

LOEWS CORP
Form 10-Q
November 03, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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)

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

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

Yes ☒

No ☐

Not Applicable ☐

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

Large accelerated filer ☒

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
Common stock, \$0.01 par value

Outstanding at October 22, 2010
416,215,016 shares

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)**

	September 30, 2010	December 31, 2009
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of \$36,668 and \$35,824	\$ 38,919	\$ 35,816
Equity securities, cost of \$937 and \$943	1,078	1,007
Limited partnership investments	2,648	1,996
Other invested assets	98	
Short term investments	6,099	7,215
Total investments	48,842	46,034
Cash	132	190
Receivables	11,091	10,212
Property, plant and equipment	12,619	13,274
Deferred income taxes		627
Goodwill	856	856
Other assets	1,723	1,346
Deferred acquisition costs of insurance subsidiaries	1,096	1,108
Separate account business	462	423
Total assets	\$ 76,821	\$ 74,070
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	\$ 25,783	\$ 26,816
Future policy benefits	8,372	7,981
Unearned premiums	3,265	3,274
Policyholders funds	164	192
Total insurance reserves	37,584	38,263
Payable to brokers	968	540
Short term debt	647	10
Long term debt	8,829	9,475
Deferred income taxes	557	
Other liabilities	4,275	4,274
Separate account business	462	423
Total liabilities	53,322	52,985

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Preferred stock, \$0.10 par value:		
Authorized	100,000,000 shares	
Common stock, \$0.01 par value:		
Authorized	1,800,000,000 shares	
Issued	425,805,625 and 425,497,522 shares	4 4
Additional paid-in capital		3,758 3,637
Retained earnings		14,433 13,693
Accumulated other comprehensive income (loss)		1,017 (419)
		19,212 16,915
Less treasury stock, at cost (9,613,700 and 427,200 shares)		(353) (16)
Total shareholders' equity		18,859 16,899
Noncontrolling interests		4,640 4,186
Total equity		23,499 21,085
Total liabilities and equity	\$	76,821 \$ 74,070

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(In millions, except per share data)				
Revenues:				
Insurance premiums	\$ 1,645	\$ 1,707	\$ 4,868	\$ 5,035
Net investment income	654	726	1,797	1,908
Investment gains (losses):				
Other-than-temporary impairment losses	(41)	(232)	(189)	(1,330)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)	(3)	84	28	173
Net impairment losses recognized in earnings	(44)	(148)	(161)	(1,157)
Other net investment gains	106	48	255	229
Total investment gains (losses)	62	(100)	94	(928)
Contract drilling revenues	749	885	2,405	2,664
Other	591	520	1,736	1,616
Total	3,701	3,738	10,900	10,295
Expenses:				
Insurance claims and policyholders' benefits	1,343	1,282	3,798	3,919
Amortization of deferred acquisition costs	351	365	1,038	1,063
Contract drilling expenses	355	307	1,009	907
Impairment of natural gas and oil properties				1,036
Other operating expenses (Note 5)	1,267	709	2,714	2,202
Interest	127	117	384	321
Total	3,443	2,780	8,943	9,448
Income before income tax	258	958	1,957	847
Income tax expense	(84)	(266)	(619)	(68)
Income from continuing operations	174	692	1,338	779
Discontinued operations, net (Note 5)	(22)	(1)	(21)	(2)
Net income	152	691	1,317	777
Amounts attributable to noncontrolling interests	(116)	(223)	(495)	(616)
Net income attributable to Loews Corporation	\$ 36	\$ 468	\$ 822	\$ 161

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Net income attributable to:

Loews common stock:

Income from continuing operations	\$ 56	\$ 469	\$ 841	\$ 163
Discontinued operations, net	(20)	(1)	(19)	(2)

Net income	\$ 36	\$ 468	\$ 822	\$ 161
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Basic and diluted net income per share:

Income from continuing operations	\$ 0.13	\$ 1.08	\$ 2.00	\$ 0.37
Discontinued operations, net	(0.04)		(0.04)	

Net income	\$ 0.09	\$ 1.08	\$ 1.96	\$ 0.37
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Dividends per share	\$ 0.0625	\$ 0.0625	\$ 0.1875	\$ 0.1875
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Weighted-average shares outstanding:

Common stock	417.67	432.75	419.67	434.30
Dilutive potential shares of common stock	0.80	0.73	0.80	0.59

Total weighted-average shares outstanding assuming dilution	418.47	433.48	420.47	434.89
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See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(In millions)				
Net income	\$ 152	\$ 691	\$ 1,317	\$ 777
Other comprehensive income (loss)				
Changes in:				
Net unrealized gains (losses) on investments with other- than-temporary impairments	39	(36)	81	(70)
Net other unrealized gains on investments	720	1,893	1,400	3,784
Total unrealized gains on available-for-sale investments	759	1,857	1,481	3,714
Unrealized gains (losses) on cash flow hedges	15	(55)	82	(52)
Foreign currency	38	39	44	109
Pension liability	(2)	3	2	3
Other comprehensive income	810	1,844	1,609	3,774
Comprehensive income	962	2,535	2,926	4,551
Amounts attributable to noncontrolling interests	(206)	(424)	(671)	(1,024)
Total comprehensive income attributable to Loews Corporation	\$ 756	\$ 2,111	\$ 2,255	\$ 3,527

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENT OF EQUITY****(Unaudited)**

	Loews Corporation Shareholders						
					Accumulated		
		Common	Additional	Retained	Other	Common	Noncontrolling
	Total	Stock	Paid-in	Earnings	Comprehensive	Stock	Interests
			Capital		Income	Held in	
					(Loss)	Treasury	
(In millions)							
Balance, January 1, 2010	\$ 21,085	\$ 4	\$ 3,637	\$ 13,693	\$ (419)	\$ (16)	\$ 4,186
Sale of subsidiary common units	279		83		1		195
Net income	1,317			822			495
Other comprehensive income	1,609				1,433		176
Dividends paid	(476)			(79)			(397)
Purchase of Loews treasury stock	(337)					(337)	
Issuance of Loews common stock	5		5				
Stock-based compensation	17		15				2
Other			18	(3)	2		(17)
Balance, September 30, 2010	\$ 23,499	\$ 4	\$ 3,758	\$ 14,433	\$ 1,017	\$ (353)	\$ 4,640

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

Nine Months Ended September 30		2010	2009
(In millions)			
Operating Activities:			
Net income		\$ 1,317	\$ 777
Adjustments to reconcile net income to net cash provided by operating activities, net		640	2,183
Changes in operating assets and liabilities, net:			
Reinsurance receivables		(545)	760
Other receivables		(38)	(217)
Deferred acquisition costs		12	(13)
Insurance reserves		(563)	(488)
Other liabilities		28	(184)
Trading securities		243	96
Other, net		(110)	(134)
Net cash flow operating activities continuing operations		984	2,780
Net cash flow operating activities discontinued operations		(89)	(16)
Net cash flow operating activities total		895	2,764
Investing Activities:			
Purchases of fixed maturities		(12,981)	(18,099)
Proceeds from sales of fixed maturities		9,263	15,507
Proceeds from maturities of fixed maturities		2,891	2,568
Purchases of equity securities		(92)	(262)
Proceeds from sales of equity securities		215	511
Purchases of property, plant and equipment		(670)	(2,170)
Dispositions		789	37
Change in short term investments		629	(799)
Change in other investments		(552)	6
Other, net		7	(2)
Net cash flow investing activities continuing operations		(501)	(2,703)
Net cash flow investing activities discontinued operations		75	16
Net cash flow investing activities total		(426)	(2,687)

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

Nine Months Ended September 30		2010	2009
(In millions)			
Financing Activities:			
Dividends paid		\$ (79)	\$ (81)
Dividends paid to noncontrolling interests		(397)	(482)
Purchases of treasury shares		(351)	(143)
Issuance of common stock		5	5
Proceeds from sale of subsidiary stock		337	180
Principal payments on debt		(659)	(568)
Issuance of debt		645	1,014
Policyholders' investment contract net deposits (withdrawals)		(8)	(7)
Other, net		(20)	22
Net cash flow financing activities	continuing operations	(527)	(60)
Net cash flow financing activities	discontinued operations		
Net cash flow financing activities	total	(527)	(60)
Effect of foreign exchange rate on cash			8
Net change in cash		(58)	25
Net cash transactions:			
From continuing operations to discontinued operations		(14)	
To discontinued operations from continuing operations		14	
Cash, beginning of period		190	131
Cash, end of period		\$ 132	\$ 156
Cash, end of period:			
Continuing operations		\$ 132	\$ 156
Discontinued operations			
Total		\$ 132	\$ 156

See accompanying Notes to Consolidated Condensed Financial Statements.

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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 pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 66% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). In the first quarter of 2010 the Company sold 11.5 million common units of its subsidiary, Boardwalk Pipeline, for \$333 million, reducing the Company's ownership interest from 72% to 66%. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

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, 2010 and December 31, 2009 and the results of operations and comprehensive income for the three and nine months ended September 30, 2010 and 2009 and changes in cash flows for the nine months ended September 30, 2010 and 2009.

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

Reference is made to the Notes to Consolidated Financial Statements in the 2009 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Income. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares 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. Stock appreciation rights (SARs) of 2.6 million shares were not included in the diluted weighted average shares amount for the three and nine months ended September 30, 2010 due to the exercise price being greater than the average stock price. For the three and nine months ended September 30, 2009, 3.1 and 3.3 million shares, consisting of stock options and SARs, are not included in the diluted weighted average shares amount as their effects are antidilutive.

In August of 2010, CNA issued \$500 million of 5.875% senior notes due August 15, 2020.

Sale of Assets On April 30, 2010, HighMount completed the sale of exploration and production assets located in the Antrim Shale in Michigan and on May 28, 2010, HighMount completed the sale of exploration and production assets located in the Black Warrior Basin in Alabama. These sales did not have a material impact on the Consolidated Condensed Statements of Income. HighMount used the net proceeds from the sale, of approximately \$500 million, to reduce the outstanding debt under its term loans.

On July 7, 2010, Diamond Offshore completed the sale of one of its high performance, premium jack-up drilling rigs, the *Ocean Shield*, and recognized a pretax gain of approximately \$31 million in the third quarter of 2010.

Accounting changes In March of 2010, the Financial Accounting Standards Board (FASB) issued updated accounting guidance which amended the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in synthetic collateralized debt and loan obligations, are considered embedded derivatives subject to potential bifurcation. The adoption of this updated accounting guidance as of July 1, 2010 did not have a material impact on the Company's financial condition or results of operations.

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In June of 2009, the FASB issued updated accounting guidance which amended the requirements for determination of the primary beneficiary of a variable interest entity, required an ongoing assessment of whether an entity is the primary beneficiary and required enhanced interim and annual disclosures. The updated accounting guidance became effective for quarterly and annual reporting periods beginning after November 15, 2009, except for investment company type entities for which the requirements under this guidance have been deferred indefinitely. The adoption of this updated accounting guidance as of January 1, 2010 had no impact on the Company's financial condition or results of operations.

New accounting standards not yet adopted In October of 2010, the FASB issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The updated accounting guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with prospective or retrospective application allowed. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations, and expects that amounts capitalized under the updated guidance will be less than under the Company's current accounting practice.

2. Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(In millions)				
Net investment income consisted of:				
Fixed maturity securities	\$ 511	\$ 496	\$ 1,540	\$ 1,458
Short term investments	4	9	18	33
Limited partnerships	91	156	178	245
Equity securities	7	11	26	39
Income from trading portfolio (a)	52	65	68	163
Other	3	2	8	6
Total investment income	668	739	1,838	1,944
Investment expenses	(14)	(13)	(41)	(36)
Net investment income	\$ 654	\$ 726	\$ 1,797	\$ 1,908

(a) Includes net unrealized gains related to changes in fair value on trading securities still held of \$55 million, \$67 million, \$52 million and \$104 million for the respective periods.

Investment gains (losses) are as follows:

Fixed maturity securities	\$ 76	\$ (112)	\$ 169	\$ (862)
Equity securities	(17)	19	(42)	(133)
Derivative instruments	(1)	(13)	(32)	51
Short term investments	1	2	5	11
Other	3	4	(6)	5
Investment gains (losses) (a)	\$ 62	\$ (100)	\$ 94	\$ (928)

(a) Includes gross realized gains of \$124 million, \$168 million, \$359 million and \$449 million and gross realized losses of \$65 million, \$261 million, \$232 million and \$1,444 million on available-for-sale securities for the respective periods.

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The components of other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
(In millions)				
Fixed maturity securities available-for-sale:				
Asset-backed securities:				
Residential mortgage-backed securities	\$ 18	\$ 108	\$ 55	\$ 376
Commercial mortgage-backed securities		4	2	185
Other asset-backed securities			2	31
Total asset-backed securities	18	112	59	592
States, municipalities and political subdivisions securities		12	20	27
Corporate and other bonds	17	24	59	308
Redeemable preferred stock				9
Total fixed maturities available-for-sale	35	148	138	936
Equity securities available-for-sale:				
Common stock	5		10	4
Preferred stock	4		13	217
Total equity securities available-for-sale	9		23	221
Net OTTI losses recognized in earnings	\$ 44	\$ 148	\$ 161	\$ 1,157

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded OTTI losses, otherwise defined as an unrealized loss. When a security is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. CNA follows a consistent and systematic process for determining and recording an OTTI loss. CNA has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by CNA's Chief Financial Officer. The Impairment Committee is responsible for evaluating securities in an unrealized loss position on at least a quarterly basis.

The Impairment Committee's assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that CNA intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. In order to determine if a credit loss exists, the factors considered by the Impairment Committee include: (i) the financial condition and near term prospects of the issuer, (ii) whether the debtor is current on interest and principal payments, (iii) credit ratings of the securities and (iv) general market conditions and industry or sector specific outlook. CNA also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as an OTTI loss in Other comprehensive income.

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CNA performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. For asset-backed securities, significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, credit support from lower level tranches and impacts of rating agency downgrades.

CNA applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near term prospects of the issuer, (iii) the intent and ability of CNA to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (iv) general market conditions and industry or sector specific outlook.

Prior to adoption of the updated accounting guidance related to OTTI in the second quarter of 2009, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

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

September 30, 2010 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses
Fixed maturity securities:					
U.S. Treasury securities and obligations of government agencies	\$ 130	\$ 18	\$ 1	\$ 147	
Asset-backed securities:					
Residential mortgage-backed securities	6,090	154	267	5,977	\$ 214
Commercial mortgage-backed securities	1,032	34	65	1,001	
Other asset-backed securities	650	23	8	665	
Total asset-backed securities	7,772	211	340	7,643	214
States, municipalities and political subdivisions securities	7,782	472	246	8,008	
Foreign government securities	590	25		615	
Corporate and other bonds	20,035	2,189	69	22,155	
Redeemable preferred stock	47	6		53	
Fixed maturities available- for-sale	36,356	2,921	656	38,621	214
Fixed maturities, trading	312	2	16	298	
Total fixed maturities	36,668	2,923	672	38,919	214
Equity securities:					
Common stock	94	19	1	112	
Preferred stock	371	55	7	419	
Equity securities available-for-sale	465	74	8	531	
Equity securities, trading	472	110	35	547	

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Total equity securities	937	184	43	1,078	
Total	\$ 37,605	\$ 3,107	\$ 715	\$ 39,997	\$ 214

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December 31, 2009 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses
Fixed maturity securities:					
U.S. Treasury securities and obligations of government agencies	\$ 184	\$ 16	\$ 1	\$ 199	
Asset-backed securities:					
Residential mortgage-backed securities	7,470	72	604	6,938	\$ 246
Commercial mortgage-backed securities	709	10	135	584	3
Other asset-backed securities	858	14	40	832	
Total asset-backed securities	9,037	96	779	8,354	249
States, municipalities and political subdivisions securities	7,280	203	359	7,124	
Foreign government securities	467	14	2	479	
Corporate and other bonds	18,410	1,107	288	19,229	26
Redeemable preferred stock	51	4	1	54	
Fixed maturities available-for-sale	35,429	1,440	1,430	35,439	275
Fixed maturities, trading	395	3	21	377	
Total fixed maturities	35,824	1,443	1,451	35,816	275
Equity securities:					
Common stock	61	14	2	73	
Preferred stock	572	40	41	571	
Equity securities available-for-sale	633	54	43	644	
Equity securities, trading	310	109	56	363	
Total equity securities	943	163	99	1,007	
Total	\$ 36,767	\$ 1,606	\$ 1,550	\$ 36,823	\$ 275

The available-for-sale securities in a gross unrealized loss position are as follows:

	Less than 12 Months Gross Unrealized Losses		Greater than 12 Months Gross Unrealized Losses		Total Gross Unrealized Losses	
September 30, 2010 (In millions)	Estimated Fair Value	Estimated Fair Value	Estimated Fair Value	Estimated Fair Value	Estimated Fair Value	Estimated Fair Value
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies		\$ 10	\$ 1	\$ 10	\$ 1	
Asset-backed securities:						
Residential mortgage-backed securities	\$ 636	\$ 10	2,086	257	2,722	267
Commercial mortgage-backed securities	122	1	321	64	443	65
Other asset-backed securities	24		60	8	84	8

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Total asset-backed securities	782	11	2,467	329	3,249	340
States, municipalities and political subdivisions securities	151	4	1,344	242	1,495	246
Corporate and other bonds	472	9	745	60	1,217	69
Total fixed maturities available-for-sale	1,405	24	4,566	632	5,971	656
Equity securities available-for-sale:						
Common stock	13	1	1		14	1
Preferred stock	64	1	135	6	199	7
Total equity securities available-for-sale	77	2	136	6	213	8
Total	\$ 1,482	\$ 26	\$ 4,702	\$ 638	\$ 6,184	\$ 664

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	Less than 12 Months		Greater than 12 Months		Total	
	Estimated	Gross	Estimated	Gross	Estimated	Gross
December 31, 2009	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
(In millions)		Losses		Losses		Losses
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	\$ 21	\$ 1			\$ 21	\$ 1
Asset-backed securities:						
Residential mortgage-backed securities	1,945	43	\$ 3,069	\$ 561	5,014	604
Commercial mortgage-backed securities	21	1	456	134	477	135
Other asset-backed securities	170	1	119	39	289	40
Total asset-backed securities	2,136	45	3,644	734	5,780	779
States, municipalities and political subdivisions securities	1,036	30	2,086	329	3,122	359
Foreign government securities	154	1	7	1	161	2
Corporate and other bonds	2,395	44	1,948	244	4,343	288
Redeemable preferred stock	3		14	1	17	1
Total fixed maturities available- for-sale	5,745	121	7,699	1,309	13,444	1,430
Equity securities available-for-sale:						
Common stock	8	1	12	1	20	2
Preferred stock			426	41	426	41
Total equity securities available- for-sale	8	1	438	42	446	43
Total	\$ 5,753	\$ 122	\$ 8,137	\$ 1,351	\$ 13,890	\$ 1,473

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was \$62 million and \$133 million for the three and nine months ended September 30, 2010. The amount of pretax net unrealized losses on available-for-sale securities reclassified out of AOCI into earnings was \$92 million and \$989 million for the three and nine months ended September 30, 2009.

Activity for the three and nine months ended September 30, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at September 30, 2010 was as follows:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
(In millions)		
Beginning balance of credit losses on fixed maturity securities	\$ 171	\$ 164
Additional credit losses for which an OTTI loss was previously recognized	4	26
Credit losses for which an OTTI loss was not previously recognized	1	9
Reductions for securities sold during the period	(27)	(50)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(8)	(8)

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Ending balance of credit losses on fixed maturity securities	\$	141	\$	141
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Activity for the three months ended September 30, 2009 and for the period from April 1, 2009 to September 30, 2009 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at September 30, 2009 was as follows:

	Three Months Ended September 30, 2009	Period from April 1, 2009 to September 30, 2009
(In millions)		
Beginning balance of credit losses on fixed maturity securities	\$ 212	\$ 192
Additional credit losses for which an OTTI loss was previously recognized	57	78
Credit losses for which an OTTI loss was not previously recognized	65	149
Reductions for securities sold during the period	(114)	(150)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(11)	(60)
Ending balance of credit losses on fixed maturity securities	\$ 209	\$ 209

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor's and Moody's Investors Service, Inc. in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

Asset-Backed Securities

The fair value of total asset-backed holdings at September 30, 2010 was \$7,643 million which was comprised of 2,095 different asset-backed structured securities. The fair value of these securities does not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 173 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

Residential mortgage-backed securities include 185 non-agency structured securities in a gross unrealized loss position. In addition, there were 49 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government in a gross unrealized loss position. The aggregate severity of the gross unrealized loss for residential mortgage-backed securities was approximately 8.9% of amortized cost.

Commercial mortgage-backed securities include 29 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 12.8% of amortized cost. Other asset-backed securities include 10 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8.7% of amortized cost.

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The asset-backed securities in a gross unrealized loss position by ratings distribution are as follows:

September 30, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government Agencies	\$ 492	\$ 486	\$ 6
AAA	1,307	1,217	90
AA	235	204	31
A	286	240	46
BBB	243	210	33
Non-investment grade and equity tranches	1,026	892	134
Total	\$ 3,589	\$ 3,249	\$ 340

The Company believes the unrealized losses are primarily attributable to broader economic conditions and wider than historical bid/ask spreads, and are not indicative of the quality of the underlying collateral. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Generally, non-investment grade securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of amortized cost and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2010.

States, Municipalities and Political Subdivisions Securities

The holdings in this portfolio consist of both tax-exempt and taxable special revenue and assessment bonds, representing 71.1% of the overall portfolio, followed by general obligation political subdivision bonds at 20.1% and state general obligation bonds at 8.8%.

The unrealized losses on the Company's investments in this portfolio are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market performance. Yields for certain issuers and types of securities, such as zero coupon bonds, auction rate securities and tobacco securitizations, continue to be higher than historical norms relative to after tax returns on similar fixed income alternatives. The holdings for all securities in this category include 148 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 14.1% of amortized cost.

The states, municipalities and political subdivisions securities in a gross unrealized loss position by ratings distribution are as follows:

September 30, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	\$ 632	\$ 597	\$ 35
AA	447	359	88
A	156	148	8
BBB	484	370	114
Non-investment grade	22	21	1
Total	\$ 1,741	\$ 1,495	\$ 246

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The largest exposures at September 30, 2010 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of \$109 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of \$70 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2010.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2010 and December 31, 2009. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

	September 30, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	\$ 1,198	\$ 1,200	\$ 1,240	\$ 1,219
Due after one year through five years	10,948	11,528	10,046	10,244
Due after five years through ten years	10,234	10,830	10,647	10,539
Due after ten years	13,976	15,063	13,496	13,437
Total	\$ 36,356	\$ 38,621	\$ 35,429	\$ 35,439

Investment Commitments

As of September 30, 2010, the Company had committed approximately \$210 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 various privately placed debt securities, including bank loans, 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 settlements are made. As of September 30, 2010, the Company had commitments to purchase \$242 million and sell \$85 million of such investments.

3. 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.

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Level 3 Valuations derived from valuation techniques in which one or more significant inputs are not observable.

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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 the 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 past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

The fair values of CNA's life settlement contracts are included in Other assets. Equity options purchased are included in Equity Securities, and all other derivative assets are included in Receivables. Derivative liabilities are included in Payable to brokers. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

September 30, 2010 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 87	\$ 60		\$ 147
Asset-backed securities:				
Residential mortgage-backed securities		5,331	\$ 646	5,977
Commercial mortgage-backed securities		923	78	1,001
Other asset-backed securities		419	246	665
Total asset-backed securities		6,673	970	7,643
States, municipalities and political subdivisions securities		7,550	458	8,008
Foreign government securities	115	500		615
Corporate and other bonds		21,555	600	22,155
Redeemable preferred stock	3	49	1	53
Fixed maturities available-for-sale	205	36,387	2,029	38,621
Fixed maturities, trading	25	85	188	298
Total fixed maturities	\$ 230	\$ 36,472	\$ 2,217	\$ 38,919
Equity securities available-for-sale	\$ 376	\$ 133	\$ 22	\$ 531
Equity securities, trading	547			547
Total equity securities	\$ 923	\$ 133	\$ 22	\$ 1,078
Short term investments	\$ 5,252	\$ 845	\$ 2	\$ 6,099
Other invested assets			28	28
Receivables		104	3	107
Life settlement contracts			136	136
Separate account business	36	385	41	462
Payable to brokers	(84)	(90)	(16)	(190)
Discontinued operations investments, included in Other liabilities	7	66		73

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December 31, 2009 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 145	\$ 54		\$ 199
Asset-backed securities:				
Residential mortgage-backed securities		6,309	\$ 629	6,938
Commercial mortgage-backed securities		461	123	584
Other asset-backed securities		484	348	832
Total asset-backed securities		7,254	1,100	8,354
States, municipalities and political subdivisions securities		6,368	756	7,124
Foreign government securities	139	340		479
Corporate and other bonds		18,620	609	19,229
Redeemable preferred stock	3	49	2	54
Fixed maturities available-for-sale	287	32,685	2,467	35,439
Fixed maturities, trading	102	78	197	377
Total fixed maturities	\$ 389	\$ 32,763	\$ 2,664	\$ 35,816
Equity securities available-for-sale	\$ 503	\$ 130	\$ 11	\$ 644
Equity securities, trading	363			363
Total equity securities	\$ 866	\$ 130	\$ 11	\$ 1,007
Short term investments	\$ 6,818	\$ 397		\$ 7,215
Receivables		53	\$ 2	55
Life settlement contracts			130	130
Separate account business	43	342	38	423
Payable to brokers	(87)	(135)	(50)	(272)
Discontinued operations investments, included in Other liabilities	19	106	16	141

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2010 and 2009:

	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)				Purchases, Sales, Issuances	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
2010 (In millions)	Balance July 1	Included in Net Income	Included in OCI	and Settlements	into Level 3	3	September 30	September 30
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	\$ 659	\$ 1	\$ (9)	\$ (5)			\$ 646	
Commercial mortgage-backed securities	95		3			\$ (20)	78	
Other asset-backed securities	306	(1)	7	(66)			246	
Total asset-backed securities	1,060		1	(71)		(20)	970	
States, municipalities and political subdivisions securities	539		3	(84)			458	
Corporate and other bonds	718	1	18	(83)		(54)	600	\$ (1)
Redeemable preferred stock	1						1	
Fixed maturities available-for-sale	2,318	1	22	(238)		(74)	2,029	(1)
Fixed maturities, trading	191	(2)		(1)			188	(2)
Total fixed maturities	\$ 2,509	\$ (1)	\$ 22	\$ (239)	\$	\$ (74)	\$ 2,217	\$ (3)
Equity securities available-for-sale								
Short term investments	21			(8)		\$ (11)	2	
Other invested assets		2		26			28	2
Life settlement contracts	134	8		(6)			136	4
Separate account business	37			4			41	
Derivative financial instruments, net	4	(3)	\$ (15)	1			(13)	

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	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)				Purchases, Sales, Issuances		Transfers Transfers		Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at	
2009	Balance, July 1	Included in Net Income	Included in OCI	and Settlements	into Level 3	Level 3	out of Level 3	Balance, September 30	September 30	
(In millions)										
Fixed maturity securities:										
Asset-backed securities:										
Residential mortgage-backed securities	\$ 808	\$ 1	\$ 62	\$ 20		\$ (154)		\$ 737	\$	(1)
Commercial mortgage-backed securities	175	(3)	28	11				211		(3)
Other asset-backed securities	141	1	14	132				288		
Total asset-backed securities	1,124	(1)	104	163		(154)		1,236		(4)
States, municipalities and political subdivisions securities	785		19	(34)				770		
Corporate and other bonds	730	(10)	67	43	\$ 5	(83)		752		(10)
Redeemable preferred stock	1		1					2		
Fixed maturities available-for-sale	2,640	(11)	191	172	5	(237)		2,760		(14)
Fixed maturities, trading	229	5		(18)				216		3
Total fixed maturities	\$ 2,869	\$ (6)	\$ 191	\$ 154	\$ 5	\$ (237)		\$ 2,976	\$	(11)
Equity securities available-for-sale	\$ 209					\$ (199)		\$ 10		
Short term investments			\$ 1	\$ 7				8		
Life settlement contracts	126	\$ 8		(5)				129	\$	5
Separate account business	38			3		(1)		40		
Discontinued operations investments	13		3					16		
Derivative financial instruments, net	(7)	(12)	(10)	12				(17)		(4)

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2010 and 2009:

	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)						Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities	
				Purchases, Sales, Issuances	Transfers			
2010	Balance, Included in January Net Income	Included in OCI	and Settlements	into Level 3	Level 3	out of Level 3	Balance, September 30	Held at September 30
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	\$ 629	\$ (7)	\$ 20	\$ 50		\$ (46)	\$ 646	\$ (10)
Commercial mortgage-backed securities	123	(1)	1	6	\$ 7	(58)	78	(2)
Other asset-backed securities	348	3	29	(89)		(45)	246	(1)
Total asset-backed securities	1,100	(5)	50	(33)	7	(149)	970	(13)
States, municipalities and political subdivisions securities	756		9	(307)			458	
Corporate and other bonds	609	10	56	29	23	(127)	600	(2)
Redeemable preferred stock	2	6		(7)			1	
Fixed maturities available-for-sale	2,467	11	115	(318)	30	(276)	2,029	(15)
Fixed maturities, trading	197	6		(15)			188	5
Total fixed maturities	\$ 2,664	\$ 17	\$ 115	\$ (333)	\$ 30	\$ (276)	\$ 2,217	\$ (10)
Equity securities available-for-sale	\$ 11	\$ (4)		\$ 14	\$ 8	\$ (7)	\$ 22	\$ (5)
Short term investments				12	1	(11)	2	
Other invested assets		2		26			28	2
Life settlement contracts	130	25		(19)			136	11
Separate account business	38			3			41	
Discontinued operations investments	16		\$ 1	(2)		(15)		
Derivative financial instruments, net	(48)	(18)	27	26			(13)	

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		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)	Purchases, Sales, Issuances	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Held at September 30
	Balance, January 1	Included in Net Income	Included in and OCI Settlements	into Level 3	out of Level 3	September 30	September 30
2009							
(In millions)							
Fixed maturity securities:							
Asset-backed securities:							
Residential mortgage-backed securities	\$ 782						