LOEWS CORP
Form 10-Q
August 04, 2009

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 June 30, 2009

OR

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

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

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

Delaware	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 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 X

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 July 24, 2009
Common stock, $0.01 par value	433,026,621 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

Total	$340	$4,963	$(307)	$5,625

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

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

Other comprehensive income							
Dividends paid	(375)			(54)			(321)
Issuance of Loews common stock	2		2				
Purchase of Loews treasury stock	(32)					(32)	
Stock-based compensation	9		7				2
Other	9		(6)	(1)			16
Balance, June 30, 2009	$ 18,762	$ 4	$ 3,894	$ 13,122	$ (1,972)	$ (32)	$ 3,746

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

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

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

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (“CNA”), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (“Diamond Offshore”), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (“HighMount”), a wholly owned subsidiary); the operation of interstate natural gas transmission pipeline systems including integrated storage facilities (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 75% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary). Unless the context otherwise requires, the terms “Company,” “Loews” and “Registrant” as used herein mean Loews Corporation excluding its subsidiaries and the term “Net income (loss) –Loews” as used herein means Net income (loss) attributable to Loews Corporation.

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

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2009 and December 31, 2008 and the results of operations and comprehensive income for the three and six months ended June 30, 2009 and 2008 and changes in cash flows for the six months ended June 30, 2009 and 2008. The Company’s management evaluated subsequent events through July 31, 2009.

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

Reference is made to the Notes to Consolidated Financial Statements in the 2008 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

Supplementary cash flow information – As discussed above, in June of 2008, the Company disposed of its entire ownership interest in Lorillard resulting in a non-cash gain on disposal of $4.3 billion. Investing activities includes net accrued capital expenditures of $125 million for the six months ended June 30, 2009. For the six months ended June 30, 2008, net cash outflows increased by $162 million due to payment of previously accrued capital expenditures.

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

Condensed Balance Sheets.

In February of 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of SFAS No. 157," which delayed the effective date of SFAS No. 157, "Fair Value Measurements," for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. As of January 1, 2009, the Company adopted the provisions of SFAS No. 157 as it relates to reporting units and indefinite-lived intangible assets measured at fair value for the purposes of impairment testing and asset retirement obligations. The adoption of these provisions had no impact on the Company's financial condition or results of operations.

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

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

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

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

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

Prior to the adoption of FSP No. FAS 115-2 and FAS 124-2, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

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

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

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

2. Investments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net investment income consisted of:				
Fixed maturity securities	$487	$476	$962	$994
Short term investments	13	36	24	89
Limited partnerships	159	46	89	7
Equity securities	14	39	28	44
Trading portfolio	72	103	98	51
Other	1	9	4	21
Total investment income	746	709	1,205	1,206
Investment expenses	(11)	(12)	(23)	(30)
Net investment income	$735	$697	$1,182	$1,176
Investment gains (losses) are as follows:				
Fixed maturity securities	$(392)	$(158)	$(750)	$(160)
Equity securities	64	(14)	(152)	(29)
Derivative instruments	33	56	64	12
Short term investments	(5)	5	9	7
Other	3		1	8

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

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

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

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

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

CNA performs the discounted cash flow analysis using distressed scenarios to determine future expectations regarding recoverability. For asset-backed securities significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, credit support from lower level tranches and impacts of rating agency downgrades. The discount rate utilized is either the yield at acquisition, or for lower rated structured securities, the current yield.

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

Prior to adoption of FSP No. FAS 115-2 and FAS 124-2, CNA applied the impairment model described above for all other equity securities to both debt and equity securities.

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

June 30, 2009	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities:						
U.S. Treasury securities and obligations						
of government agencies	$ 1,008	$ 43	$ 80		$ 971	
Asset-backed securities:						
Residential mortgage-backed securities	7,458	41	308	$ 926	6,265	$ 141
Commercial mortgage-backed securities	901	1	10	240	652	7
Other asset-backed securities	476	9	1	54	430	
Total asset-backed securities	8,835	51	319	1,220	7,347	148
States, municipalities and political						
subdivisions-tax exempt securities	8,289	106	263	494	7,638	
Corporate and other taxable bonds	15,526	543	564	582	14,923	2
Redeemable preferred stock	69	2	5	4	62	
Fixed maturities available-for-sale	33,727	745	1,231	2,300	30,941	150
Fixed maturities, trading	911	4	5	25	885	
Total fixed maturities	34,638	749	1,236	2,325	31,826	150
Equity securities:						
Common stock	92	206		3	295	
Preferred stock	578	31	41	112	456	
Equity securities available-for-sale	670	237	41	115	751	
Equity securities, trading	288	76	23	39	302	
Total equity securities	958	313	64	154	1,053	-
Short term investments:						
Short term investments available-for-sale	5,683	2	1		5,684	
Short term investments, trading	770				770	
Total short term investments	6,453	2	1	-	6,454	-
Total	$ 42,049	$ 1,064	$ 1,301	$ 2,479	$ 39,333	$ 150
December 31, 2008						
Fixed maturity securities:						
U.S. Treasury securities and obligations of						
government agencies	$ 2,862	$ 69	$ 1		$ 2,930	
Asset-backed securities	9,670	24	961	$ 969	7,764	
States, municipalities and political						