LOEWS CORP
Form 10-Q
October 29, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

LOEWS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-2646102
(State or other jurisdiction of incorporation or organization)	(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 X No

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

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

Large accelerated filer X	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 X

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

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

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

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

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

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

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

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

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

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

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

2. Separation of Lorillard, Inc.

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

- On June 10, 2008, the Company distributed 108,478,429 shares, or approximately 62%, of the outstanding common stock of Lorillard in exchange for and in redemption of all of the 108,478,429 outstanding shares of the Company's former Carolina Group stock, in accordance with the Company's Restated Certificate of Incorporation (the "Redemption"); and

- On June 16, 2008, the Company distributed the remaining 65,445,000 shares, or approximately 38%, of the outstanding common stock of Lorillard in exchange for 93,492,857 shares of Loews common stock, reflecting an exchange ratio of 0.70 (the "Exchange Offer").

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

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

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

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

3. Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Net investment income consisted of:				
Fixed maturity securities	$ 501	$ 501	$ 1,495	$ 1,523
Short term investments	36	79	125	243
Limited partnerships	(77)	19	(70)	142
Equity securities	18	7	62	18
Trading portfolio	(117)	33	(66)	221
Other	6	19	27	60
Total investment income	367	658	1,573	2,207
Investment expense	(12)	(11)	(42)	(42)
Net investment income	$ 355	$ 647	$ 1,531	$ 2,165
Investment gains (losses) are as follows:				
Fixed maturities	$ (315)	$ (39)	$ (475)	$ (322)
Equity securities, including short positions	(376)	16	(405)	30
Derivative instruments	35	(45)	47	94
Short term investments	5	7	12	7
Other, including guaranteed separate account business	1	7	9	8
Investment losses	(650)	(54)	(812)	(183)
Gain on issuance of subsidiary stock (Note 13)			2	139
	(650)	(54)	(810)	(44)
Income tax benefit	227	19	284	14
Minority interest	44	3	54	15
Investment losses, net	$ (379)	$ (32)	$ (472)	$ (15)

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

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

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

for 2008 were primarily driven by credit issues.

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

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

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

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

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

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

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

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

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

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

Asset-Backed Securities

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

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

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

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

States, Municipalities and Political Subdivisions – Tax-Exempt Securities

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

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

Corporate Bonds

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

Preferred Stock

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

Credit Default Swaps

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

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

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

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Investment Commitments

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

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

4. Fair Value

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

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

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

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

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

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

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

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

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

Three Months Ended September 30, 2008	Fixed Maturity Securities	Equity Securities	Other Assets	Derivative Financial Instruments, Net	Total
(In millions)					
Net investment loss	$ (17)	$ (1)			$ (18)
Investment gains (losses)	(19)			$ 54	35
Other revenues			$ 4	(4)	-
Total	$ (36)	$ (1)	$ 4	$ 50	$ 17
Nine Months Ended September 30, 2008					
Net investment loss	$ (11)	$ (2)			$ (13)
Investment gains (losses)	(149)	(2)		$ 55	(96)
Other revenues			$ 34	(26)	8
Total	$ (160)	$ (4)	$ 34	$ 29	$ (101)

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

Three Months Ended September 30, 2008	Fixed Maturity Securities	Equity Securities	Other Assets	Derivative Financial Instruments, Net	Total
(In millions)					
Net investment income (loss)	$ (5)	$ 1			$ (4)
Investment gains (losses)	(22)			$ 76	54
Other revenues			$ 3		3
Total	$ (27)	$ 1	$ 3	$ 76	$ 53
Nine Months Ended September 30, 2008					
Net investment loss	$ (11)				$ (11)
Investment gains (losses)	(155)	$ (4)		$ 7	(152)
Other revenues			$ 8		8
Total	$ (166)	$ (4)	$ 8	$ 7	$ (155)

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

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

Fixed Maturity Securities

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

Equity Securities

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

Derivative Financial Instruments

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

Short Term Investments

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

Life Settlement Contracts

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

Discontinued Operations Investments

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

Separate Account Business

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

5. Earnings Per Share

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

were exercised or converted into common stock.

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

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

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

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

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

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

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

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

6. Reinsurance

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

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

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

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

7. Receivables

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

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

8. Property, Plant and Equipment

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

Diamond Offshore Construction Projects

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

Boardwalk Pipeline Expansion Projects

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

9. Claim and Claim Adjustment Expense Reserves

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

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

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

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

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

A&E Reserves

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

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

Asbestos

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Environmental Pollution

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

Net Prior Year Development

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

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

Three Month Comparison

Three Months Ended September 30, 2008	Standard Lines	Specialty Lines	Other Insurance	Total
(In millions)				
Pretax unfavorable (favorable) net prior				
year claim and allocated claim adjustment				
expense reserve development:				
Core (Non-A&E)	$ (4)	$ (68)	$ 1	