balance Sheet Information

September 30, 2008 (In millions)	CNA Financial	Diamond Offshore	High Mountain	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	\$ 37,059	\$ 608	\$ 84	\$ 13	\$ 45	\$ 4,469		\$ 42,278
Cash	115	28	64	10	15	4		236
Receivables	11,202	708	81	56	35	122	\$ (3)	12,201
Property, plant and equipment	346	3,337	3,384	5,343	354	45		12,809
Deferred income taxes	2,445						(979)	1,466
Goodwill and other intangible assets	106	20	1,066	163	3			1,358
Assets of discontinued operations	1							1
Investments in capital stocks of subsidiaries						12,838	(12,838)	-
Other assets	846	166	66	357	45	2	(1)	1,481
Deferred acquisition costs of insurance subsidiaries	1,157							1,157
Separate account business	430							430
Total assets	\$ 53,707	\$ 4,867	\$ 4,745	\$ 5,942	\$ 497	\$ 17,480	\$ (13,821)	\$ 73,417
Liabilities and Shareholders' Equity:								
Insurance reserves	\$ 39,469						\$ (1)	\$ 39,468
Payable to brokers	1,001	\$ 20	\$ 89	\$ 2		\$ 481		1,593
Collateral on loaned securities	6							6
Short term debt	200				\$ 73			273
Long term debt	1,807	503	1,715	2,353	156	867		7,401
Reinsurance balances payable	367							367
Deferred income taxes		422	103	92	48	314	(979)	-
Other liabilities	2,345	554	187	743	14	130	(3)	3,970
Separate account business	430							430
Total liabilities	45,625	1,499	2,094	3,190	291	1,792	(983)	53,508
Minority interest	1,154	1,651		1,363				4,168
Shareholders' equity	6,928	1,717	2,651	1,389	206	15,688	(12,838)	15,741
Total liabilities and shareholders' equity	\$ 53,707	\$ 4,867	\$ 4,745	\$ 5,942	\$ 497	\$ 17,480	\$ (13,821)	\$ 73,417

Loews Corporation
Consolidating Balance Sheet Information

December 31, 2007 (In millions)	CNA Financial	Diamond Offshore	High Mountain	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	\$ 41,789	\$ 633	\$ 34	\$ 316	\$ 58	\$ 3,839		\$ 46,669
Cash	94	7	19	1	15	4		140
Receivables	10,672	523	136	87	22	32	\$ (3)	11,469
Property, plant and equipment	350	3,058	3,121	3,303	365	21		10,218
Deferred income taxes	1,224		3				(786)	441
Goodwill and other intangible assets	106	20	1,061	163	3			1,353
Assets of discontinued operations	23					2,818		2,841
Investments in capital stocks of subsidiaries						14,967	(14,967)	-
Other assets	824	130	47	272	36	39	(1)	1,347
Deferred acquisition costs of insurance subsidiaries	1,161							1,161
Separate account business	476							476
Total assets	\$ 56,719	\$ 4,371	\$ 4,421	\$ 4,142	\$ 499	\$ 21,720	\$ (15,757)	\$ 76,115
Liabilities and Shareholders' Equity:								
Insurance reserves	\$ 40,222						\$ (1)	\$ 40,221
Payable to brokers	441		\$ 38			\$ 101		580
Collateral on loaned securities	63							63
Short term debt	350	\$ 3			\$ 5			358
Long term debt	1,807	503	1,647	\$ 1,848	229	866		6,900
Reinsurance balances payable	401							401
Deferred income taxes		362		60	45	319	(786)	-
Liabilities of discontinued operations						1,637		1,637
Other liabilities	2,463	587	280	561	16	91	(8)	3,990
Separate account business	476							476
Total liabilities	46,223	1,455	1,965	2,469	295	3,014	(795)	54,626
Minority interest	1,467	1,425		1,006				3,898
Shareholders' equity	9,029	1,491	2,456	667	204	18,706	(14,962)	17,591
Total liabilities and shareholders' equity	\$ 56,719	\$ 4,371	\$ 4,421	\$ 4,142	\$ 499	\$ 21,720	\$ (15,757)	\$ 76,115

Loews Corporation
Consolidating Statement of Operations Information

Nine Months Ended September 30, 2008 (In millions)	CNA Financial	Diamond Offshore	High Month	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	\$ 5,386						\$ (1)	\$ 5,385
Net investment income	1,449	\$ 10		\$ 2	\$ 1	\$ 69		1,531
Intercompany interest and dividends						1,053	(1,053)	-
Investment gains (losses)	(813)	1						(812)
Gain on issuance of subsidiary stock						2		2
Contract drilling revenues		2,589						2,589
Other	240	31	\$ 590	639	291	18		1,809
Total	6,262	2,631	590	641	292	1,142	(1,054)	10,504
Expenses:								
Insurance claims and policyholders' benefits	4,380							4,380
Amortization of deferred acquisition costs	1,083							1,083
Contract drilling expenses		873					(1)	872
Other operating expenses	715	310	308	369	227	53		1,982
Interest	100	6	57	46	8	42		259
Total	6,278	1,189	365	415	235	95	(1)	8,576
Income (loss) before income tax and minority interest	(16)	1,442	225	226	57	1,047	(1,053)	1,928
Income tax expense (benefit)	(89)	462	83	61	21	(1)		537
Minority interest	43	505		67				615
Total	(46)	967	83	128	21	(1)	-	1,152
Income from continuing operations	30	475	142	98	36	1,048	(1,053)	776
Discontinued operations, net:								
Results of operations	9					341		350
Gain on disposal						4,362		4,362
Net income	\$ 39	\$ 475	\$ 142	\$ 98	\$ 36	\$ 5,751	\$ (1,053)	\$ 5,488

Loews Corporation
Consolidating Statement of Operations Information

Nine Months Ended September 30, 2007 (In millions)	CNA	Diamond	Boardwalk	Loews	Corporate	Other	Eliminations	Total
	Financial	Offshore	High Mountain	Pipeline	Hotels			
Revenues:								
Insurance premiums	\$ 5,617						\$ (1)	\$ 5,616
Net investment income	1,859	\$ 26		\$ 16	\$ 1	\$ 263		2,165
Intercompany interest and dividends						1,171	(1,171)	-
Investment gains (losses)	(217)	2	\$ 32					(183)
Gain on issuance of subsidiary stock		(3)				142		139
Contract drilling revenues		1,854						1,854
Other	211	55	100	474	284	1	(6)	1,119
Total	7,470	1,934	132	490	285	1,577	(1,178)	10,710
Expenses:								
Insurance claims and policyholders' benefits	4,496							4,496
Amortization of deferred acquisition costs	1,137							1,137
Contract drilling expenses		715						715
Other operating expenses	713	258	58	288	229	45	(7)	1,584
Interest	105	17	12	46	9	41		230
Total	6,451	990	70	334	238	86	(7)	8,162
Income before income tax and minority interest	1,019	944	62	156	47	1,491	(1,171)	2,548
Income tax expense	283	292	22	47	18	112		774
Minority interest	113	334		35				482
Total	396	626	22	82	18	112	-	1,256
Income from continuing operations	623	318	40	74	29	1,379	(1,171)	1,292
Discontinued operations, net	(7)					692		685
Net income	\$ 616	\$ 318	\$ 40	\$ 74	\$ 29	\$ 2,071	\$ (1,171)	\$ 1,977

20. Subsequent Events

CNA Preferred Issue and CCC Surplus Note

Under an agreement dated October 27, 2008, CNA will issue, and Loews has agreed to purchase, \$1.25 billion of CNA non-voting cumulative senior preferred stock ("Preferred Issue").

CNA will use the proceeds from the Preferred Issue to increase the statutory surplus of its principal insurance subsidiary, CCC, through the purchase of a \$1.0 billion surplus note of CCC. Surplus notes are financial instruments with a stated maturity date and scheduled interest payments, issued by insurance enterprises with the approval of the insurer's domiciliary state. Surplus notes are treated as capital under statutory accounting. All payments of interest and principal on this note are subject to the prior approval of the Illinois Department of Financial and Professional Regulation - Division of Insurance. The surplus note of CCC will have a term of 20 years and will accrue interest at a rate of 10.0% per year.

Limited Partnership Investments

The Company's limited partnership investments consist of 82 individual partnerships which cover a broad range of investment strategies including fixed income arbitrage, global arbitrage, long/short equity, relative value, multi-strategy and private equity. The investments across partnerships and investment strategies provide for risk diversification within the limited partnership portfolio and the overall investment portfolio. These strategies consist primarily of underlying marketable securities and may include low levels of leverage and the use of derivatives which may potentially introduce more volatility and risk to the partnership returns. The continued disruption and turmoil in the capital markets has had a negative impact on limited partnership returns.

As described in Note 1 of the Notes to Consolidated Financial Statements within the Company's 2007 Form 10-K, the Company's carrying value of investments in limited partnerships typically reflects a reporting lag. Subsequent to September 30, 2008, the Company received preliminary September 2008 results from the general partners of certain limited partnership investments indicating a pretax loss of approximately \$110 million that will be reflected in the fourth quarter results due to the reporting lag.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Management’s discussion and analysis of financial condition and results of operations (“MD&A”) should be read in conjunction with our Consolidated Condensed Financial Statements included in Item 1 of this Report, Risk Factors included in Part II, Item 1A of this Report, and the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2007. This MD&A is comprised of the following sections:

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OVERVIEW

We are a holding company. Our subsidiaries are engaged in the following lines of business:

- commercial property and casualty insurance (CNA Financial Corporation (“CNA”), a 90% owned subsidiary);
- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (“Diamond Offshore”), a 50.4% owned subsidiary);
- exploration, production and marketing of natural gas, natural gas liquids and, to a lesser extent, oil (HighMount Exploration & Production LLC (“HighMount”), a wholly owned subsidiary);

- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 70% owned subsidiary); and
 - operation of hotels (Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary).

Unless the context otherwise requires, references in this report to “Loews Corporation,” “the Company,” “we,” “our,” “us” like terms refer to the business of Loews Corporation excluding its subsidiaries.

Consolidated Financial Results

Net income (loss) and earnings (loss) per share information attributable to Loews common stock and former Carolina Group stock is summarized in the table below.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(In millions, except per share data)				
Net income (loss) attributable to Loews common stock:				
Income (loss) before net investment losses	\$ 235	\$ 341	\$ 1,248	\$ 1,307
Net investment losses (a)	(379)	(32)	(472)	(15)
Income (loss) from continuing operations	(144)	309	776	1,292
Discontinued operations, net (b)	7	100	4,501	280
Net income (loss) attributable to Loews common stock	(137)	409	5,277	1,572
Net income attributable to former Carolina Group stock -				
Discontinued operations (c)		146	211	405
Consolidated net income (loss)	\$ (137)	\$ 555	\$ 5,488	\$ 1,977
Net income (loss) per share:				
Loews common stock:				
Income (loss) from continuing operations	\$ (0.33)	\$ 0.58	\$ 1.58	\$ 2.40
Discontinued operations, net (b)	0.02	0.19	9.14	0.52
Loews common stock	\$ (0.31)	\$ 0.77	\$ 10.72	\$ 2.92
Former Carolina Group stock - Discontinued operations (c)	\$ -	\$ 1.34	\$ 1.95	\$ 3.73

(a) Includes a gain of \$92 for the nine months ended September 30, 2007 related to a reduction in the Company's ownership interest in Diamond Offshore from the conversion of Diamond Offshore's 1.5% convertible debentures into Diamond Offshore common stock.

(b) Includes a tax-free non-cash gain of \$4,287 related to the Separation of Lorillard and an after tax gain of \$75 from the sale of Bulova Corporation for the nine months ended September 30, 2008.

(c) The Carolina Group and Carolina Group stock were eliminated effective June 10, 2008 upon completion of the Separation of Lorillard.

Investments in Subsidiaries

To assist our CNA subsidiary in strengthening the statutory capital of its principal insurance subsidiary Continental Casualty Company ("CCC"), which has been adversely impacted by the ongoing disruption in the capital markets, we agreed to purchase \$1.25 billion of a new series of non-voting cumulative senior preferred stock from CNA. The new preferred stock will accrue cumulative dividends at the rate of 10% per annum, payable quarterly, for the first five years after issuance, with the dividend rate resetting thereafter and on each subsequent five year anniversary to the higher of 10% or the 10-year U.S. Treasury rate at such time plus 7%. No dividends may be declared on CNA's common stock while the new preferred stock is outstanding. CNA will use \$1.0 billion of the proceeds from the new preferred stock to increase the statutory surplus of CCC. We expect to complete the purchase of the new preferred stock during the fourth quarter of 2008, subject to customary closing conditions.

Our Board of Directors also approved a commitment to purchase up to \$1.0 billion of equity securities from Boardwalk Pipeline to facilitate the funding of the anticipated costs to complete its pipeline expansion projects. We would provide that equity capital to the extent that external funds are not available to Boardwalk Pipeline on acceptable terms. Boardwalk Pipeline anticipates that it will require a portion of this equity capital prior to the end of this year and the balance during the first half of 2009.

Income (Loss) from Continuing Operations

The loss from continuing operations for the third quarter of 2008 primarily resulted from a decline in results at CNA reflecting higher net investment losses described below, a \$145 million (after tax and minority interest) increase in catastrophe losses primarily from hurricanes and a reduction in investment income reflecting losses from limited partnership investments. Investment income at the holding company also included losses in 2008, as compared to gains

in the prior year period. These declines were partially offset by significantly improved results at Diamond Offshore due to higher dayrates in 2008 and improved results at HighMount and Boardwalk Pipeline. Results in 2007 also included a \$96 million charge at CNA (after tax and minority interest) in connection with a settlement of an arbitration proceeding related to a run-off book of business.

Net investment losses included in loss from continuing operations amounted to \$379 million (after tax and minority interest) in the third quarter of 2008 compared to net investment losses of \$32 million (after tax and minority interest) in the comparable period of the prior year. For the three months ended September 30, 2008, the Company recorded net realized investment losses of \$178 million related to securities issued by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, \$58 million related to securities issued by Washington Mutual, \$57 million related to securities issued by Icelandic banks and \$21 million related to securities issued by American International Group.

The decline in income from continuing operations for the nine months ended September 30, 2008 primarily reflects a decline in results at CNA, the increased investment losses and the reduced investment income discussed above. These decreases were partially offset by improved results at Diamond Offshore, HighMount and Boardwalk Pipeline.

Separation of Lorillard

In June of 2008, we disposed of our entire ownership interest in our wholly owned subsidiary, Lorillard, Inc. ("Lorillard"), through the following two integrated transactions, collectively referred to as the "Separation":

- On June 10, 2008, we distributed 108,478,429 shares, or approximately 62%, of the outstanding common stock of Lorillard in exchange for and in redemption of all of the 108,478,429 outstanding shares of the Company's former Carolina Group stock, in accordance with our Restated Certificate of Incorporation (the "Redemption"); and
- On June 16, 2008, we distributed the remaining 65,445,000 shares, or approximately 38%, of the outstanding common stock of Lorillard in exchange for 93,492,857 shares of Loews common stock, reflecting an exchange ratio of 0.70 (the "Exchange Offer").

As a result of the Separation, Lorillard is no longer a subsidiary of ours and we no longer own any interest in the outstanding stock of Lorillard. As of the completion of the Redemption, the former Carolina Group and former Carolina Group stock have been eliminated. In addition, at that time all outstanding stock options and stock appreciation rights ("SARs") awarded under the Company's former Carolina Group 2002 Stock Option Plan were assumed by Lorillard and converted into stock options and SARs which are exercisable for shares of Lorillard common stock.

The Loews common stock acquired by us in the Exchange Offer was recorded as a decrease in our Shareholders' equity, reflecting Loews common stock at market value of the shares of Loews common stock delivered in the Exchange Offer. This decline was offset by a \$4.3 billion gain to us from the Exchange Offer, which was reported as a gain on disposal of the discontinued business.

Our Consolidated Condensed Financial Statements have been reclassified to reflect Lorillard as a discontinued operation. Accordingly, the assets and liabilities, revenues and expenses and cash flows have been excluded from the respective captions in the Consolidated Condensed Balance Sheets, Consolidated Condensed Statements of Operations, and Consolidated Condensed Statements of Cash Flows and have been included in Assets and Liabilities of discontinued operations, Discontinued Operations, net and Net cash flows - discontinued operations, respectively.

Prior to the Redemption, we had a two class common stock structure: Loews common stock and former Carolina Group stock. Former Carolina Group stock, commonly called a tracking stock, was intended to reflect the performance of a defined group of Loews's assets and liabilities referred to as the former Carolina Group. The principal assets and liabilities attributable to the former Carolina Group were our 100% ownership of Lorillard, including all dividends paid by Lorillard to us, and any and all liabilities, costs and expenses arising out of or relating to tobacco or tobacco-related businesses. Immediately prior to the Separation, outstanding former Carolina Group stock represented an approximately 62% economic interest in the performance of the former Carolina Group. The Loews Group consisted of all of Loews's assets and liabilities other than those allocated to the former Carolina Group, including an approximately 38% interest in the former Carolina Group.

Parent Company Structure

We are a holding company and derive substantially all of our cash flow from our subsidiaries. We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our stockholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies (see Liquidity and Capital Resources – CNA Financial, below). Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders.

At September 30, 2008, the book value per share of Loews common stock was \$36.10, compared to \$32.40 at December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

The consolidated condensed financial statements and accompanying notes have been prepared in accordance with GAAP, applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the consolidated condensed financial statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that we believe are reasonable under the known facts and circumstances.

We consider the accounting policies discussed below to be critical to an understanding of our consolidated condensed financial statements as their application places the most significant demands on our judgment.

	•	Insurance Reserves
	•	Reinsurance
	•	Litigation
•		Valuation of Investments and Impairment of Securities
	•	Long Term Care Products
•		Pension and Postretirement Benefit Obligations
•		Valuation of HighMount’s Proved Reserves

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates and the Results of Operations by Business Segment – CNA Financial – Reserves – Estimates and Uncertainties sections of our MD&A included under Item 7 of our Form 10-K for the year ended December 31, 2007 for further information.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation (“CNA”). CNA is a 90% owned subsidiary.

CNA's core property and casualty commercial insurance operations are reported in two business segments: Standard Lines and Specialty Lines. Standard Lines includes standard property and casualty coverages sold to small businesses and middle market entities and organizations in the U.S. primarily through an independent agency distribution system. Standard Lines also includes commercial insurance and risk management products sold to large corporations in the U.S. primarily through insurance brokers. Specialty Lines provides a broad array of professional, financial and specialty property and casualty products and services, including excess and surplus lines, primarily through insurance brokers and managing general underwriters. Specialty Lines also includes insurance coverages sold globally through CNA's foreign operations ("CNA Global"). The non-core operations are managed in Life & Group Non-Core segment and Other Insurance segment. Life & Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Reinsurance Company Limited. This segment also includes the results related to the centralized adjusting and settlements of A&E.

Segment Results

The following discusses the results of continuing operations for CNA's operating segments. CNA utilizes the net operating income financial measure to monitor its operations. Net operating income is calculated by excluding from net income the after tax and minority interest of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting principles. In evaluating the results of its Standard Lines and Specialty Lines segments, CNA utilizes the loss ratio, the expense ratio, the dividend ratio, and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

Standard Lines

The following table summarizes the results of operations for Standard Lines.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions, except %)				