

LOEWS CORP
Form 10-Q
May 03, 2016
Table of Contents

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 March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____
Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

667 Madison Avenue, New York, N.Y. 10065-8087

(Address of principal executive offices) (Zip Code)

(212) 521-2000

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

(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 Not Applicable

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

Class
Common stock, \$0.01 par value

Outstanding at April 22, 2016
339,016,271 shares

Table of Contents

INDEX

	<u>Page No.</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Balance Sheets March 31, 2016 and December 31, 2015</u>	3
<u>Consolidated Condensed Statements of Income Three months ended March 31, 2016 and 2015</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income Three months ended March 31, 2016 and 2015</u>	5
<u>Consolidated Condensed Statements of Equity Three months ended March 31, 2016 and 2015</u>	6
<u>Consolidated Condensed Statements of Cash Flows Three months ended March 31, 2016 and 2015</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	54
<u>Item 4. Controls and Procedures</u>	54
<u>Part II. Other Information</u>	55
<u>Item 1. Legal Proceedings</u>	55
<u>Item 1A. Risk Factors</u>	55
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
<u>Item 6. Exhibits</u>	56

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

	March 31, 2016	December 31, 2015
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of \$37,507 and \$37,407	\$ 40,475	\$ 39,701
Equity securities, cost of \$817 and \$824	777	752
Limited partnership investments	3,301	3,313
Other invested assets, primarily mortgage loans	822	824
Short term investments	5,275	4,810
Total investments	50,650	49,400
Cash	308	440
Receivables	8,227	8,041
Property, plant and equipment	15,351	15,477
Goodwill	350	351
Other assets	1,716	1,699
Deferred acquisition costs of insurance subsidiaries	622	598
Total assets	\$ 77,224	\$ 76,006

Liabilities and Equity:

Insurance reserves:		
Claim and claim adjustment expense	\$ 23,018	\$ 22,663
Future policy benefits	10,500	10,152
Unearned premiums	3,807	3,671
Total insurance reserves	37,325	36,486
Payable to brokers	630	567
Short term debt	3	1,040
Long term debt	10,584	9,520
Deferred income taxes	540	382
Other liabilities	5,017	5,201

Total liabilities	54,099	53,196
Commitments and contingent liabilities		
Preferred stock, \$0.10 par value:		
Authorized 100,000,000 shares		
Common stock, \$0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 339,933,179 and 339,897,547 shares	3	3
Additional paid-in capital	3,177	3,184
Retained earnings	14,812	14,731
Accumulated other comprehensive loss	(126)	(357)
	17,866	17,561
Less treasury stock, at cost (918,767 shares)	(33)	
Total shareholders' equity	17,833	17,561
Noncontrolling interests	5,292	5,249
Total equity	23,125	22,810
Total liabilities and equity	\$ 77,224	\$ 76,006

See accompanying Notes to Consolidated Condensed Financial Statements.

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

Three Months Ended March 31	2016	2015
(In millions, except per share data)		
Revenues:		
Insurance premiums	\$ 1,699	\$ 1,687
Net investment income	422	588
Investment gains (losses):		
Other-than-temporary impairment losses	(23)	(12)
Other net investment gains (losses)	(5)	22
Total investment gains (losses)	(28)	10
Contract drilling revenues	444	600
Other revenues	636	593
Total	3,173	3,478
Expenses:		
Insurance claims and policyholders' benefits	1,408	1,339
Amortization of deferred acquisition costs	307	303
Contract drilling expenses	213	351
Other operating expenses (Note 4)	907	1,249
Interest	143	131
Total	2,978	3,373
Income before income tax	195	105
Income tax (expense) benefit	4	(56)
Net income	199	49
Amounts attributable to noncontrolling interests	(97)	60
Net income attributable to Loews Corporation	\$ 102	\$ 109
Basic and diluted net income per share	\$ 0.30	\$ 0.29
Dividends per share	\$ 0.0625	\$ 0.0625

Weighted average shares outstanding:		
Shares of common stock	339.10	372.83
Dilutive potential shares of common stock	0.15	0.36
Total weighted average shares outstanding assuming dilution	339.25	373.19

See accompanying Notes to Consolidated Condensed Financial Statements.

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

Three Months Ended March 31	2016	2015
(In millions)		
Net income	\$ 199	\$ 49
Other comprehensive income (loss), after tax		
Changes in:		
Net unrealized gains (losses) on investments with other-than-temporary impairments	5	(1)
Net other unrealized gains on investments	228	110
Total unrealized gains on available-for-sale investments	233	109
Unrealized gains on cash flow hedges	1	3
Pension liability	8	4
Foreign currency	14	(96)
Other comprehensive income	256	20
Comprehensive income	455	69
Amounts attributable to noncontrolling interests	(122)	57
Total comprehensive income attributable to Loews Corporation	\$ 333	\$ 126

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Loews Corporation Shareholders							
					Accumulated Other Comprehensive Income (Loss)			
	Total	Common Stock	Additional Paid-in Capital	Retained Earnings		Common Stock Held in Treasury	Noncontrolling Interests	
(in millions)								
Balance, January 1, 2015	\$ 24,650	\$ 4	\$ 3,481	\$ 15,515	\$ 280	\$ -	\$ 5,370	
Net income	49			109			(60)	
Other comprehensive income	20				17		3	
Dividends paid	(105)			(23)			(82)	
Issuance of equity securities by subsidiary	109		(2)		1		110	
Purchases of subsidiary stock from noncontrolling interests	(26)		3				(29)	
Purchases of Loews treasury stock	(71)					(71)		
Issuance of Loews common stock	7		7					
Stock-based compensation	5		5					
Other	(8)		(17)	(1)			10	
Balance, March 31, 2015	\$ 24,630	\$ 4	\$ 3,477	\$ 15,600	\$ 298	\$ (71)	\$ 5,322	
Balance, January 1,	\$ 22,810	\$ 3	\$ 3,184	\$ 14,731	\$ (357)	\$ -	\$ 5,249	

2016									
Net income	199			102					97
Other									
Comprehensive									
Income	256			231					25
Dividends paid	(96)			(21)					(75)
Purchases of									
Subsidiary									
Stock from									
Noncontrolling									
Interests	(9)		3						(12)
Purchases of									
Loews treasury									
Stock	(33)						(33)		
Stock-based									
Compensation	3		2						1
Other	(5)		(12)						7
Balance,									
March 31, 2016	\$ 23,125	\$ 3	\$ 3,177	\$ 14,812	\$ (126)	\$	(33)	\$	5,292

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)****Three Months Ended March 31** **2016** **2015****(In millions)****Operating Activities:**

Net income	\$ 199	\$ 49
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	585	510
Changes in operating assets and liabilities, net:		
Receivables	(275)	(153)
Deferred acquisition costs	(23)	(13)
Insurance reserves	511	304
Other assets	(20)	(57)
Other liabilities	(287)	(227)
Trading securities	(541)	(371)
Net cash flow operating activities	149	42

Investing Activities:

Purchases of fixed maturities	(2,238)	(1,919)
Proceeds from sales of fixed maturities	1,722	1,144
Proceeds from maturities of fixed maturities	490	1,144
Purchases of limited partnership investments	(170)	(34)
Proceeds from sales of limited partnership investments	89	20
Purchases of property, plant and equipment	(292)	(453)
Dispositions	220	5
Change in short term investments	16	197
Other, net	6	(10)
Net cash flow investing activities	(157)	94

Financing Activities:

Dividends paid	(21)	(23)
Dividends paid to noncontrolling interests	(75)	(82)
Purchases of subsidiary stock from noncontrolling interests	(8)	(24)
Purchases of Loews treasury stock	(33)	(67)
Issuance of Loews common stock		7

Edgar Filing: LOEWS CORP - Form 10-Q

Proceeds from sale of subsidiary stock		84
Principal payments on debt	(1,809)	(759)
Issuance of debt	1,824	636
Other, net	(1)	5
Net cash flow financing activities	(123)	(223)
Effect of foreign exchange rate on cash	(1)	(6)
Net change in cash	(132)	(93)
Cash, beginning of period	440	364
Cash, end of period	\$ 308	\$ 271

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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 53% owned subsidiary); transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 51% owned subsidiary); and the operation of a chain 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) attributable to Loews Corporation as used herein means Net income (loss) attributable to Loews Corporation shareholders.

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 March 31, 2016 and December 31, 2015 and the results of operations, comprehensive income and changes in shareholders' equity and cash flows for the three months ended March 31, 2016 and 2015. Net income for the first quarter of each of the years is not necessarily indicative of net income for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K.

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights (SARs) of 6.1 million and 3.5 million shares were not included in the diluted weighted average shares amounts for the three months ended March 31, 2016 and 2015 due to the exercise price being greater than the average stock price.

Accounting changes In April of 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated accounting guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, rather than as a deferred asset. As required, the Company's Consolidated Condensed Balance Sheet has been retrospectively adjusted to reflect the effect of the adoption of the updated accounting guidance, which resulted in a decrease of \$23 million in Other assets and Long term debt at December 31, 2015.

Recently issued ASUs In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures about revenue. In August of 2015, the FASB formally amended the effective date of this update to annual reporting

periods beginning after December 15, 2017, including interim periods, and it can be adopted either retrospectively or with a cumulative effect adjustment at the date of adoption. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements.

In May of 2015, the FASB issued ASU 2015-09, Financial Services Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The guidance is effective for annual periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on its financial statement disclosures.

Table of Contents

In January of 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary change to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

2. Investments

Net investment income is as follows:

Three Months Ended March 31 (In millions)	2016	2015
Fixed maturity securities	\$ 446	\$ 443
Limited partnership investments	(40)	160
Short term investments	3	3
Equity securities	3	3
Income (loss) from trading portfolio (a)	15	(15)
Other	9	8
Total investment income	436	602
Investment expenses	(14)	(14)
Net investment income	\$ 422	\$ 588

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of \$15 and \$(14) for the three months ended March 31, 2016 and 2015.

Investment gains (losses) are as follows:

Three Months Ended March 31 (In millions)	2016	2015
Fixed maturity securities	\$ (17)	\$ 12
Equity securities	(5)	

Derivative instruments	(7)	(1)
Short term investments and other	1	(1)
Investment gains (losses) (a)	\$ (28)	\$ 10

- (a) Includes gross realized gains of \$45 and \$34 and gross realized losses of \$67 and \$22 on available-for-sale securities for the three months ended March 31, 2016 and 2015.

Table of Contents

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

Three Months Ended March 31	2016	2015
(In millions)		
Fixed maturity securities available-for-sale:		
Corporate and other bonds	\$ 16	\$ 5
States, municipalities and political subdivisions		5
Asset-backed:		
Residential mortgage-backed		1
Other asset-backed	2	
Total asset-backed	2	1
Total fixed maturities available-for-sale	18	11
Equity securities available-for-sale:		
Common stock	5	1
Net OTTI losses recognized in earnings	\$ 23	\$ 12

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

March 31, 2016	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
(In millions)					
Fixed maturity securities:					
Corporate and other bonds	\$ 17,093	\$ 1,255	\$ 236	\$ 18,112	
States, municipalities and political subdivisions	11,478	1,704	3	13,179	\$ (15)
Asset-backed:					
Residential mortgage-backed	5,028	197	19	5,206	(33)
Commercial mortgage-backed	2,137	78	16	2,199	
Other asset-backed	937	4	20	921	
Total asset-backed	8,102	279	55	8,326	(33)
U.S. Treasury and obligations of government-sponsored enterprises	133	7		140	
Foreign government	447	17	1	463	

Redeemable preferred stock	33	2		35	
Fixed maturities available-for-sale	37,286	3,264	295	40,255	(48)
Fixed maturities trading	221		1	220	
Total fixed maturities	37,507	3,264	296	40,475	(48)
Equity securities:					
Common stock	37	6	2	41	
Preferred stock	145	5	2	148	
Equity securities available-for-sale	182	11	4	189	-
Equity securities trading	635	74	121	588	
Total equity securities	817	85	125	777	-
Total	\$ 38,324	\$ 3,349	\$ 421	\$ 41,252	\$ (48)

Table of Contents

December 31, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities:					
Corporate and other bonds	\$ 17,097	\$ 1,019	\$ 347	\$ 17,769	
States, municipalities and political subdivisions	11,729	1,453	8	13,174	\$ (4)
Asset-backed:					
Residential mortgage-backed	4,935	154	17	5,072	(37)
Commercial mortgage-backed	2,154	55	12	2,197	
Other asset-backed	923	6	8	921	
Total asset-backed	8,012	215	37	8,190	(37)
U.S. Treasury and obligations of government-sponsored enterprises	62	5		67	
Foreign government	334	13	1	346	
Redeemable preferred stock	33	2		35	
Fixed maturities available-for-sale	37,267	2,707	393	39,581	(41)
Fixed maturities, trading	140		20	120	
Total fixed maturities	37,407	2,707	413	39,701	(41)
Equity securities:					
Common stock	46	3	1	48	
Preferred stock	145	7	3	149	
Equity securities available-for-sale	191	10	4	197	-
Equity securities, trading	633	56	134	555	
Total equity securities	824	66	138	752	-
Total	\$ 38,231	\$ 2,773	\$ 551	\$ 40,453	\$ (41)

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income (AOCI). When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. To the extent that unrealized gains on fixed income securities supporting certain products within CNA's Life & Group Non-Core business would result in a premium deficiency if realized, a related increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income (Shadow Adjustments). As of March 31, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of \$1,176 million and \$996 million.

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

	Less than	12 Months		Total		
	12 Months	or Longer				
	Estimated	Gross	Gross	Estimated	Gross	
March 31, 2016	Fair Value	Unrealized	Unrealized	Fair Value	Unrealized	
		Losses	Losses		Losses	
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	\$ 2,669	\$ 174	\$ 279	\$ 62	\$ 2,948	\$ 236
States, municipalities and political subdivisions	90	3	64		154	3
Asset-backed:						
Residential mortgage-backed	376	11	159	8	535	19
Commercial mortgage-backed	505	14	102	2	607	16
Other asset-backed	572	20	5		577	20
Total asset-backed	1,453	45	266	10	1,719	55
U.S. Treasury and obligations of government-sponsored enterprises	23				23	
Foreign government	54	1				