

LOEWS CORP
Form 10-Q
August 04, 2009

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 June 30, 2009

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 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

☒

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 July 24, 2009

433,026,621 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2009	December 31, 2008
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of \$34,638 and \$34,767	\$31,826	\$29,451
Equity securities, cost of \$958 and \$1,402	1,053	1,185
Limited partnership investments	1,975	1,781
Other investments	5	4
Short term investments	6,454	6,029
Total investments	41,313	38,450
Cash	136	131
Receivables	11,529	11,672
Property, plant and equipment	12,671	12,892
Deferred income taxes	2,189	2,928
Goodwill	856	856
Other assets	1,378	1,432
Deferred acquisition costs of insurance subsidiaries	1,145	1,125
Separate account business	413	384
Total assets	\$71,630	\$69,870
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	\$27,100	\$27,593
Future policy benefits	7,746	7,529
Unearned premiums	3,508	3,405
Policyholders' funds	217	243
Total insurance reserves	38,571	38,770
Payable to brokers	930	679
Collateral on loaned securities and derivatives	6	6
Short term debt	23	71
Long term debt	8,647	8,187
Reinsurance balances payable	350	316
Other liabilities	3,928	4,322
Separate account business	413	384
Total liabilities	52,868	52,735
Preferred stock, \$0.10 par value:		

Authorized – 100,000,000 shares		
Common stock, \$0.01 par value:		
Authorized – 1,800,000,000 shares		
Issued – 435,213,891 and 435,091,667 shares	4	4
Additional paid-in capital	3,894	3,340
Retained earnings	13,122	13,375
Accumulated other comprehensive loss	(1,972)	(3,586)
	15,048	13,133
Less treasury stock, at cost (1,195,900 shares)	32	
Total shareholders' equity	15,016	13,133
Noncontrolling interests	3,746	4,002
Total equity	18,762	17,135
Total liabilities and equity	\$71,630	\$69,870

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions, except per share data)				
Revenues:				
Insurance premiums	\$1,656	\$1,774	\$3,328	\$3,586
Net investment income	735	697	1,182	1,176
Investment gains (losses):				
Other-than-temporary impairment losses	(484)	(170)	(1,098)	(256)
Portion of loss recognized in Accumulated other comprehensive income (loss)	89		89	
Net impairment losses recognized in earnings	(395)	(170)	(1,009)	(256)
Transactional realized investment gains	98	59	181	94
Total investment losses	(297)	(111)	(828)	(162)
Gain on issuance of subsidiary stock		2		2
Contract drilling revenues	923	937	1,779	1,707
Other	517	623	1,096	1,225
Total	3,534	3,922	6,557	7,534
Expenses:				
Insurance claims and policyholders' benefits	1,295	1,472	2,637	2,861
Amortization of deferred acquisition costs	349	360	698	728
Contract drilling expenses	306	273	600	558
Impairment of natural gas and oil properties			1,036	
Other operating expenses	717	622	1,493	1,241
Interest	110	88	204	177
Total	2,777	2,815	6,668	5,565
Income (loss) before income tax	757	1,107	(111)	1,969
Income tax (expense) benefit	(197)	(340)	198	(593)
Income from continuing operations	560	767	87	1,376
Discontinued operations, net:				
Results of operations	(1)	170	(1)	343
Gain on disposal		4,282		4,362
Net income	559	5,219	86	6,081
Amounts attributable to noncontrolling interests	(219)	(256)	(393)	(456)
Net income (loss) attributable to Loews Corporation	\$340	\$4,963	\$(307)	\$5,625
Net income (loss) attributable to:				
Loews common stock:				
Income (loss) from continuing operations	\$341	\$511	\$(306)	\$920
Discontinued operations, net	(1)	4,348	(1)	4,494
Loews common stock	340	4,859	(307)	5,414
Former Carolina Group stock - discontinued operations, net		104		211

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Total	\$340	\$4,963	\$(307) \$5,625
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions, except per share data)				
Basic net income (loss) per Loews common share:				
Income (loss) from continuing operations	\$0.79	\$1.00	\$(0.70)	) \$1.77
Discontinued operations, net		8.56		8.66
Net income (loss)	\$0.79	\$9.56	\$(0.70)	) \$10.43
Diluted net income (loss) per Loews common share:				
Income (loss) from continuing operations	\$0.78	\$1.00	\$(0.70)	) \$1.77
Discontinued operations, net		8.54		8.64
Net income (loss)	\$0.78	\$9.54	\$(0.70)	) \$10.41
Basic net income per former Carolina Group share:				
Discontinued operations, net	\$-	\$0.97	\$-	\$1.95
Diluted net income per former Carolina Group share:				
Discontinued operations, net	\$-	\$0.96	\$-	\$1.95
Basic weighted average number of shares outstanding:				
Loews common stock	435.07	508.16	435.09	518.93
Former Carolina Group stock	-	108.48	-	108.47
Diluted weighted average number of shares outstanding:				
Loews common stock	435.63	509.43	435.09	520.17
Former Carolina Group stock	-	108.60	-	108.60

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net income	\$559	\$5,219	\$86	\$6,081
Other comprehensive income (loss)				
Changes in:				
Unrealized gains (losses) on available-for-sale investments	1,458	(165)	1,857	(1,021)
Unrealized gains (losses) on cash flow hedges	(12)	(68)	3	(203)
Foreign currency	77	2	70	(17)
Pension liability	1	32		25
Other comprehensive income (loss)	1,524	(199)	1,930	(1,216)
Comprehensive income	2,083	5,020	2,016	4,865
Amounts attributable to noncontrolling interests	(377)	(228)	(600)	(329)
Total comprehensive income attributable to Loews Corporation	\$1,706	\$4,792	\$1,416	\$4,536

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

	Loews Corporation Shareholders						
		Loews Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
(In millions)	Total						
Balance, January 1, 2009, as reported	\$ 17,122	\$ 4	\$ 3,283	\$ 13,425	\$ (3,586)	\$ -	\$ 3,996
Adjustment to initially apply FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion"	13		57	(50)			6
Balance, January 1, 2009, as restated	17,135	4	3,340	13,375	(3,586)	-	4,002
Adjustment to initially apply Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements"			536				(536)
Balance, January 1, 2009, as adjusted	17,135	4	3,876	13,375	(3,586)	-	3,466
Adjustment to initially apply FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," as of April 1, 2009				109	(109)		
Purchase of subsidiary shares from noncontrolling interests	(2)		15				(17)
Net income (loss)	86			(307)			393
	1,930				1,723		207

Other comprehensive income							
Dividends paid	(375)			(54)			(321)
Issuance of Loews common stock	2		2				
Purchase of Loews treasury stock	(32)					(32)	
S t o c k - b a s e d compensation	9		7				2
Other	9		(6)	(1)			16
Balance, June 30, 2009	\$ 18,762	\$ 4	\$ 3,894	\$ 13,122	\$ (1,972)	\$ (32)	\$ 3,746

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

	Total	Loews Corporation Shareholders						
		Loews Common Stock	Former Carolina Group Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
(In millions)								
Balance, January 1, 2008, as reported	\$ 21,489	\$ 5	\$ 1	\$ 3,967	\$ 13,691	\$ (65)	\$ (8)	\$ 3,898
Adjustment to initially apply FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion"	13			57	(50)			6
Balance, January 1, 2008, as restated	21,502	5	1	4,024	13,641	(65)	(8)	3,904
Purchase of subsidiary shares from noncontrolling interests	(95)							(95)
Issuance of equity securities by subsidiary	243							243
Adjustments related to purchase of subsidiary Class B units	105							105
Net income	6,081				5,625			456
Other comprehensive loss	(1,216)					(1,089)		(127)
Dividends paid	(398)				(165)			(233)
Issuance of Loews common stock	2			2				

Redemption of former Carolina Group stock	(542)	(1)	(602)	53	8			
Exchange of Lorillard common stock for Loews common stock	(4,650)				(4,650)			
Stock-based compensation	13		11		2			
Retirement of treasury stock		(1)	(700)	(3,949)	4,650			
Other	3			(2)	5			
Balance, June 30, 2008	\$ 21,048	\$ 4	\$ -	\$ 3,337	\$ 14,548	\$ (1,101)	\$ -	\$ 4,260

See accompanying Notes to Consolidated Condensed Financial Statements.

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

Six Months Ended June 30 (In millions)	2009	2008
Operating Activities:		
Net income	\$86	\$6,081
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	1,849	(4,233)
Changes in operating assets and liabilities, net:		
Reinsurance receivables	424	447
Other receivables	(62)	(271)
Federal income tax	(320)	(32)
Deferred acquisition costs	(20)	(6)
Insurance reserves	(245)	(148)
Reinsurance balances payable	34	(28)
Other liabilities	(268)	(504)
Trading securities	177	1,488
Other, net	9	(114)
Net cash flow operating activities - continuing operations	1,664	2,680
Net cash flow operating activities - discontinued operations	(12)	151
Net cash flow operating activities - total	1,652	2,831
Investing Activities:		
Purchases of fixed maturities	(12,402)	(28,260)
Proceeds from sales of fixed maturities	11,083	26,260
Proceeds from maturities of fixed maturities	1,723	2,464
Purchases of equity securities	(240)	(133)
Proceeds from sales of equity securities	441	132
Purchases of property, plant and equipment	(1,380)	(1,779)
Change in collateral on loaned securities and derivatives		(63)
Change in short term investments	(897)	(1,542)
Other, net	5	(137)
Net cash flow investing activities - continuing operations	(1,667)	(3,058)
Net cash flow investing activities - discontinued operations, including proceeds from dispositions	12	618
Net cash flow investing activities - total	(1,655)	(2,440)

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

Six Months Ended June 30 (In millions)	2009	2008
Financing Activities:		
Dividends paid	\$(54)	\$(165)
Dividends paid to noncontrolling interests	(321)	(233)
Purchases of treasury shares	(32)	
Purchases of treasury shares by subsidiary	(2)	(70)
Issuance of common stock	2	2
Proceeds from subsidiaries' equity issuances		245
Principal payments on debt	(260)	(747)
Issuance of debt	666	886
Receipts of investment contract account balances	2	2
Return of investment contract account balances	(10)	(299)
Excess tax benefits from share-based payment arrangements		3
Other	12	3
Net cash flow financing activities - continuing operations	3	(373)
Net cash flow financing activities - discontinued operations		
Net cash flow financing activities - total	3	(373)
Effect of foreign exchange rate on cash - continuing operations	5	(1)
Net change in cash	5	17
Net cash transactions from:		
Continuing operations to discontinued operations		780
Discontinued operations to continuing operations		(780)
Cash, beginning of period	131	160
Cash, end of period	\$136	\$177
Cash, end of period:		
Continuing operations	\$136	\$168
Discontinued operations		9
Total	\$136	\$177

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 including integrated storage facilities (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 75% 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 and the term “Net income (loss) –Loews” as used herein means Net income (loss) attributable to Loews Corporation.

In June of 2008, the Company disposed of its entire ownership interest in its wholly owned subsidiary, Lorillard, Inc. (“Lorillard”). Accordingly, amounts related to Lorillard have been reclassified and are reported as Discontinued Operations. See Note 14 and the Company’s 2008 Annual Report on Form 10-K.

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 June 30, 2009 and December 31, 2008 and the results of operations and comprehensive income for the three and six months ended June 30, 2009 and 2008 and changes in cash flows for the six months ended June 30, 2009 and 2008. The Company’s management evaluated subsequent events through July 31, 2009.

Net income (loss) for the second quarter and first half 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 2008 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

Supplementary cash flow information – As discussed above, 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 includes net accrued capital expenditures of \$125 million for the six months ended June 30, 2009. For the six months ended June 30, 2008, net cash outflows increased by \$162 million due to payment of previously accrued capital expenditures.

Accounting changes – In December of 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements.” SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as a component of equity in the Consolidated Financial Statements. Therefore, the Noncontrolling interest in the equity section includes the appropriate reclassification of balances for CNA, Diamond Offshore and Boardwalk Pipeline formerly recognized as Minority interest liability on the Consolidated Balance Sheets. Moreover, SFAS No. 160 requires that transactions between an entity and noncontrolling interests be treated as equity transactions. Prior to the adoption of SFAS No. 160, the Company recorded a gain on the sale of common equity of a subsidiary equal to the amount of proceeds received in excess of the carrying value of the units sold. Upon adoption of SFAS No. 160, the Company’s deferred gains related to the issuances of Boardwalk Pipeline common units (\$536 million at January 1, 2009) were recognized in Additional paid-in capital, which previously were included in minority interest liability in the Consolidated

Condensed Balance Sheets.

In February of 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-2, “Effective Date of SFAS No. 157,” which delayed the effective date of SFAS No. 157, “Fair Value Measurements,” for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. As of January 1, 2009, the Company adopted the provisions of SFAS No. 157 as it relates to reporting units and indefinite-lived intangible assets measured at fair value for the purposes of impairment testing and asset

retirement obligations. The adoption of these provisions had no impact on the Company's financial condition or results of operations.

In March of 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. The Company's adoption of SFAS No. 161 had no impact on its financial condition or results of operations. See Note 4.

In May of 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." FSP No. APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. As required, the Company's Consolidated Condensed Financial Statements have been retrospectively adjusted to reflect the effect of adoption of FSP No. APB 14-1. The adoption of FSP No. APB 14-1 increased Property, plant and equipment \$16 million, Total assets \$13 million and Total equity \$13 million and decreased Deferred income taxes \$3 million at January 1, 2009 and 2008. The adoption of FSP No. APB 14-1 had no effect on previously stated basic and diluted earnings per share.

In April of 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments in interim as well as annual financial statements. The Company's adoption of this standard did not impact the financial condition or results of operations of the Company. See Note 3.

In April of 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which amends the other-than-temporary impairment ("OTTI") loss model for fixed maturity securities. A fixed maturity security is impaired if the fair value of the security is less than its amortized cost basis, which is its cost adjusted for accretion, amortization and previously recorded OTTI losses. FSP No. FAS 115-2 and FAS 124-2 requires an OTTI loss equal to the difference between fair value and amortized cost to be recognized in earnings if the Company intends to sell the fixed maturity security or if it is more likely than not the Company will be required to sell the fixed maturity security before recovery of its amortized cost basis.

The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. If the Company does not expect to recover the entire amortized cost basis of a fixed maturity security, the security is deemed to be other-than-temporarily impaired for credit reasons. For these securities, FSP No. FAS 115-2 and FAS 124-2 requires the bifurcation of OTTI losses into a credit component and a non-credit component. The credit component is recognized in earnings and represents the difference between the present value of the future cash flows that the Company expects to collect and a fixed maturity security's amortized cost basis. The non-credit component is recognized in other comprehensive income and represents the difference between fair value and the present value of the future cash flows that the Company expects to collect.

Prior to the adoption of FSP No. FAS 115-2 and FAS 124-2, 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 adoption of FSP No. FAS 115-2 and FAS 124-2 as of April 1, 2009 resulted in a cumulative effect adjustment of \$109 million, after tax and noncontrolling interests, reclassified to Accumulated other comprehensive income ("AOCI") from Retained earnings on the Consolidated Condensed Statement of Equity. The cumulative effect adjustment represents the non-credit component of those previously impaired fixed maturity securities that are still considered OTTI, and the entire amount previously recorded as an OTTI loss on fixed maturity securities no longer considered OTTI as of April 1, 2009. FSP No. FAS 115-2 and FAS 124-2 also prospectively requires disclosures regarding expected cash flows, credit losses, and additional security types within the aging of securities with

unrealized losses for each reporting period. The Company has complied with the additional prospective disclosure requirements in Note 2.

In April of 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," which requires entities to assess whether certain factors exist that indicate that the volume and level of market activity for an asset or liability have decreased or that transactions are not orderly. If, after evaluating those factors, the evidence indicates there has been a significant decrease in the volume and level of activity in relation to normal market activity, observed transactional values or quoted prices may not be determinative of fair value and adjustment to the observed transactional values or quoted prices may be necessary to estimate fair value. FSP No. FAS 157-4 also prospectively expands and increases the frequency of existing disclosures related primarily to additional security types and valuation methodologies. The Company's adoption of this standard did not impact the financial condition or results of operations of the Company. The Company has complied with the additional prospective disclosure requirements in Note 3.

New accounting pronouncements not yet adopted - In June of 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 amends the requirements for determination of the primary beneficiary of a variable interest entity, requires an ongoing assessment of whether an entity is the primary beneficiary and requires enhanced interim and annual disclosures that will provide users of financial statements information regarding an enterprise's involvement in a variable interest entity. SFAS No. 167 is effective for annual reporting periods beginning after November 15, 2009. The adoption of SFAS No. 167 is not expected to have a material impact on the Company's financial condition or results of operations.

2. Investments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net investment income consisted of:				
Fixed maturity securities	\$487	\$476	\$962	\$994
Short term investments	13	36	24	89
Limited partnerships	159	46	89	7
Equity securities	14	39	28	44
Trading portfolio	72	103	98	51
Other	1	9	4	21
Total investment income	746	709	1,205	1,206
Investment expenses	(11)	(12)	(23)	(30)
Net investment income	\$735	\$697	\$1,182	\$1,176

Investment gains (losses) are as follows:

Fixed maturity securities	\$(392)	\$(158)	\$(750)	\$(160)
Equity securities	64	(14)	(152)	(29)
Derivative instruments	33	56	64	12
Short term investments	(5)	5	9	7
Other	3		1	8

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Investment losses (a)	(297)	(111)	(828)	(162)
Gain on issuance of subsidiary stock			2				2	
	(297	)	(109	)	(828	)	(160)
Income tax benefit	99		39		285		57	
Amounts attributable to noncontrolling interests	20		6		55		10	
Investment losses, net - Loews	\$(178	)	\$(64	)	\$(488	)	\$(93)

(a) Includes gross realized gains of \$173, \$90, \$281 and \$211 and gross realized losses of (\$501), (\$262), (\$1,183) and (\$400) on available-for-sale securities for the three and six months ended June 30, 2009 and 2008.

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 is 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 test scenarios. 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.

CNA performs the discounted cash flow analysis using distressed 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. The discount rate utilized is either the yield at acquisition, or for lower rated structured securities, the current yield.

CNA applies the same impairment model as described above for the majority of the non-redeemable preferred stock securities. 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 FSP No. FAS 115-2 and FAS 124-2, CNA applied the impairment model described above for all other equity securities to both debt and equity securities.

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

June 30, 2009 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	\$ 1,008	\$ 43	\$ 80		\$ 971	
Asset-backed securities:						
Residential mortgage-backed securities	7,458	41	308	\$ 926	6,265	\$ 141
Commercial mortgage-backed securities	901	1	10	240	652	7
Other asset-backed securities	476	9	1	54	430	
Total asset-backed securities	8,835	51	319	1,220	7,347	148
States, municipalities and political subdivisions-tax exempt securities	8,289	106	263	494	7,638	
Corporate and other taxable bonds	15,526	543	564	582	14,923	2
Redeemable preferred stock	69	2	5	4	62	
Fixed maturities available-for-sale	33,727	745	1,231	2,300	30,941	150
Fixed maturities, trading	911	4	5	25	885	
Total fixed maturities	34,638	749	1,236	2,325	31,826	150
Equity securities:						
Common stock	92	206		3	295	
Preferred stock	578	31	41	112	456	
Equity securities available-for-sale	670	237	41	115	751	
Equity securities, trading	288	76	23	39	302	
Total equity securities	958	313	64	154	1,053	-
Short term investments:						
Short term investments available-for-sale	5,683	2	1		5,684	
Short term investments, trading	770				770	
Total short term investments	6,453	2	1	-	6,454	-
Total	\$ 42,049	\$ 1,064	\$ 1,301	\$ 2,479	\$ 39,333	\$ 150

December 31, 2008

Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	\$ 2,862	\$ 69	\$ 1		\$ 2,930	
Asset-backed securities	9,670	24	961	\$ 969	7,764	
States, municipalities and political subdivisions-tax exempt securities	8,557	90	609	623	7,415	
Corporate and other taxable bonds	12,993	275	1,164	1,374	10,730	
Redeemable preferred stock	72	1	23	3	47	

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Fixed maturities available-for-sale	34,154	459	2,758	2,969	28,886
Fixed maturities, trading	613	1	19	30	565
Total fixed maturities	34,767	460	2,777	2,999	29,451
Equity securities:					
Equity securities available-for-sale	1,018	195	16	324	873
Equity securities, trading	384	52	78	46	312
Total equity securities	1,402	247	94	370	1,185
Short term investments:					
Short term investments available-for-sale	4,999	11	3		5,007
Short term investments, trading	1,022				1,022
Total short term investments	6,021	11	3	-	6,029
Total	\$ 42,190	\$ 718	\$ 2,874	\$ 3,369	\$ 36,665

The amount of net unrealized losses on available-for-sale securities reclassified out of AOCI into earnings was \$328 million pretax for the three months ended June 30, 2009.

Activity for the three months ended June 30, 2009 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held, was as follows:

	2009
(In millions)	
Beginning balance of credit losses on fixed maturity securities	\$ 192
Additional credit losses for which an OTTI loss was previously recognized	21
Additional credit losses for which an OTTI loss was not previously recognized	84
Reductions for securities sold during the period	(36)
Reduction for securities the Company intends to sell or more likely than not will be required to sell	(49)
Ending balance of credit losses on fixed maturity securities	\$ 212

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 June 30, 2009 summary of fixed maturity and equity securities 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 the three major providers, Standard & Poors (“S&P”), Moody’s Investor Services, Inc. (“Moody’s”) and Fitch Ratings (“Fitch”) in that order of preference. If a security is not rated by any of the three, 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.

The market disruption that emerged in 2008 has subsided moderately during the second quarter of 2009. While the government has initiated programs intended to stabilize and improve markets and the economy, the ultimate impact of these programs remains uncertain and economic conditions in the U.S. remain challenging. As a result, the Company incurred realized losses in its investment portfolio during both the first and second quarters of 2009 which have adversely impacted its results of operations. The first quarter losses were primarily driven by the continuing credit issues attributable to the asset-backed and financial sectors. The second quarter losses were primarily driven by the actual and anticipated impact of difficult economic conditions on residential and commercial mortgage-backed securities.

Asset-Backed Securities

The unrealized losses on the Company’s investments in asset-backed securities are due to a combination of factors related to the market disruption caused by credit concerns that began with the sub-prime issue, but then also extended into other collateral supporting securities in the Company’s portfolio. 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.

Residential mortgage-backed securities include 333 structured securities in a gross unrealized loss position. In addition there were 110 agency mortgage-backed pass-through securities in a gross unrealized loss position, which are

guaranteed by agencies of the U.S. Government. The aggregate severity of the gross unrealized loss was approximately 21.0% of amortized cost.

Commercial mortgage-backed securities include 60 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 31.1% of amortized cost.

Other asset-backed securities include 19 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 17.9% of amortized cost.

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

June 30, 2009 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
U.S. Government Agencies	\$ 732	\$ 714	\$ 18
AAA	4,327	3,431	896
AA	491	308	183
A	427	249	178
BBB	353	269	84
Non-investment grade and equity tranches	657	477	180
Total	\$6,987	\$5,448	\$1,539

The Company believes the unrealized losses were primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads brought about as a result of portfolio liquidations and is 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 relate to investments which were investment grade at the time of purchase but have subsequently been downgraded and are primarily related to holdings senior to the equity tranche. Additionally, the Company has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness, collateral shortfalls, or substantial changes in future cash flow expectations and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

OTTI losses of \$480 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to asset-backed securities, reflecting \$268 million related to residential mortgage-backed securities, \$181 million related to commercial mortgage-backed securities and \$31 million related to other asset-backed securities for the six months ended June 30, 2009.

States, Municipalities and Political Subdivisions – Tax-Exempt Securities

The unrealized losses on the Company's investments in tax-exempt municipal securities are due to overall market conditions, changes in credit spreads, and to a lesser extent, changes in interest rates. Market conditions in the tax-exempt sector have improved during the first half of 2009; however, yields for certain issuers and types of securities, such as auction rate and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on alternative classes. The holdings for all tax-exempt securities in this category include 573 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 13.7% of amortized cost.

The ratings distribution of tax-exempt securities in a gross unrealized loss position are as follows:

June 30, 2009 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
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AAA	\$1,673	\$1,548	\$125
AA	1,883	1,669	214
A	1,015	913	102
BBB	943	627	316
Total	\$5,514	\$4,757	\$757

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The portfolio consists primarily of special revenue and assessment bonds, representing 93.0% of the overall portfolio, followed by state general obligation bonds at 4.0% and general obligation political subdivision bonds at 3.0%.

The largest exposures at June 30, 2009 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of \$284 million, and several separate issues of Puerto Rico Sales Tax revenue bonds with gross unrealized losses of \$86 million. All of these securities are 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 has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

The tax-exempt portfolio includes auction rate securities primarily issued by student loan agencies from nine states which are substantially guaranteed by The Federal Family Education Loan Program. These securities had a fair value at June 30, 2009 of \$745 million, no gross unrealized gains and gross unrealized losses of \$36 million. At June 30, 2009 none of the auction rate securities held was paying below market penalty rates. The average rating on these holdings was AAA.

The obligations of both the State of California and political subdivisions in that State have not recovered as much as the majority of the municipal market, reflecting both the heavy impact that the current national recession has had on the California tax base as well as the political difficulties that the State had in reaching agreement on a budget. At June 30, 2009, the Company owned securities issued by 71 California obligors, with a fair value of \$514 million, \$8 million of gross unrealized gains and \$61 million gross unrealized losses.

OTTI losses of \$15 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to tax-exempt securities for the six months ended June 30, 2009.

Corporate and Other Taxable Bonds

The holdings in this category include 608 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 15.3% of amortized cost.

The corporate and other taxable bonds in a gross unrealized loss position across industry sectors and by ratings distribution are as follows:

	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
June 30, 2009 (In millions)			
Industry Sectors:			
Communications	\$939	\$853	\$86
Consumer, Cyclical	927	781	146
Consumer, Non-cyclical	504	441	63
Energy	609	547	62
Financial	2,446	1,932	514
Industrial	537	472	65
Utilities	859	730	129

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Other	673	592	81
Total	\$7,494	\$6,348	\$1,146

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June 30, 2009 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
Ratings distribution:			
AAA	\$323	\$308	\$15
AA	285	274	11
A	1,269	1,080	189
BBB	3,540	3,001	539
Non-investment grade	2,077	1,685	392
Total	\$7,494	\$6,348	\$1,146

The unrealized losses on corporate and other taxable bonds were primarily attributable to deterioration and volatility in the broader credit markets throughout 2008 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. These conditions generally continued into 2009 but have improved from the lows in 2008. 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 has judged that the unrealized losses were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

The Company has invested in securities with characteristics of both debt and equity investments, often referred to as hybrid debt securities. Such securities are typically debt instruments issued with long or extendable maturity dates, may provide for the ability to defer interest payments without defaulting and are usually lower in the capital structure of the issuer than traditional bonds. The financial industry sector presented above includes hybrid debt securities with an aggregate fair value of \$593 million and an aggregate amortized cost of \$855 million.

OTTI losses of \$284 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to corporate and other taxable bonds for the six months ended June 30, 2009.

Non-Redeemable Preferred Stock

The unrealized losses on the Company's investments in non-redeemable preferred stock were caused by similar factors as those that affected the Company's corporate bond portfolio. Approximately 81.0% of the gross unrealized losses in this category come from securities issued by financial institutions, and 19.0% from utilities. The holdings in this category include 24 securities in a gross unrealized loss position.

Non-redeemable preferred stocks in a gross unrealized loss position by ratings distribution are as follows:

June 30, 2009 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
A	\$104	\$75	\$29
BBB	421	304	117
Non-investment grade	18	11	7
Total	\$543	\$390	\$153

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 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 no current intent to sell these securities, nor is it more likely

than not it will be required to sell prior to recovery of amortized cost. Additionally, the Company has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009. This evaluation was made on the basis that these securities possess characteristics similar to debt securities and maintain their ability to pay dividends.

There were OTTI losses of \$217 million recognized in earnings on the Consolidated Condensed Statements of Operations on non-redeemable preferred stock, including \$188 million related to a major U.S. financial institution for the six months ended June 30, 2009.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2009 and December 31, 2008. 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.

	June 30, 2009		December 31, 2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	\$1,280	\$1,203	\$3,105	\$2,707
Due after one year through five years	9,247	8,718	10,295	9,210
Due after five years through ten years	8,021	7,422	5,929	4,822
Due after ten years	15,179	13,598	14,825	12,147
Total	\$33,727	\$30,941	\$34,154	\$28,886

Limited Partnerships

The carrying value of limited partnerships as of June 30, 2009 and December 31, 2008 was approximately \$2.0 billion and \$1.8 billion. At June 30, 2009, limited partnerships comprising 52.4% of the total carrying value are reported on a current basis through June 30, 2009 with no reporting lag, 39.1% are reported on a one month lag and the remainder are reported on more than a one month lag. The Company had 83 and 85 active limited partnership investments as of June 30, 2009 and December 31, 2008. The number of limited partnerships held and the strategies employed provide diversification to the limited partnership portfolio and the overall invested asset portfolio. The Company does not generally invest in highly leveraged partnerships.

Of the limited partnerships held, 92.0% or approximately \$1.8 billion in carrying value at June 30, 2009 and 89.5% or approximately \$1.6 billion in carrying value at December 31, 2008, employ strategies that generate returns through investing in securities that are marketable while engaging in various management techniques primarily in public fixed income and equity markets. These hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. The hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation, or various arbitrage disciplines. Within hedge fund strategies, approximately 46.9% are equity related, 31.9% pursue a multi-strategy approach, 16.5% are focused on distressed investments and 4.7% are fixed income related.

Limited partnerships representing 5.6% or \$110 million at June 30, 2009 and 7.1% or \$126 million at December 31, 2008 were invested in private equity. The remaining 2.4% or \$48 million at June 30, 2009 and 3.4% or \$61 million at

December 31, 2008 were invested in various other partnerships including real estate. The ten largest limited partnership positions held totaled \$1,118 million and \$915 million as of June 30, 2009 and December 31, 2008. Based on the most recent information available regarding the Company's percentage ownership of the individual limited partnerships, the carrying value reflected on the Consolidated Condensed Balance Sheets represents approximately 4.4% and 3.4% of the aggregate partnership equity at June 30, 2009 and December 31, 2008, and the related income reflected on the Consolidated Condensed Statements of Operations represents 3.7%

and 3.3% of the changes in partnership equity for all limited partnership investments for the six months ended June 30, 2009 and 2008.

The risks associated with limited partnership investments may include losses due to leveraging, short-selling, derivatives or other speculative investment practices. The use of leverage increases the level of returns and volatility generated by the underlying investment strategies.

Investment Commitments

As of June 30, 2009, the Company had committed approximately \$262 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 June 30, 2009, the Company had commitments to purchase \$213 million and sell \$174 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 June 30, 2009, the Company had obligations on unfunded bank loan participations in the amount of \$2 million.

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.
- 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. The fair values of discontinued operations investments are included in Other liabilities. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

June 30, 2009 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$184	\$787		\$971
Asset-backed securities:				
Residential mortgage-backed securities		5,457	\$808	6,265
Commercial mortgage-backed securities		477	175	652
Other asset-backed securities		289	141	430
Total asset-backed securities		6,223	1,124	7,347
States, municipalities and political subdivisions-tax-exempt securities				
Corporate and other taxable bonds	105	14,088	730	14,923
Redeemable preferred stock	21	40	1	62
Fixed maturities available-for-sale	310	27,991	2,640	30,941
Fixed maturities, trading	571	85	229	885
Total fixed maturities	\$881	\$28,076	\$2,869	\$31,826
Equity securities:				
Common stock	\$102	\$3	\$190	\$295
Preferred stock	353	84	19	456
Equity securities available-for-sale	455	87	209	751
Equity securities, trading	302			302
Total equity securities	\$757	\$87	\$209	\$1,053
Short term investments	\$5,383	\$1,071		\$6,454
Receivables		124	\$13	137
Life settlement contracts			126	126
Separate account business	55	320	38	413
Payable to brokers	(161)	(146)	(20)	(327)
Discontinued operations investments	79	52	13	144
December 31, 2008				
Fixed maturity securities	\$2,358	\$24,383	\$2,710	\$29,451
Equity securities	881	94	210	1,185
Short term investments	5,421	608		6,029
Receivables		182	40	222
Life settlement contracts			129	129
Separate account business	40	306	38	384
Payable to brokers	(168)	(260)	(112)	(540)
Discontinued operations investments	83	59	15	157

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The table below presents 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 June 30, 2009 and 2008:

		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)		Purchases, Sales, Issuances and Settlements		Transfers into Level 3 Level 3			Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at June 30 (a)
	Balance, April 1	Included in Net Income (Loss) (a)	Included in AOCI		Transfers into Level 3	out of Level 3	Balance, June 30		
2009 (In millions)									
Fixed maturity securities:									
Asset-backed securities:									
Residential mortgage-backed securities	\$ 743	\$ (6)	\$ 35	\$ (25)	\$ 71	\$ (10)	\$ 808	\$ (5)	
Commercial mortgage-backed securities	158	(155)	155	(9)	26		175	(155)	
Other asset-backed securities	252		10	(2)		(119)	141		
Total asset-backed securities	1,153	(161)	200	(36)	97	(129)	1,124	(160)	
States, municipalities and political subdivisions-tax-exempt securities	784		18	(17)			785		
Corporate and other taxable bonds	809		47	(137)	16	(5)	730	(1)	
Redeemable preferred stock	19					(18)	1		
Fixed maturities available-for-sale	2,765	(161)	265	(190)	113	(152)	2,640	(161)	
	213	6		6	4		229	4	

Fixed maturities, trading									
Total fixed maturities	\$ 2,978	\$ (155)	\$ 265	\$ (184)	\$ 117	\$ (152)	\$ 2,869	\$ (157)	
Equity securities:									
Common stock	\$ 191		\$ (1)				\$ 190		
Preferred stock	19						19		
Equity securities available-for-sale	\$ 210		\$ (1)				\$ 209		
Life settlement contracts	\$ 127	\$ 5		\$ (6)			\$ 126		
Separate account business	38		\$ 3	(3)			38		
Discontinued operations investments	13		1	(1)			13		
Derivative financial instruments, net	(58)	17	(2)	36			(7)	(11)	
2008									
Fixed maturity securities	\$2,471	\$(81)	\$(55)	\$80	\$1,159	\$(140)	\$3,434	\$(92)	
Equity securities	196	(1)	(2)	48	22		263	(3)	
Short term investments	85					(85)	-		
Life settlement contracts	118	12		(12)			118	1	
Separate account business	47		(4)	2			45		
Discontinued operations investments	41			(1)		(17)	23		
Derivative financial instruments, net	(90)	10	(9)	6			(83)	15	

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The table below presents reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009 and 2008:

		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income (Loss) (a)		Purchases, Sales, Issuances and Settlements		Transfers into Level 3 Level 3			Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at June 30 (a)
2009	Balance, January 1		Included in AOCI				out of Level 3	Balance, June 30	
(In millions)									
Fixed maturity securities:									
Asset-backed securities:									
Residential mortgage-backed securities	\$782	\$(23)	\$36	\$ (48)	\$71	\$(10)	\$808	\$ (12)	
Commercial mortgage-backed securities	186	(165)	142	(14)	26		175	(165)	
Other asset-backed securities	139	(30)	40	(42)	153	(119)	141	(31)	
Total asset-backed securities	1,107	(218)	218	(104)	250	(129)	1,124	(208)	
States, municipalities and political subdivisions-tax-exempt securities	750		55	(20)			785		
Corporate and other taxable bonds	622	(5)	46	67	18	(18)	730	(7)	
Redeemable preferred stock	13	(9)	8	7		(18)	1	(9)	
Fixed maturities available-for-sale	2,492	(232)	327	(50)	268	(165)	2,640	(224)	
	218	9		(2)	4		229	4	

Fixed maturities, trading									
Total fixed maturities	\$2,710	\$(223)	\$327	\$ (52)	\$272	\$(165)	\$2,869	\$ (220)	
Equity securities:									
Common stock	\$191		\$(1)				\$190		
Preferred stock	19						19		
Equity securities available-for-sale									
	\$210		\$(1)				\$209		
Life settlement contracts									
	\$129	\$16		\$ (19)			\$126	\$ 2	
Separate account business									
	38		\$4	(4)			38		
Discontinued operations investments									
	15			(2)			13		
Derivative financial instruments, net									
	(72)	35	(12)	42			(7)	(15)	

2008

Fixed maturity securities									
	\$2,909	\$(124)	\$(270)	\$81	\$1,254	\$(416)	\$3,434	\$(139)	
Equity securities									
	199	(3)	(3)	48	22		263	(5)	
Short term investments									
	85					(85)	-		
Life settlement contracts									
	115	30		(27)			118	5	
Separate account business									
	30		(4)	(1)	20		45		
Discontinued operations investments									
	42			(2)		(17)	23		
Derivative financial instruments, net									
	(19)	(21)	3	(46)			(83)	(69)	

(a) Net realized and unrealized gains and losses are reported in Net income (loss) as follows:

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Operations Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

Securities transferred into Level 3 for the three months ended June 30, 2009 relate primarily to structured securities with residential and commercial mortgage collateral. For the six months ended June 30, 2009 transfers into Level 3 relate primarily to structured securities with underlying auto loan collateral and structured securities with residential and commercial mortgage collateral. 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. Unobservable inputs include estimates of future cash flows and the maturity assumption.

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 within the U.S. Treasury securities and corporate and other taxable bond categories for which quoted market prices are available. Level 1 securities may also include securities that have firm sale commitments and prices that are not recorded until the settlement date. 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 maturity securities 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. Within corporate bonds and municipal bonds, Level 3 securities also include tax-exempt auction rate certificates. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to maturity.

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 87.7% of the total at June 30, 2009, 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 currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, credit default swaps, equity warrants and options 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 U.S. 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.

Assets and Liabilities Not Measured at Fair Value

The Company did not have any financial instrument assets which are not measured at fair value. The carrying amount and estimated fair value of the Company's financial instrument liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are listed in the table below.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In millions)				
Financial liabilities:				
Premium deposits and annuity contracts	\$106	\$107	\$111	\$113
Short term debt	23	23	71	71
Long term debt	8,647	8,201	8,187	7,166

The following methods and assumptions were used in estimating the fair value of these financial liabilities.

Premium deposits and annuity contracts were valued based on cash surrender values, estimated fair values or policyholder liabilities, net of amounts ceded related to sold businesses.

Fair value of debt was based on quoted market prices when available. When quoted market prices were not available, the fair value for debt was based on quoted market prices of comparable instruments adjusted for differences between

the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

4. Derivative Financial Instruments

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy, and (iii) benefit from

anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, equity stock price risk, commodity price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). The Company's principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

CNA's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through securities lending, to engage in derivative transactions.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk through portfolio management, which includes rebalancing its existing portfolios of assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt. The Company infrequently designates these types of instruments as hedges against specific assets or liabilities.

The Company is exposed to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor's ability to make timely principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversification, and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives such as credit default swaps ("CDS") to modify the credit risk inherent in certain investments. CDS involve a transfer of credit risk from one party to another in exchange for periodic payments.

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are

primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency futures and forwards. Beginning in May of 2009, Diamond Offshore began a hedging strategy and designated certain of its qualifying foreign currency forward exchange contracts as cash flow hedges.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are entered into with the

intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Company is entitled to receive the referenced defaulted security or the cash equivalent.

At June 30, 2009, the Company had \$33 million notional value of outstanding CDS contracts where it had sold credit protection. The maximum payment related to these CDS contracts was \$33 million assuming there was no residual value in the defaulted securities that the Company would receive as part of the contract terminations. The current fair value of these contracts was a liability of \$1 million which represents the amount that the Company would have to pay to exit these derivative positions.

The table below summarizes credit default swap contracts where the Company sold credit protection. The largest single reference obligation in the table below represents 75.8% of the total notional value and is rated BBB.

	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
June 30, 2009 (In millions of dollars)			
BBB		\$25	0.5
B	\$ (1)	8	3.6
Total	\$ (1)	\$33	1.2

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association (“ISDA”) Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of collateral provided by the Company was \$87 million at June 30, 2009 and primarily consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was \$6 million at June 30, 2009.

The agreements governing HighMount’s derivative instruments contain certain covenants, including a maximum debt to capitalization ratio. If HighMount does not comply with these covenants, the counterparties to the derivative

instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount's derivative instruments that are in a liability position was \$150 million at June 30, 2009. HighMount was not required to post any collateral under the governing agreements.

See Note 3 for information regarding the fair value of derivative instruments.

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. Embedded derivative instruments subject to bifurcation are reported together with the host contract, at fair value. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

June 30	2009		
	Contractual/ Notional Amount	Estimated Fair Value Asset	(Liability)
(In millions)			
With hedge designation			
Interest rate risk:			
Interest rate swaps	\$1,600		\$(145)
Foreign exchange:			
Forwards – short	119	\$6	
Commodities:			
Forwards – short	498	120	(5)
Without hedge designation			
Equity markets:			
Options – purchased	217	61	
– written	285		(32)
Interest rate risks:			
Options on government securities - short			(28)
Futures – long	463		
– short	1,429		
Credit default swaps – purchased protection	328	5	(14)
– sold protection	33		(1)
Other	42	6	
Total	\$5,014	\$198	\$(225)

Derivatives without hedge designation – For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately \$4.4 billion and \$10.5 billion in notional value while derivative termination activity totaled approximately \$5.3 billion and \$11.4 billion during the three and six months ended June 30, 2009. The activity during the three and six months ended June 30, 2009 was primarily attributable to interest rate futures, interest rate options and interest rate swaps.

A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. The derivatives held for trading purposes were carried at fair value with the related gains and losses included within Net investment income on the Consolidated Condensed Statements of Operations.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
(In millions)		
Included in Net investment income:		
Equity markets:		
Options – purchased	\$(18)	\$(20)
– written	25	30
Futures – long	11	11
Currency forwards – long	2	(6)
– short		7
Interest rate risk:		
Credit default swaps – purchased protection	3	12
– sold protection	(2)	(8)
Options on government securities – short	3	14
Futures – long		5
Other	(4)	(5)
Included in Investment gains (losses):		
Equity options – written	4	15
Interest rate risk:		
Interest rate swaps	38	59
Credit default swaps – purchased protection	(26)	(35)
– sold protection	8	2
Futures – short	9	23
Included in Other revenues:		
Currency forwards - short	9	9
Total	\$62	\$113

Cash flow hedges – A significant portion of the Company's hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of natural gas and other energy-related products. As of June 30, 2009, approximately 66.9 billion cubic feet of natural gas equivalents was hedged by qualifying cash flow hedges. Approximately 93.1% of these derivatives have settlement dates in 2009 and 2010. The Company and certain of its subsidiaries also use interest rate swaps to hedge its exposure to variable interest rates or risk attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over the term of the related notes. Any ineffectiveness is recorded currently in Investment gains (losses) in the Consolidated Condensed Statements of Operations. For the three and six months ended June 30, 2009, the net amounts recognized due to ineffectiveness were less than \$1 million.

The following table summarizes the effective portion of the net derivative gains or losses included in AOCI and the amount reclassified into Net income (loss) for derivatives designated as cash flow hedges:

Three Months Ended June 30, 2009 (In millions)	Amount of Gain Recognized in AOCI	Location of Gain (Loss)	Amount of Gain (Loss)
		Reclassified from AOCI into Net Income (Loss)	Reclassified from AOCI into Net Income (Loss)
Commodities	\$ 11	Other revenues	\$ 65
Foreign exchange	6	C o n t r a c t drilling expenses	
Interest rate risks	13	Interest	(17)
Total	\$ 30		\$ 48

Six Months Ended June 30, 2009 (In millions)	Amount of Gain Recognized in AOCI	Location of Gain (Loss) Reclassified from AOCI into Net Income (Loss)	Amount of Gain (Loss) Reclassified from AOCI into Net Income (Loss)
Commodities	\$ 103	Other revenues	\$ 139
Foreign exchange	6	Contract drilling expenses	
Interest rate risks	4	Interest	(31)
Total	\$ 113		\$ 108

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. These sales resulted in proceeds of \$99 million with fair value liabilities of \$102 million at June 30, 2009. These positions are marked to market and investment gains or losses are included in the Consolidated Condensed Statements of Operations.

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 disposal of its entire ownership interest in Lorillard, 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.

The attribution of income (loss) to each class of common stock for the three and six months ended June 30, 2009 and 2008 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions, except %)				
Loews common stock:				
Consolidated net income (loss) - Loews	\$340	\$4,963	\$(307)	\$5,625
Less income attributable to former Carolina Group stock		104		211
Income (loss)	\$340	\$4,859	\$(307)	\$5,414

Former Carolina Group stock:

Income available to former Carolina Group stock		\$168		\$339
Weighted average economic interest of the former Carolina Group		62.4	%	62.4 %
Income attributable to former Carolina Group stock	\$-	\$104	\$-	\$211

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Loews common stock:				
Weighted average shares outstanding-basic	435.07	508.16	435.09	518.93
Stock options and stock appreciation rights	0.56	1.27		1.24
Weighted average shares outstanding-diluted	435.63	509.43	435.09	520.17
Former Carolina Group stock:				
Weighted average shares outstanding-basic		108.48		108.47
Stock options and stock appreciation rights		0.12		0.13
Weighted average shares outstanding-diluted	-	108.60	-	108.60

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. For the six months ended June 30, 2009, as a result of the net loss, no potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of loss per share as the effect would have been antidilutive. The number of weighted average shares not included in the diluted computations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Loews common stock	3,381,844	1,179,504	5,678,645	1,176,438
Former Carolina Group stock	-	310,125	-	255,983

6. Receivables

	June 30, 2009	December 31, 2008
(In millions)		
Reinsurance	\$7,337	\$7,761
Other insurance	2,060	2,039
Receivable from brokers	806	936
Accrued investment income	387	360
Federal income taxes	595	382
Other	966	844
Total	12,151	12,322
Less: allowance for doubtful accounts on reinsurance receivables	358	366
allowance for other doubtful accounts	264	284
Receivables	\$11,529	\$11,672

7. Property, Plant and Equipment

	June 30, 2009	December 31, 2008
(In millions)		
Land	\$70	\$70
Buildings and building equipment	638	635
Offshore drilling equipment	6,343	5,668
Machinery and equipment	1,225	1,375
Pipeline equipment	6,321	3,978
Natural gas and oil proved and unproved properties	3,459	3,345
Construction in process	217	2,210
Leaseholds and leasehold improvements	78	75
Total	18,351	17,356
Less accumulated depreciation, depletion and amortization	5,680	4,464
Property, plant and equipment	\$12,671	\$12,892

Diamond Offshore

In June 2009, Diamond Offshore acquired the Ocean Courage, a newbuild, semisubmersible drilling rig for \$460 million, exclusive of final commissioning and initial mobilization costs, drill string and other necessary capital spares.

HighMount Impairment of Natural Gas and Oil Properties

At March 31, 2009, HighMount recorded a non-cash ceiling test impairment charge of \$1,036 million (\$660 million after tax) related to its carrying value of natural gas and oil properties. The impairment was recorded as a credit to Accumulated depreciation, depletion and amortization. The write-down was the result of declines in commodity prices at March 31, 2009. Had the effects of HighMount's cash flow hedges not been considered in calculating the ceiling limitation, the impairment would have been \$1,230 million (\$784 million after tax).

Boardwalk Pipeline Expansion Projects

In 2009, Boardwalk Pipeline placed in service its Gulf Crossing Project and Fayetteville and Greenville Laterals and the remaining compression facilities associated with its Southeast Expansion project. As a result, approximately \$2.3 billion was transferred from Construction in process to Pipeline equipment. The assets will generally be depreciated over a term of 35 years.

8. 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. CNA reported catastrophe losses, net of reinsurance, of \$43 million and \$56 million for the three and six months ended June 30, 2009 for events occurring in those periods. Catastrophe losses in 2009 related primarily to tornadoes, floods, hail and wind. CNA reported catastrophe losses, net of reinsurance, of \$47 million and \$100 million for the three and six months ended June 30, 2008 for events occurring in those periods. 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.

	June 30, 2009		December 31, 2008	
	Asbestos	Environmental Pollution	Asbestos	Environmental Pollution
(In millions)				
Gross reserves	\$1,964	\$ 366	\$2,112	\$ 392
Ceded reserves	(851)	(126)	(910)	(130)
Net reserves	\$1,113	\$ 240	\$1,202	\$ 262

Asbestos

There was no asbestos-related net claim and claim adjustment expense reserve development recorded for the six months ended June 30, 2009. CNA recorded \$6 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the six months ended June 30, 2008. CNA paid asbestos-related claims, net of reinsurance recoveries, of \$89 million and \$99 million for the six months ended June 30, 2009 and 2008.

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 CNA’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. On July 25, 2008, the District Court affirmed the Bankruptcy Court's ruling. Several insurers have appealed that ruling to the Third Circuit Court of Appeals; 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, currently a 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 December 30, 2008, a New York appellate court entered a unanimous decision in favor of CNA on multiple alternative grounds including findings that claims arising out of Keasbey's asbestos insulating activities are included within the products hazard/completed operations coverage, which has been exhausted; and that the defendant claimant class is subject to the affirmative defenses that CNA may have had against Keasbey, barring all coverage claims. The claimants have sought further appellate review of the decision. The New York appellate court denied leave to appeal to the Court of Appeals. The Claimants have sought leave to appeal directly from the Court of Appeals and the decision whether to accept appeal is pending. 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 confirmed on February 23, 2009. On June 15, 2009, the confirmation order became final and may not be appealed. Numerous factual, legal and coverage 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: (i) whether CNA has any further responsibility to compensate claimants against Burns & Roe under its policies and, if so, under which; (ii) whether

CNA's responsibilities under its policies extend to a particular claimant's entire claim or only to a limited percentage of the claim; (iii) whether CNA's responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (iv) whether certain exclusions, including professional liability exclusions, in some of CNA's policies apply to exclude certain claims; (v) the extent to which claimants can establish exposure to asbestos materials as to which Burns & Roe has any responsibility; (vi) 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; (vii) the diseases and damages alleged by such claimants; (viii) the extent that any liability of Burns & Roe would be shared with other potentially responsible parties; and (ix) 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: (i) 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; (ii) 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; (iii) 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; (iv) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (v) 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. The confirmation hearing is held in two phases. The first was held in June 2009 and the second phase begins in September 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: (i) 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; (ii) 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; (iii) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (iv) the diseases and damages claimed by such claimants; (v) the extent that such liability would be shared with other potentially responsible parties; and (vi) 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

There was no environmental pollution net claim and claim adjustment expense reserve development recorded for the six months ended June 30, 2009. CNA recorded \$2 million of unfavorable environmental pollution net claim and claim adjustment expense reserve development for the six months ended June 30, 2008. CNA paid environmental pollution-related claims, net of reinsurance recoveries, of \$22 million and \$36 million for the six months ended June 30, 2009 and 2008.

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

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

Three Month Comparison

Three Months Ended June 30, 2009 (In millions)	Standard Lines	Specialty Lines	Other Insurance	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$(80)	\$(40)	\$4	\$(116)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(80)	(40)	4	(116)
Pretax (favorable) unfavorable premium development	59	(1)	(2)	56
Total pretax (favorable) unfavorable net prior year development	\$(21)	\$(41)	\$2	\$(60)
Three Months Ended June 30, 2008				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$(15)	\$1	\$5	\$(9)
A&E			6	6
Pretax (favorable) unfavorable net prior year development before impact of premium development	(15)	1	11	(3)
Pretax (favorable) unfavorable premium development	(8)	1	1	(6)
Total pretax (favorable) unfavorable net prior year development	\$(23)	\$2	\$12	\$(9)

2009 Net Prior Year Development

Standard Lines

Favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages. Prior year catastrophe reserves decreased approximately \$33 million, driven by the favorable settlement of several claims primarily in accident years 2005 and 2007. An additional \$17 million of favorable claim and allocated claim adjustment expense reserve development was due to non-catastrophe related favorable loss emergence on large property coverages, primarily in accident years 2007 and 2008.

Approximately \$25 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity trends related to construction defect exposures in accident years 2003 and prior.

Approximately \$40 million of adverse premium development was related to changes in estimated ultimate premium on retrospectively rated coverages. Additional adverse premium development was due to an estimated liability for an assessment related to a reinsurance association and less premium processing on auditable policies than expected.

Specialty Lines

Favorable claim and allocated claim adjustment expense reserve development of approximately \$25 million for medical professional liability was primarily due to better than expected frequency and severity in accident years 2005 and prior, including individual claims closing favorable to expectations.

Approximately \$8 million of favorable claim and allocated claim adjustment expense reserve development was recorded for professional liability coverages due primarily to favorable experience on a number of large claims, primarily related to financial institutions in accident years 2003 and prior.

2008 Net Prior Year Development

Standard Lines

Approximately \$29 million of favorable claim and allocated claim adjustment expense reserve development was recorded due to favorable outcomes on claims relating to catastrophes, primarily in accident year 2005.

Approximately \$8 million of favorable premium development was recorded across several coverages and accident years due to additional premium processing on auditable policies and changes to ultimate premium estimates. This favorable development was partially offset by additional unfavorable claim and allocated claim adjustment expense reserve development.

Other Insurance

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

Six Month Comparison

Six Months Ended June 30, 2009 (In millions)	Standard Lines	Specialty Lines	Other Insurance	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$(110)	\$(81)	\$5	\$(186)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(110)	(81)	5	(186)
Pretax (favorable) unfavorable premium development	76	(3)	(3)	70
Total pretax (favorable) unfavorable net prior year development	\$(34)	\$(84)	\$2	\$(116)
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	\$(50)	\$18	\$8	\$(24)
A&E			8	8
Pretax (favorable) unfavorable net prior year development before impact of premium development	(50)	18	16	(16)

Pretax (favorable) unfavorable premium development	1	(18)	(17)	
Total pretax (favorable) unfavorable net prior year development	\$(49)	\$-	\$16	\$(33)

2009 Net Prior Year Development

Standard Lines

Favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages. Prior year catastrophe reserves decreased approximately \$64 million, driven by the favorable settlement of several claims primarily in accident years 2005 and 2007, and favorable frequency and severity on

claims relating to catastrophes in accident year 2008. An additional \$17 million of favorable claim and allocated claim adjustment expense reserve development was due to non-catastrophe related favorable loss emergence on large property coverages, primarily in accident years 2007 and 2008.

Approximately \$25 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity trends related to construction defect exposures in accident years 2003 and prior.

Approximately \$40 million of adverse premium development was related to changes in estimated ultimate premium on retrospectively rated coverages. Additional adverse premium development was due to an estimated liability for an assessment related to a reinsurance association and less premium processing on auditable policies than expected.

Specialty Lines

Favorable claim and allocated claim adjustment expense reserve development of approximately \$25 million for medical professional liability was primarily due to better than expected frequency and severity in accident years 2005 and prior, including claims closing favorable to expectations.

Approximately \$28 million of favorable claim and allocated claim adjustment expense reserve development was recorded for professional liability coverages due primarily to favorable experience on a number of large claims related to financial institutions in accident years 2003 and prior and decreased frequency of large claims in accident years 2007 and prior.

An additional \$4 million of favorable claim and allocated claim adjustment expense reserve development was a result of favorable outcomes on claims relating to catastrophes in accident year 2005.

2008 Net Prior Year Development

Standard Lines

Approximately \$49 million of favorable claim and allocated claim adjustment expense reserve development was recorded in property coverages. This favorable development was due to lower than expected frequency in accident year 2007 and favorable outcomes on several individual claims in accident years 2006 and prior, including approximately \$29 million related to catastrophes, primarily in accident year 2005.

Approximately \$23 million of favorable claim and allocated claim adjustment expense reserve development was recorded in general liability due to favorable outcomes on individual claims causing lower severity in accident years 2003 and prior.

Approximately \$24 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded in excess workers' compensation due to higher than expected frequency and severity in accident years 2003 and prior. This is a result of continued claim cost inflation in older accident years, driven by increasing medical inflation and advances in medical care.

Specialty Lines

Approximately \$10 million of favorable premium development was recorded due to a change in estimated ultimate premiums within a foreign affiliate's property and financial lines. This was offset by approximately \$9 million of related unfavorable claim and allocated claim adjustment expense reserve development.

Other Insurance

The net prior year development recorded for the six months ended June 30, 2008 relates to the same reasons included in the three month discussion.

9. Debt

In May of 2009, Diamond Offshore issued \$500 million aggregate principal amount of 5.9% senior notes due May 1, 2019. Diamond Offshore used the net proceeds of \$496 million from the sale of the notes for general corporate purposes.

10. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. Benefits for certain plans are determined annually based on a specified percentage of annual earnings (based on the participant's age or years of service) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The benefits for another plan which cover salaried employees are based on formulas which include, among others, years of service and average pay. 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.

Net periodic benefit cost components:

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
(In millions)				
Service cost	\$6	\$7	\$13	\$15
Interest cost	43	42	86	82
Expected return on plan assets	(39)	(48)	(78)	(96)
Amortization of net loss	1		2	1
Actuarial loss	6	1	12	2
Net periodic benefit cost	\$17	\$2	\$35	\$4

	Other Postretirement Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
(In millions)				
Service cost			\$1	\$1
Interest cost	\$3	\$3	6	6
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of prior service benefit	(6)	(7)	(12)	(12)
Actuarial loss		1	1	1
Regulatory asset decrease	2	2	3	3

Net periodic benefit cost	\$ (2)	\$ (2)	\$ (3)	\$ (3)
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11. 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, are included in the Corporate and other segment.

CNA's business primarily consists of commercial property and casualty insurance. Its reportable segments are Standard Lines, Specialty Lines, Life & Group Non-Core, and Other Insurance.

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. On June 30, 2009, these rigs were located offshore in 12 countries in addition to the United States.

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.

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

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

The Corporate and other segment consists primarily of corporate investment income, 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.

The following tables set forth the Company's consolidated revenues, income (loss) before income tax and net income (loss) - Loews by business segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Revenues (a):				
CNA Financial:				
Standard Lines	\$767	\$922	\$1,432	\$1,867
Specialty Lines	974	1,039	1,835	2,088
Life & Group Non-Core	329	308	453	545
Other Insurance	26	52	14	103
Total CNA Financial	2,096	2,321	3,734	4,603
Diamond Offshore	957	970	1,843	1,762
HighMount	147	201	322	390
Boardwalk Pipeline	201	206	425	419
Loews Hotels	73	105	146	202
Corporate and other	60	119	87	158
Total	\$3,534	\$3,922	\$6,557	\$7,534

Income (loss) before income tax (a):

CNA Financial:

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Standard Lines	\$39	\$119	\$(61)) \$233
Specialty Lines	163	201	231	392
Life & Group Non-Core	(42)) (67)) (282)) (103)
Other Insurance	(26)	) 3	(86))
Total CNA Financial	134	256	(198)	) 522
Diamond Offshore	520	590	971	995
HighMount	46	76	(960)	) 151
Boardwalk Pipeline	18	64	69	153
Loews Hotels	6	32	(23)	) 50
Corporate and other	33	89	30	98
Total	\$757	\$1,107	\$(111)	) \$1,969

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net income (loss) - Loews (a):				
CNA Financial:				
Standard Lines	\$31	\$76	\$(19)	\$152
Specialty Lines	94	113	135	220
Life & Group Non-Core	(15)	(31)	(146)	(43)
Other Insurance	(10)	4	(40)	4
Total CNA Financial	100	162	(70)	333
Diamond Offshore	181	194	344	330
HighMount	29	48	(612)	95
Boardwalk Pipeline	8	28	30	67
Loews Hotels	3	19	(15)	30
Corporate and other	20	60	17	65
Income from continuing operations	341	511	(306)	920
Discontinued operations	(1)	4,452	(1)	4,705
Total	\$340	\$4,963	\$(307)	\$5,625

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues and Income (loss) before income tax:				
CNA Financial:				
Standard Lines	\$(170)	\$(60)	\$(349)	\$(76)
Specialty Lines	(96)	(30)	(212)	(39)
Life & Group Non-Core	13	(6)	(177)	(23)
Other Insurance	(44)	(15)	(91)	(24)
Total CNA Financial	(297)	(111)	(829)	(162)
Corporate and other		2	1	2
Total	\$(297)	\$(109)	\$(828)	\$(160)

Net income (loss) - Loews:

CNA Financial:				
Standard Lines	\$(100)	\$(35)	\$(205)	\$(45)
Specialty Lines	(61)	(17)	(127)	(22)
Life & Group Non-Core	8	(3)	(103)	(13)
Other Insurance	(25)	(10)	(53)	(14)
Total CNA Financial	(178)	(65)	(488)	(94)

Corporate and other		1		1
Total	\$ (178	) \$ (64	) \$ (488	) \$ (93

12. 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 appeal has been fully briefed. No oral argument has yet been scheduled. CNA believes it has meritorious defenses to this appeal and intends to defend the appeal vigorously. The agreement did not have a material impact on the Company's results of operations, 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 was held on April 21, 2009, and the Court took the matter under advisement. 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 was 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 sought 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 parties entered into a settlement agreement during the first quarter of 2009 providing for a payment by CCC of an amount that approximated the amount accrued at March 31, 2009. In the second quarter of 2009, the Court entered an order dismissing with prejudice all claims against CCC. As a result, this matter has been fully and finally resolved.

A&E Reserves

CNA is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note 8 for further discussion.

TOBACCO RELATED

The Company has been named as a defendant in the following three 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 *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses 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 initially permitted plaintiff to serve the Company outside the jurisdiction but it cancelled the leave of service in response to the Company's application, and plaintiff's appeal is pending. 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. In a fourth case that had been pending against the Company, Cochran vs. R.J. Reynolds Tobacco Company, et al. (2002, Circuit Court, George County, Mississippi), the plaintiff and the defendants stipulated to a dismissal without prejudice during March 2009.

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 three cases described above.

While the Company intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties. It is possible that one or more of the pending actions could be decided unfavorably.

OTHER LITIGATION

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.

13. 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 June 30, 2009, 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 June 30, 2009, 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.

In connection with the issuance of preferred securities by CNA Surety Capital Trust I ("Issuer Trust"), CNA Surety, a 62% owned and consolidated subsidiary of CNA, has also guaranteed the dividend payments and redemption of the preferred securities issued by the Issuer Trust. The maximum amount of undiscounted future payments CNA could make under the guarantee is approximately \$63 million, consisting of annual dividend payments of approximately \$1 million through April 2034 and the redemption value of \$30 million. Because payment under the guarantee would only be required if CNA does not fulfill its obligations under the debentures held by the Issuer Trust, CNA has not recorded any additional liabilities related to this guarantee. There has been no change in the underlying assets of the trust and CNA does not believe that a payment is likely under this guarantee.

Boardwalk Pipeline Purchase Commitments

Boardwalk Pipeline is engaged in several major expansion projects that will require the investment of significant capital resources. As of June 30, 2009, Boardwalk Pipeline had purchase commitments of \$138 million primarily related to its expansion projects.

14. Discontinued Operations

The results of discontinued operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Revenues:				
Net investment income	\$2	\$6	\$3	\$18
Manufactured products		829		1,750
Investment gains		1		2
Total (a)	2	836	3	1,770
Expenses:				
Insurance related expenses	3	1	4	6
Cost of manufactured products sold		485		1,039
Other operating expenses		72		172
Interest		1		2
Total	3	559	4	1,219
Income (loss) before income tax	(1)	277	(1)	551
Income tax expense		(107)		(208)
Results of discontinued operations	(1)	170	(1)	343
Gain on disposal (after tax of \$7 and \$51)		4,282		4,362
Net income (loss) from discontinued operations				
- Loews	\$(1)	\$4,452	\$(1)	\$4,705

(a) Lorillard's revenues amounted to 99.6% and 99.7% of the total discontinued operations for the three and six months ended June 30, 2008. Lorillard's pretax income amounted to approximately 100.0% of total pretax income of discontinued operations for the three and six months ended June 30, 2008.

Net liabilities of discontinued operations included in Other liabilities in the Consolidated Condensed Balance Sheets are as follows:

	June 30, 2009	December 31, 2008
(In millions)		
Assets:		
Investments	\$144	\$157
Receivables	5	6
Other assets	1	1
Total assets	150	164
Liabilities:		
Insurance reserves	154	162
Other liabilities	4	8
Total liabilities	158	170

Net liabilities of discontinued operations (a)	\$(8) \$(6)
--	-------------------------------------

- (a) The net liabilities of CNA's discontinued operations totaling \$8 million and \$6 million as of June 30, 2009 and December 31, 2008 are included in Other liabilities 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 net in Other liabilities. At June 30, 2009 and December 31, 2008, the insurance reserves are net of discounts of \$61 million and \$75 million.

Lorillard

As discussed in Note 1, in June of 2008, the Company disposed of its entire ownership interest in Lorillard. See Note 2 of the Notes to Consolidated Financial Statements in the Company's 2008 Annual Report on Form 10-K.

CNA

CNA has discontinued operations, which consist of run-off insurance and reinsurance operations acquired in its merger with the Continental Corporation in 1995. 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 above related to CNA primarily represents the net investment income, realized investment gains and losses, foreign currency transaction 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.

Bulova

The Company sold Bulova Corporation ("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 six months ended June 30, 2008.

15. Consolidating Financial Information

The following schedules present the Company's consolidating balance sheet information at June 30, 2009 and December 31, 2008, and consolidating statements of operations information for the six months ended June 30, 2009 and 2008. 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 taxes and noncontrolling 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 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.

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Loews Corporation
Consolidating Balance Sheet Information

	CNA	Diamond		Boardwalk	Loews	Corporate and		
June 30, 2009	Financial	Offshore	HighMount	Pipeline	Hotels	Other	Eliminations	Total
(In millions)								
Assets:								
Investments	\$38,052	\$644	\$ 45	\$ 71	\$67	\$ 2,434		\$41,313
Cash	98	27	4	3	2	2		136
Receivables	10,110	762	168	94	19	579	\$ (203)	11,529
Property, plant and equipment	316	3,930	1,792	6,239	351	43		12,671
Deferred income taxes	2,575		655				(1,041)	2,189
Goodwill	86	20	584	163	3			856
Investments in capital stocks of subsidiaries						13,831	(13,831)	-
Other assets	733	229	58	320	29	9		1,378
Deferred acquisition costs of insurance subsidiaries	1,145							1,145
Separate account business	413							413
Total assets	\$53,528	\$5,612	\$ 3,306	\$ 6,890	\$471	\$ 16,898	\$ (15,075)	\$71,630
Liabilities and Equity:								
Insurance reserves	\$38,571							\$38,571
Payable to brokers	494		\$ 167	\$ 1	\$1	\$ 267		930
Collateral on loaned securities and derivatives	1			5				6
Short term debt		\$4			19			23
Long term debt	2,058	999	1,715	3,002	206	867	\$ (200)	8,647
Reinsurance balances payable	350							350
Deferred income taxes		492		132	41	376	(1,041)	-
Other liabilities	2,590	537	119	459	12	214	(3)	3,928
Separate account business	413							413
Total liabilities	44,477	2,032	2,001	3,599	279	1,724	(1,244)	52,868
	7,890	1,822	1,305	2,464	192	15,174	(13,831)	15,016

Total shareholders' equity								
Noncontrolling interests	1,161	1,758		827				3,746
Total equity	9,051	3,580	1,305	3,291	192	15,174	(13,831)	18,762
Total liabilities and equity	\$53,528	\$5,612	\$ 3,306	\$ 6,890	\$471	\$ 16,898	\$ (15,075)	\$71,630

Loews Corporation
Consolidating Balance Sheet Information

	CNA	Diamond		Boardwalk	Loews	Corporate and Other	Eliminations	Total
December 31, 2008	Financial	Offshore	HighMount	Pipeline	Hotels			
(In millions)								
Assets:								
Investments	\$34,980	\$701	\$ 46	\$ 313	\$70	\$ 2,340		\$38,450
Cash	85	36	1	2	2	5		131
Receivables	10,290	575	225	92	23	482	\$ (15)	11,672
Property, plant and equipment	327	3,429	2,771	5,972	350	43		12,892
Deferred income taxes	3,532		306				(910)	2,928
Goodwill	86	20	584	163	3			