ARVINMERITOR INC
Form 10-Q
May 06, 2010

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 April 4, 2010

Commission File No. 1-15983

ARVINMERITOR, INC.

(Exact name of registrant as specified in its charter)

Indiana	38-3354643
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2135 West Maple Road, Troy, Michigan	48084-7186
(Address of principal executive offices)	(Zip Code)

(248) 435-1000
(Registrant's telephone number, including area code)

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 Registration S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

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

Large accelerated filer		Accelerated filer	X
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

94,072,706 shares of Common Stock, $1.00 par value, of ArvinMeritor, Inc. were outstanding on April 4, 2010.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

ARVINMERITOR, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010 (Unaudited)	2009	2010	2009
Sales	$ 1,207	$ 962	$ 2,353	$ 2,182
Cost of sales	(1,083)	(885)	(2,114)	(2,030)
GROSS MARGIN	124	77	239	152
Selling, general and administrative	(89)	(59)	(174)	(156)
Restructuring costs	—	(46)	(2)	(70)
Asset impairment charges	—	—	—	(153)
Goodwill impairment charges	—	—	—	(70)
Other operating expense	—	(1)	—	(1)
OPERATING INCOME (LOSS)	35	(29)	63	(298)
Other income	1	—	1	—
Equity in earnings (losses) of affiliates	11	(3)	21	1
Interest expense, net	(31)	(24)	(54)	(47)
INCOME (LOSS) BEFORE INCOME TAXES	16	(56)	31	(344)
Benefit (provision) for income taxes	4	9	(10)	(621)
INCOME (LOSS) FROM CONTINUING OPERATIONS	20	(47)	21	(965)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(3)	(2)	(1)	(55)
NET INCOME (LOSS)	17	(49)	20	(1,020)
Less: Net income (loss) attributable to noncontrolling interests	(4)	—	(7)	10
NET INCOME (LOSS) ATTRIBUTABLE TO ARVINMERITOR, INC.	$ 13	$ (49)	$ 13	$ (1,010)
NET INCOME (LOSS) ATTRIBUTABLE TO ARVINMERITOR, INC.				
Net income (loss) from continuing operations	$ 16	$ (48)	$ 14	$ (968)
Loss from discontinued operations	(3)	(1)	(1)	(42)
Net income (loss)	$ 13	$ (49)	$ 13	$ (1,010)
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	$ 0.20	$ (0.66)	$ 0.18	$ (13.37)
Discontinued operations	(0.04)	(0.01)	(0.01)	(0.58)
Basic earnings (loss) per share	$ 0.16	$ (0.67)	$ 0.17	$ (13.95)
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	$ 0.20	$ (0.66)	$ 0.18	$ (13.37)
Discontinued operations	(0.04)	(0.01)	(0.01)	(0.58)
Diluted earnings (loss) per share	$ 0.16	$ (0.67)	$ 0.17	$ (13.95)
Basic average common shares outstanding	80.3	72.6	76.4	72.4
Diluted average common shares outstanding	83.1	72.6	79.0	72.4
Cash dividends per common share	$ —	$ —	$ —	$ 0.10

See notes to consolidated financial statements. Amounts for prior periods have been recast for discontinued operations.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	March 31, 2010 (Unaudited)	September 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 274	$ 95
Receivables, trade and other, net	766	694
Inventories	410	374
Other current assets	114	97
Assets of discontinued operations	—	56
TOTAL CURRENT ASSETS	1,564	1,316
NET PROPERTY	433	445
GOODWILL	429	438
OTHER ASSETS	343	306
TOTAL ASSETS	$ 2,769	$ 2,505
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Short-term debt	$ 1	$ 97
Accounts payable	791	674
Other current liabilities	427	411
Liabilities of discontinued operations	—	107
TOTAL CURRENT LIABILITIES	1,219	1,289
LONG-TERM DEBT	1,031	995
RETIREMENT BENEFITS	1,077	1,077
OTHER LIABILITIES	319	310
EQUITY (DEFICIT):		
Common stock (March 31, 2010 and September 30, 2009, 94.1 and 74.0 shares issued and outstanding, respectively)	92	72
Additional paid-in capital	883	699
Accumulated deficit	(1,219)	(1,232)
Accumulated other comprehensive loss	(666)	(734)
Total equity (deficit) attributable to ArvinMeritor, Inc.	(910)	(1,195)
Noncontrolling interest	33	29
TOTAL EQUITY (DEFICIT)	(877)	(1,166)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 2,769	$ 2,505

See notes to consolidated financial statements.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Six Months Ended March 31,	
	2010 (Unaudited)	2009
OPERATING ACTIVITIES		
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (See Note 9)	$ 92	$ (440)
INVESTING ACTIVITIES		
Capital expenditures	(42)	(72)
Other investing activities	3	8
Net investing cash flows used for continuing operations	(39)	(64)
Net investing cash flows provided by (used for) discontinued operations	16	(12)
CASH USED FOR INVESTING ACTIVITIES	(23)	(76)
FINANCING ACTIVITIES		
Borrowings (payments) on revolving credit facility, net	(28)	318
Payments on accounts receivable securitization program, net	(83)	(23)
Proceeds from debt issuance	245	—
Repayment of notes	(175)	(83)
Payments on lines of credit and other, net	(14)	(2)
Net change in debt	(55)	210
Proceeds from stock issuance	209	—
Issuance and debt extinguishment costs	(44)	—
Other financing activities	(1)	—
Cash dividends	—	(8)
Net financing cash flows provided by continuing operations	109	202
Net financing cash flows provided by discontinued operations	—	8
CASH PROVIDED BY FINANCING ACTIVITIES	109	210
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1	(26)
CHANGE IN CASH AND CASH EQUIVALENTS	179	(332)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	95	497
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 274	$ 165

See notes to consolidated financial statements. Amounts for prior periods have been recast for discontinued operations.

ARVINMERITOR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF
EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)
(In millions, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
	(Unaudited)			
ArvinMeritor, Inc. Shareowners:				
COMMON STOCK				
Beginning balance	$ 72	$ 72	$ 72	$ 72
Issuance of common stock	20	—	20	—
Ending balance	$ 92	$ 72	$ 92	$ 72
ADDITIONAL PAID-IN CAPITAL				
Beginning balance	$ 701	$ 692	$ 699	$ 692
Issuance of common stock	180	—	180	—
Issuance of restricted stock	—	—	—	(3)
Equity based compensation expense	2	3	4	6
Ending balance	$ 883	$ 695	$ 883	$ 695
ACCUMULATED DEFICIT				
Beginning balance	$ (1,232)	$ (1,005)	$ (1,232)	$ (16)
Net income (loss) attributable to ArvinMeritor, Inc.	13	(49)	13	(1,010)
Cash dividends (per share $0.10: 2009)	—	—	—	(8)
Adjustment upon adoption of retirement benefits guidance	—	—	—	(20)
Ending balance	$ (1,219)	$ (1,054)	$ (1,219)	$ (1,054)
TREASURY STOCK				
Beginning balance	$ —	$ —	$ —	$ (3)
Issuance of restricted stock	—	—	—	3
Ending balance	$ —	$ —	$ —	$ —
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Beginning balance	$ (684)	$ (398)	$ (734)	$ (225)
Foreign currency translation adjustments	17	(10)	34	(167)
Employee benefit related adjustments	—	(3)	—	(3)
Impact of sale of business	—	—	31	—
Adjustments upon adoption of retirement benefits guidance	—	—	—	9
Unrealized gains (losses)	1	15	3	(10)
Ending balance	$ (666)	$ (396)	$ (666)	$ (396)
TOTAL DEFICIT ATTRIBUTABLE TO ARVINMERITOR, INC.	$ (910)	$ (683)	$ (910)	$ (683)
Noncontrolling Interests:				
Beginning balance	$ 31	$ 56	$ 29	$ 75
Net income (loss) attributable to noncontrolling interests	4	—	7	(10)
Dividends declared or paid	(2)	(2)	(3)	(9)
Foreign currency translation and other adjustments	—	(4)	—	(6)
Ending balance	$ 33	$ 50	$ 33	$ 50
TOTAL DEFICIT	$ (877)	$ (633)	$ (877)	$ (633)
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ 17	$ (49)	$ 20	$ (1,020)
Foreign currency translation adjustments	17	(9)	30	(168)
Impact of sale of business on employee benefit adjustments	—	—	35	—
Employee benefit adjustments	—	(3)	—	(3)
Adjustments upon adoption of retirement benefits guidance	—	—	—	9
Unrealized gains (losses)	1	15	3	(10)
Total comprehensive income (loss)	35	(46)	88	(1,192)
Noncontrolling interests	(4)	(1)	(7)	11
Comprehensive income (loss) attributable to ArvinMeritor, Inc.	$ 31	$ (47)	$ 81	$ (1,181)

See notes to consolidated financial statements.

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ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

ArvinMeritor, Inc. (the "company" or "ArvinMeritor"), headquartered in Troy, Michigan, is a premier global supplier of a broad range of integrated systems, modules and components to original equipment manufacturers (“OEMs”) and the aftermarket for the commercial vehicle, transportation and industrial sectors. The company serves commercial truck, trailer, off-highway, military, bus and coach and other industrial OEMs and certain aftermarkets, and light vehicle OEMs. The consolidated financial statements are those of the company and its consolidated subsidiaries.

Certain businesses are reported in discontinued operations in the consolidated statement of operations, statement of cash flows and related notes for all periods presented. Additional information regarding discontinued operations is discussed in Note 4.

In the opinion of the company, the unaudited financial statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented. These statements should be read in conjunction with the company’s audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K, as amended, for the fiscal year ended September 30, 2009. The results of operations for the six months ended March 31, 2010, are not necessarily indicative of the results for the full year.

The company’s fiscal year ends on the Sunday nearest September 30. The second quarter of fiscal years 2010 and 2009 ended on April 4, 2010 and March 29, 2009, respectively. All year and quarter references relate to the company’s fiscal year and fiscal quarters, unless otherwise stated. For ease of presentation, September 30 and March 31 are used consistently throughout this report to represent the fiscal year end and second quarter end, respectively.

The company has evaluated subsequent events through May 5, 2010, the date that the consolidated financial statements were issued.

2. Shareowners’ Equity (Deficit) and Earnings per Share

In March 2010, we completed an equity offering of 19,952,500 common shares, par value of $1 per share, at a price of $10.50 per share. The proceeds of the offering of $200 million, net of underwriting discounts and commissions, were primarily used to repay outstanding indebtedness under the revolving credit facility and under the U.S. accounts receivable securitization program. The offering was made pursuant to a shelf registration statement filed with the Securities and Exchange Commission on November 20, 2009, which became effective December 23, 2009 (the “Shelf Registration Statement”), registering $750 million aggregate debt and/or equity securities that may be offered in one or more series on terms to be determined at the time of sale.

Basic earnings per share is calculated using the weighted average number of shares outstanding during each period. The diluted earnings per share calculation includes the impact of dilutive common stock options, restricted stock, performance share awards and convertible securities, if applicable.

A reconciliation of basic average common shares outstanding to diluted average common shares outstanding is as follows (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Basic average common shares outstanding	80.3	72.6	76.4	72.4
Impact of restricted shares and share units	2.8	—	2.6	—
Diluted average common shares outstanding	83.1	72.6	79.0	72.4

At March 31, 2010, options to purchase 1.5 million shares of common stock were not included in the computation of diluted earnings per share because their exercise price exceeded the average market price for the period and thus their inclusion would be anti-dilutive. The potential effects of stock options and restricted shares and share units were excluded from the diluted earnings per share calculation for the three and six months ended March 31, 2009 because their inclusion in a net loss period would reduce the net loss per share. Therefore, at March 31, 2009, options to purchase 1.9 million shares of common stock were excluded from the computation of diluted earnings per share. In addition, 1.3

million restricted shares and 2.6 million share units were also excluded from the computation of diluted earnings per share at March 31, 2009. The company's convertible senior unsecured notes are excluded from the computation of diluted earnings per share, as the company's average stock price during the quarter is less than the conversion price.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. New Accounting Standards

New accounting standards to be implemented:

In December 2008, the Financial Accounting Standards Board (FASB) issued guidance on defined benefit plans that requires new disclosures on investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk, and is effective for fiscal years ending after December 15, 2009, with earlier application permitted. Disclosures required by this guidance will be reflected in the company's consolidated financial statements upon adoption.

In June 2009, the FASB issued guidance on accounting for transfer of financial assets, which guidance changes the requirements for recognizing the transfer of financial assets and requires additional disclosures about a transferor's continuing involvement in transferred financial assets. The guidance also eliminates the concept of a "qualifying special purpose entity" when assessing transfers of financial instruments. This guidance is effective for the first annual reporting period that begins after November 15, 2009 and for interim periods beginning in the first annual reporting period and periods thereafter. The company is currently evaluating the impact, if any, of the new requirements on its consolidated financial statements.

In June 2009, the FASB issued guidance for the consolidation of variable interest entities (VIEs) to address the elimination of the concept of a qualifying special purpose entity. This guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of the variable interest entity, and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, the new guidance requires any enterprise that holds a variable interest in a variable interest entity to provide enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. This guidance is effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The company is currently evaluating the impact, if any, that this guidance will have on its consolidated financial statements.

Accounting standards implemented in fiscal year 2010:

In December 2007, the FASB issued consolidation guidance that establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The guidance also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The statement also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. If a parent retains a noncontrolling equity investment in the former subsidiary, that investment is measured at its fair value. This guidance is effective for the company for its fiscal year beginning October 1, 2009 and, as required, has been applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively for all periods presented. The company has modified the presentation and disclosure of noncontrolling interests in accordance with the requirement of the guidance, which resulted in changes in the presentation of the company's consolidated statement of operations and condensed consolidated balance sheet and statement of cash flows; and required it to incorporate a condensed consolidated statement of equity (deficit) and comprehensive income (loss). Other than the required changes in the presentation of non-controlling interests in the consolidated financial statements, the adoption of this consolidation guidance did not have a significant impact on the company's consolidated financial statements.

In May 2008, the FASB issued guidance contained in Accounting Standards Codification (ASC) Topic 470-20, "Debt with Conversion and Other Options" which applies to all convertible debt instruments that have a "net settlement feature," which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. This topic requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers' nonconvertible debt borrowing rate. Topic 470-20 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Early adoption is not permitted and retroactive application to all periods presented is required.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

This guidance impacted the company's accounting for its outstanding $300 million convertible notes issued in 2006 (the 2006 convertible notes) and $200 million convertible notes issued in 2007 (the 2007 convertible notes) (see Note 16). On October 1, 2009, the company adopted this guidance and applied its impact retrospectively to all periods presented. Upon adoption, the company recognized the estimated equity component of the convertible notes of $108 million ($69 million after tax) in additional paid-in capital. In addition, the company allocated $4 million of unamortized debt issuance costs to the equity component and recognized this amount as a reduction to additional paid-in capital. The company also recognized a discount on convertible notes of $108 million, which is being amortized as non-cash interest expense over periods of ten and twelve years for the 2006 convertible notes and 2007 convertible notes, respectively. The periods of ten and twelve years represent the expected life of the convertible notes based on the earliest period holders of the notes may redeem them. Non-cash interest expense for the amortization of the discount was $8 million, $7 million and $6 million for fiscal years 2009, 2008 and 2007, respectively. At March 31, 2010, the remaining amortization periods for the 2006 convertible notes and 2007 convertible notes were six years and nine years, respectively. Effective interest rates on the 2006 convertible notes and 2007 convertible notes were 7.0 percent and 7.7 percent, respectively.

Upon recognition of the equity component of the convertible notes, the company also recognized a deferred tax liability of $39 million as the tax effect of the basis difference between carrying and notional values of the convertible notes. The carrying value of this deferred tax liability was offset with certain net deferred tax assets in the first quarter of fiscal year 2009 for determining valuation allowances against those deferred tax assets (see Note 7 for additional information on valuation allowances).

At March 31, 2010 and September 30, 2009, the carrying amount of the equity component recognized upon adoption was $67 million. The following table summarizes other information related to the convertible notes.

	March 31, 2010	September 30, 2009
Components of the liability balance (in millions):		
Principal amount of convertible notes	$ 500	$ 500
Unamortized discount on convertible notes	(81)	(85)
Net carrying value	$ 419	$ 415

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Interest costs recognized (in millions):				
Contractual interest coupon	$ 5	$ 5	$ 10	$ 10
Amortization of debt discount	2	2	4	4
Total	$ 7	$ 7	$ 14	$ 14

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. Discontinued Operations

Results of discontinued operations are summarized as follows (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Sales	$ —	$ 147	$ 14	$ 298
Net gain on sale of business	$ —	$ —	$ 16	$ —
Long-lived asset impairment charges	—	—	—	(56)
Restructuring costs	—	(12)	—	(13)
Purchase price and other adjustments	(5)	5	(20)	5
Operating loss, net	—	—	—	(14)
Loss before income taxes	(5)	(7)	(4)	(78)
Benefit for income taxes	2	5	3	23
Net loss	$ (3)	$ (2)	$ (1)	$ (55)
Net loss attributable to noncontrolling interests	—	1	—	13
Loss from discontinued operations attributable to ArvinMeritor, Inc.	$ (3)	$ (1)	$ (1)	$ (42)

In conjunction with the company's long-term strategic objective to focus on supplying the commercial vehicle on- and off-highway markets for original equipment manufacturers, aftermarket and industrial customers, the company previously announced its intent to divest the Light Vehicle Systems (LVS) business groups. As of March 31, 2010, the company has completed the following divestiture-related activities, associated with its LVS segment, all of which are included in results of discontinued operations.

Meritor Suspension Systems Company (MSSC) – In October 2009, the company completed the sale of its 57 percent interest in MSSC, a joint venture that manufactures and sells automotive coil springs, torsion bars and stabilizer bars in North America, to the joint venture partner, a subsidiary of Mitsubishi Steel Mfg. Co., LTD (MSM) for a purchase price of $13 million, which included a cash dividend of $12 million received by the company in fiscal year 2009. In connection with the sale of the company's interest in MSSC, the company provided certain indemnifications to the buyer for its share of potential obligations related to taxes, pension funding shortfall, environmental and other contingencies, and valuation of certain accounts receivable and inventories. The company's estimated exposure under these indemnities is approximately $15 million and is included in other liabilities in the condensed consolidated balance sheet at March 31, 2010. In the first quarter of fiscal year 2010, the company recognized a pre-tax gain on sale of $16 million ($16 million after tax), net of estimated indemnity obligations.

In the first quarter of fiscal year 2009, the company recognized a $31 million pre-tax non-cash impairment charge associated with the long-lived assets of MSSC (see Note 12).

Assets and liabilities of MSSC were included in assets and liabilities of discontinued operations in the consolidated balance sheet at September 30, 2009. Assets of MSSC primarily consisted of current assets of $34 million, fixed assets of $13 million and other long term assets. Liabilities of MSSC primarily consisted of short-term debt, accounts payable, restructuring reserves and approximately $69 million of accrued pension and post retirement benefits. Short-term debt related to a $6 million, 6.5-percent loan with the minority partner. Upon completion of the sale, the company's interest in all assets and liabilities of MSSC were transferred to the buyer.

Wheels – In September 2009, the company completed the sale of its Wheels business to Iochpe-Maxion S.A., a Brazilian producer of wheels and frames for commercial vehicles, railway freight cars and castings, and affiliates.

Gabriel de Venezuela – In June 2009, the company sold its 51 percent interest in Gabriel de Venezuela to its joint venture partner. Gabriel de Venezuela supplied shock absorbers, struts, exhaust systems and suspension modules to light vehicle industry customers, primarily in Venezuela and Colombia.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Gabriel Ride Control Products North America (Gabriel Ride Control) – In fiscal year 2009, the company sold Gabriel Ride Control to Ride Control, LLC, a wholly owned subsidiary of OpenGate Capital, a private equity firm. Gabriel Ride Control supplied motion control products, shock absorbers, struts, ministruts and corner modules, as well as other automotive parts to the passenger car, light truck and sport utility vehicle aftermarket industries. The terms of the sale agreement required a purchase price adjustment based upon closing working capital. Accordingly the company recognized an $8 million charge in the first quarter of fiscal year 2010 associated with the anticipated settlement. In April 2010, the company and Ride Control, LLC settled the final working capital purchase price adjustment resulting in no additional impact to the amounts already recorded. The agreement also contains arrangements for royalties and other items which are not expected to materially impact the company in the future.

In the first quarter of fiscal year 2009, the company recognized a $19 million pre-tax non-cash impairment charge associated with the long-lived assets of this business (see Note 12).

Purchase price and other adjustments: The company recognized $5 million of charges for changes in estimates for certain purchase price adjustments, indemnity obligations and other items for previously sold businesses for the three month period ended March 31, 2010 ($20 million for the six month period ended March 31, 2010). During the second quarter of fiscal year 2009, the company recognized $5 million of pre-tax income related to changes in estimates and other adjustments to certain retained assets and liabilities. These amounts are recorded in income (loss) from discontinued operations in the consolidated statement of operations.

5. Goodwill

In accordance with FASB ASC Topic 350-20, “Intangibles – Goodwill and Other”, goodwill is reviewed for impairment annually during the fourth quarter of the fiscal year or more frequently if certain indicators arise. If business conditions or other factors cause the operating results and cash flows of the reporting unit to decline, the company may be required to record impairment charges for goodwill at that time. The goodwill impairment review is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount. An impairment loss may be recognized if the review indicates that the carrying value of a reporting unit exceeds its fair value. Estimates of fair value are primarily determined by using discounted cash flows and market multiples on earnings. If the carrying amount of a reporting unit exceeds its fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the goodwill of the reporting unit exceeds the implied fair value, an impairment charge is recorded equal to the excess.

The impairment review is highly judgmental and involves the use of significant estimates and assumptions. These estimates and assumptions have a significant impact on the amount of any impairment charge recorded. Discounted cash flow methods are dependent upon assumptions of future sales trends, market conditions and cash flows of each reporting unit over several years. Actual cash flows in the future may differ significantly from those previously forecasted. Other significant assumptions include growth rates and the discount rate applicable to future cash flows.

During the first quarter of fiscal year 2009, both light and commercial vehicle industries experienced significant declines in overall economic conditions including tightening credit markets, stock market declines and significant reductions in current and forecasted production volumes for light and commercial vehicles. This, along with other factors, led to a significant decline in the company’s market capitalization subsequent to September 30, 2008. As a result, the company completed an impairment review of goodwill balances during the first quarter of fiscal year 2009 for each of its reporting units, which were Commercial Vehicle Systems (CVS) and LVS, at that time.

Step one of the company’s first quarter goodwill impairment review indicated that the carrying value of the LVS reporting unit significantly exceeded its estimated fair value. As a result of the step two goodwill impairment analysis, the company recorded a $70 million non-cash impairment charge in the first quarter of fiscal year 2009 to write-off the entire goodwill balance of its LVS reporting unit. The fair value of this reporting unit was estimated using earnings multiples and other available information, including indicated values from then recent attempts to divest certain businesses. The company’s step one impairment review of goodwill associated with its CVS reporting unit did not indicate that an impairment existed as of December 31, 2008.

A summary of the changes in the carrying value of goodwill are presented below (in millions):

Commercial	Aftermarket

	Truck	Industrial	& Trailer	Total
Balance at September 30, 2009	$ 154	$ 109	$ 175	$ 438
Foreign currency translation	(5)	—	(4)	(9)
Balance at March 31, 2010	$ 149	$ 109	$ 171	$ 429

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6. Restructuring Costs

At March 31, 2010 and September 30, 2009, $16 million and $28 million, respectively, of restructuring reserves primarily related to unpaid employee termination benefits remained in the consolidated balance sheet. The changes in restructuring reserves for the six months ended March 31, 2010 and 2009 are as follows (in millions):

	Employee Termination Benefits	Asset Impairment	Plant Shutdown & Other	Total
Balance at September 30, 2009	$ 28	$ —	$ —	$ 28
Activity during the period:				
Charges to continuing operations, net of reversals	2	—	—	2
Cash payments - continuing operations	(12)	—	—	(12)
Other(1)	(2)	—	—	(2)
Balance at March 31, 2010	$ 16	$ —	$ —	$ 16
Balance at September 30, 2008	$ 30	$ —	$ —	$ 30
Activity during the period:				
Charges to continuing operations, net of reversals	48	6	16	70
Charges to discontinued operations, net of reversals (2)	13	—	—	13
Asset write-offs	—	(6)	—	(6)
Retirement plan curtailment charges	—	—	(16)	(16)
Cash payments - continuing operations	(30)	—	—	(30)
Other (1)	(13)	—	—	(13)
Balance at March 31, 2009	$ 48	$ —	$ —	$ 48

(1) Includes $1 million and $11 million of payments in the six months ended March 31, 2010 and 2009, respectively, associated with discontinued operations.

(2) Charges to discontinued operations are included in discontinued operations in the consolidated statement of operations.

Restructuring costs by business segment during the six months ended March 31, 2010 and 2009 are as follows (in millions):

	Commercial Truck	Industrial	Aftermarket & Trailer	LVS	Total (1)
Six months ended March 31, 2010:					
Performance Plus actions	$ —	$ —	$ —	$ 1	$ 1
Fiscal year 2010 LVS actions	—	—	—	1	1
Total restructuring costs	$ —	$ —	$ —	$ 2	$ 2
Six months ended March 31, 2009:					
Performance Plus actions	$ 30	$ —	$ —	$ 3	$ 33
Fiscal year 2009 actions (reduction in workforce)	14	2	1	16	33
Total restructuring costs	$ 44	$ 2	$ 1	$ 19	$ 66

(1) There were no corporate restructuring costs in the six months ended March 31, 2010. In the six months ended March 31, 2009 there were $4 million of corporate restructuring costs, primarily related to employee termination benefits.

Fiscal Year 2010 LVS Actions: These actions are primarily related to employee termination benefits associated with the wind down of certain LVS Chassis businesses.

Fiscal Year 2009 Actions: During the first quarter of fiscal year 2009, the company approved certain restructuring actions in response to a significant decline in global market conditions. These actions primarily related to the reduction of approximately 1,500 salaried, hourly and temporary positions worldwide. The company recorded restructuring costs of $37 million associated with these actions in the first six months of fiscal year 2009. As of March 31, 2010, cumulative costs, net of adjustments, incurred for Fiscal Year 2009 Actions are $44 million, primarily in the company’s Commercial Truck and LVS segments All of these costs were incurred in fiscal year 2009.

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Performance Plus: During fiscal year 2007, the company launched a long-term profit improvement and cost reduction initiative called "Performance Plus." As part of this program, the company identified significant restructuring actions which would eliminate up to 2,800 positions in North America and Europe and consolidate and combine certain global facilities. Cumulative restructuring costs recorded for this program, including amounts reported in discontinued operations, are $141 million as of March 31, 2010 and primarily relate to employee termination costs of $81 million. Remaining costs of this restructuring program are estimated to be approximately $60 million and will be incurred over the next several years as anticipated actions are implemented.

7. Income Taxes

For each interim reporting period, the company makes an estimate of the effective tax rate expected to be applicable for the full fiscal year pursuant to ASC Topic 740-270, "Accounting for Income Taxes in Interim Periods." The rate so determined is used in providing for income taxes on a year-to-date basis. Jurisdictions with a projected loss for the year or an actual year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of including these jurisdictions on the quarterly effective rate calculation could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings versus annual projections.

Income tax expense (benefit) is allocated between continuing operations, discontinued operations and other comprehensive income (OCI). Such allocation is applied by tax jurisdiction, and in periods in which there is a pre-tax loss from continuing operations and pre-tax income in another category, such as discontinued operations or OCI, income tax expense is first allocated to the other sources of income, with a related benefit recorded in continuing operations.

In first quarter of fiscal year 2009, the company recorded a charge of $633 million, to establish valuation allowances against its U.S. net deferred tax assets and the net deferred tax assets of its 100% owned subsidiaries in France, Germany, Italy, and Sweden. In accordance with FASB's income tax guidance, the company evaluates the deferred income taxes quarterly to determine if valuation allowances are required. The guidance requires that companies assess whether valuation allowances should be established against their deferred tax assets based on the consideration of all available evidence using a "more-likely-than-not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. If, in the future, the company overcomes negative evidence in tax jurisdictions that have established valuation allowances, the need for valuation allowances in these tax jurisdictions would change, resulting in the reversal of some or all of such valuation allowances. If taxable income is generated in tax jurisdictions prior to overcoming negative evidence, a portion of the valuation allowance relating to the corresponding realized tax benefit would reverse for that period, without changing the company's conclusions on the need for a valuation allowance against the remaining net deferred tax assets.

The company believed that these valuation allowances were required due to events and developments that occurred during the first quarter of fiscal year 2009. In conducting the first quarter 2009 analysis, the company utilized a consistent approach which considers its three-year historical cumulative income (loss) including an assessment of the degree to which any losses were driven by items that are unusual in nature and incurred in order to achieve profitability in the future. In addition, the company reviewed changes in near-term market conditions and any other factors arising during the period which may impact future operating results. Both positive and negative evidence were considered in the analysis. Significant negative evidence existed due to the ongoing deterioration of the global markets. The analysis for the first quarter of fiscal year 2009 showed a three-year historical cumulative loss in the U.S., France, Germany, Italy, and Sweden. The losses continue to exist even after adjusting the results to remove unusual items and charges, which is considered a significant factor in the analysis as it is objectively verifiable and therefore, significant negative evidence. In addition, the global market deterioration in fiscal year 2009 reduced the expected impact of tax planning strategies that were included in the analysis. Accordingly, based on a three year historical cumulative loss, combined with significant and inherent uncertainty as to the timing of when the company would be able to generate the necessary level of earnings to recover its deferred tax assets in the U.S., France, Germany, Italy, and Sweden, the company concluded that valuation allowances were required.

In the first six months of fiscal year 2010, the company recorded approximately $19 million of net favorable tax items discrete to this period. These discrete items related to the reversal of a valuation allowance of $8 million and other net favorable adjustments of $11 million, primarily related to reducing certain liabilities for uncertain tax positions during the period. The reduction in these liabilities is primarily attributable to the expiration of the statute of limitations in certain jurisdictions and management's evaluation of new information that became available during the period. These discrete items decreased the company's effective tax rate for the six months ended March 31, 2010.

For the first six months of fiscal year 2010, the company had approximately $89 million of net pre-tax losses in tax jurisdictions that have established valuation allowances. Tax benefits arising from these jurisdictions resulted in increasing the valuation allowance, rather than reducing income tax expense.

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8. Accounts Receivable Securitization and Factoring

Off-balance sheet arrangements

The company participates in an arrangement to sell trade receivables through certain of its European subsidiaries. Under the arrangement, the company can sell, at any point in time, up to €90 million of eligible trade receivables. The receivables under this program are sold at face value and are excluded from the company's consolidated balance sheet. The company continues to perform collection and administrative functions related to these receivables. Costs associated with this securitization arrangement were $1 million and $3 million in the six months ended March 31, 2010 and 2009, respectively, and are included in operating income (loss) in the consolidated statement of operations. The gross amount of proceeds received from the sale of receivables under this arrangement was $160 million and $200 million for the six months ended March 31, 2010 and 2009, respectively. The company's retained interest in receivables sold was $5 million and $6 million at March 31, 2010 and September 30, 2009, respectively. The company had utilized, net of retained interests, €55 million ($74 million) and €38 million ($56 million) of this accounts receivable securitization facility as of March 31, 2010 and September 30, 2009, respectively.

In addition, several of the company's subsidiaries, primarily in Europe, factor eligible accounts receivable with financial institutions. Certain receivables are factored without recourse to the company and are excluded from accounts receivable in the consolidated balance sheet. The amount of factored receivables excluded from accounts receivable was $59 million and $37 million at March 31, 2010 and September 30, 2009, respectively. Costs associated with these factoring arrangements were $1 million and $3 million in the six months ended March 31, 2010 and 2009, respectively, and are included in operating income (loss) in the consolidated statement of operations.

On-balance sheet arrangements

Since 2005 the company participated in a U.S. accounts receivable securitization program to enhance financial flexibility and lower interest costs. In September 2009, in anticipation of the expiration of the existing facility, the company entered into a new, two year $125 million U.S. receivables financing arrangement which is provided on a committed basis by a syndicate of financial institutions led by GMAC Commercial Finance LLC and expires in September 2011. Under this program, the company sells substantially all of the trade receivables of certain U.S. subsidiaries to ArvinMeritor Receivables Corporation (ARC), a wholly-owned, special purpose subsidiary. The maximum borrowing capacity under this program is $125 million. ARC funds these purchases with borrowings under a loan agreement with participating lenders. Amounts outstanding under this agreement are collateralized by eligible receivables purchased by ARC and are reported as short-term debt in the consolidated balance sheet. At March 31, 2010 no amount was outstanding under this program. At September 30, 2009, $83 million was outstanding under this program. This program does not have specific financial covenants, however, it does have a cross-default provision to the company's revolving credit facility agreement.

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9. Operating Cash Flow

The reconciliation of net income (loss) to cash flows provided by (used for) operating activities is as follows (in millions):

	Six Months Ended March 31, 2010	Six Months Ended March 31, 2009
OPERATING ACTIVITIES		
Net income (loss)	$ 20	$ (1,020)
Less: loss from discontinued operations, net of tax	(1)	(55)
Income (loss) from continuing operations	21	(965)
Adjustments to income (loss) from continuing operations to arrive at cash provided by (used for) operating activities:		
Depreciation and amortization	38	41
Asset impairment charges	—	223
Restructuring costs, net of payments	(10)	40
Deferred income tax expense (benefit)	(3)	618
Equity in earnings of affiliates, net of dividends	(18)	1
Loss on debt extinguishment	13	—
Other adjustments to income (loss) from continuing operations	4	6
Pension and retiree medical expense	48	40
Pension and retiree medical contributions and settlements	(44)	(59)
Interest proceeds on note receivable	12	—
Changes in off-balance sheet receivable securitization and factoring	41	(187)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, foreign currency adjustments and discontinued operations	(2)	(160)
Operating cash flows provided by (used for) continuing operations	100	(402)
Operating cash flows used for discontinued operations	(8)	(38)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 92	$ (440)

10. Inventories

Inventories are stated at the lower of cost (using FIFO or average methods) or market (determined on the basis of estimated realizable values) and are summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Finished goods	$ 162	$ 149
Work in process	60	54
Raw materials, parts and supplies	188	171
Total	$ 410	$ 374

11. Other Current Assets

Other current assets are summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Customer reimbursable tooling and engineering	$ 26	$ 30
Current deferred income tax assets, net	30	19
Prepaid income taxes	22	20

Asbestos-related recoveries (see Note 19)	8	8
Deposits and collateral	10	7
Prepaid and other	18	13
Other current assets	$ 114	$ 97

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12. Net Property and Impairments of Long-lived Assets

In accordance with the FASB guidance on property, plant and equipment, the company reviews the carrying value of long-lived assets, excluding goodwill, to be held and used, for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value.

In the prior year first quarter, management determined certain impairment reviews were required due to declines in overall economic conditions including tightening credit markets, stock market declines and significant reductions in current and forecasted production volumes for light and commercial vehicles. As a result, the company recognized pre-tax, non-cash impairment charges of $209 million in the first quarter of fiscal year 2009, primarily related to the LVS segment. A portion of this non-cash charge related to businesses presented in discontinued operations and accordingly, $56 million is included in loss from discontinued operations in the consolidated statement of operations (see Note 4). The estimated fair value of long-lived assets was calculated based on probability weighted cash flows taking into account current expectations for asset utilization and life expectancy. In addition, liquidation values were considered where appropriate, as well as indicated values from divestiture activities.

The following table describes the significant components of long-lived asset impairments recorded in continuing operations during the first quarter of fiscal year 2009.

	Commercial Truck	Industrial	Aftermarket & Trailer	LVS	Total
Land and buildings	$ 5	$ —	$ —	$ 34	$ 39
Other (primarily machinery and equipment)	3	—	—	105	108
Total assets impaired (1)	$ 8	$ —	$ —	$ 139	$ 147

(1) The company also recognized $6 million of non-cash impairment charges associated with certain corporate long-lived assets.

Net property at March 31, 2010 and September 30, 2009 is summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Property at cost:		
Land and land improvements	$ 43	$ 46
Buildings	244	254
Machinery and equipment	897	913
Company-owned tooling	159	163
Construction in progress	78	38
Total	1,421	1,414
Less accumulated depreciation	(988)	(969)
Net Property	$ 433	$ 445

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13. Other Assets

Other assets are summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Investments in non-consolidated joint ventures	$ 146	$ 125
Asbestos-related recoveries (see Note 19)	47	47
Non-current deferred income tax assets, net	37	27
Unamortized debt issuance costs	38	24
Capitalized software costs, net	18	21
Note receivable due from EMCON, net of discount	—	16
Assets for uncertain tax positions	9	11
Prepaid pension costs	17	9
Other	31	26
Other assets	$ 343	$ 306

In the second quarter of fiscal year 2010, the company paid approximately $16 million of costs associated with the issuance of debt securities and the amendment and extension of its revolving credit facility. These costs were recognized as a long term asset and are being amortized as interest expense over the term of the underlying debt instrument.

The note receivable from EMCON was recorded net of a discount to reflect the difference between the stated rate per the agreement of 4 percent and the effective interest rate of approximately 9 percent. The discount was being amortized over the term of the note as interest income. EMCON underwent a change in control during the company's second quarter of fiscal year 2010, and therefore, the note became immediately payable. The company received $22 million during the second quarter, which represented the full amount of the note plus accrued interest. Upon receipt of the full outstanding amount of the note, the company recognized the remaining unamortized discount of $6 million to current period income. This amount is included in interest expense, net in the accompanying consolidated statement of operations.

14. Other Current Liabilities

Other current liabilities are summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Compensation and benefits	$ 169	$ 144
Product warranties	52	58
Taxes other than income taxes	47	44
Restructuring (see Note 6)	16	28
Income taxes	28	18
Asbestos-related liabilities (see Note 19)	16	16
Other	99	103
Other current liabilities	$ 427	$ 411

The company's Core Business (see Note 20) records product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company's obligation is probable and can be reasonably estimated. Product warranties, including recall campaigns, not expected to be paid within one year are recorded as a non-current liability.

The company's LVS segment records product warranty liabilities based on individual customer or warranty-sharing agreements. Product warranties are recorded for known warranty issues when amounts can be reasonably estimated.

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A summary of the changes in product warranties is as follows (in millions):

	Six Months Ended March 31, 2010	2009
Total product warranties – beginning of period	$ 109	$ 102
Accruals for product warranties	15	22
Payments	(19)	(19)
Foreign currency translation	(4)	(7)
Change in estimates and other	1	(8)
Total product warranties – end of period	102	90
Less: Non-current product warranties (see Note 15)	(50)	(48)
Product warranties – current	$ 52	$ 42

15. Other Liabilities

Other liabilities are summarized as follows (in millions):

	March 31, 2010	September 30, 2009
Asbestos-related liabilities (see Note 19)	$ 61	$ 61
Non-current deferred income tax liabilities (see Note 7)	86	73
Liabilities for uncertain tax positions (see Note 7)	47	64
Product warranties (see Note 14)	50	51
Indemnity obligations	34	19
Other	41	42
Other liabilities	$ 319	$ 310

16. Long-Term Debt

Long-Term Debt, net of discounts where applicable, is summarized as follows (in millions):

	March 31, 2010	September 30, 2009
8-3/4 percent notes due 2012	$ 101	$ 276
8-1/8 percent notes due 2015	251	251
10-5/8 percent notes due 2018	245	—
4.625 percent convertible notes due 2026(1)	300	300
4.0 percent convertible notes due 2027(1)	200	200
Revolving credit facility	—	28
Accounts receivable securitization (see Note 8)	—	83
Lines of credit and other	2	16
Unamortized gain on swap unwind	14	23
Unamortized discount on convertible notes (see Note 3)	(81)	(85)
Subtotal	1,032	1,092
Less: current maturities	(1)	(97)
Long-term debt	$ 1,031	$ 995

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(1) The 4.625 percent and 4.0 percent convertible notes contain a put and call feature, which allows for earlier redemption beginning in 2016 and 2019, respectively (see Convertible Securities below) (see Note 3).

Debt Securities

On March 3, 2010, the company completed a public offering of debt securities consisting of the issuance of $250 million 8-year fixed rate 10-5/8 percent notes due March 15, 2018. The offering was made pursuant to the Shelf Registration Statement. The notes were issued at a discounted price of 98.024 percent of their principal amount. The proceeds from the sale of the notes, net of discount, were $245 million and were primarily used to repurchase $175 million of the company's previously $276 million outstanding 8-3/4 percent notes due 2012.

On March 23, 2010, the company completed the debt tender offer for its 8-3/4 percent notes due March 1, 2012. The notes were repurchased at 109.75 percent of their principal amount. The repurchase of $175 million of 8-3/4 percent notes was accounted for as an extinguishment of debt and, accordingly, the company recognized a net loss on debt extinguishment of approximately $13 million, which is included in interest expense, net in the consolidated statement of operations. The loss on debt extinguishment primarily relates to the $17 million paid in excess of par to repurchase the $175 million of 8-3/4 percent notes, partially offset by a $6 million gain associated with the acceleration of previously recognized unamortized interest rate swap gains associated with the 8-3/4 percent notes.

Revolving Credit Facility

On February 5, 2010 the company signed an agreement to amend and extend its revolving credit facility, which became effective February 26, 2010. Pursuant to the revolving credit facility as amended, the company has a $539 million revolving credit facility (excluding approximately $28 million of commitments that are currently unavailable due to the bankruptcy of Lehman Brothers in 2008), $143 million of which matures in June 2011 for banks electing not to extend their original commitments (non-extending banks) and the other $396 million matures in January 2014 for banks electing to extend their commitments (extending banks). Availability under the revolving credit facility is subject to a collateral test, pursuant to which borrowings on the revolving credit facility cannot exceed 1.0x the collateral test value. The collateral test is performed on a quarterly basis and under the most recent collateral test, the borrowing availability under the revolving credit facility at March 31, 2010 was limited to $506 million. Availability under the revolving credit facility is also subject to certain financial covenants based on (i) the ratio of the company's priority debt (consisting principally of amounts outstanding under the revolving credit facility, U.S. securitization program, and third-party non-working capital foreign debt) to EBITDA and (ii) the amount of annual capital expenditures. The company is required to maintain a total priority debt-to-EBITDA ratio, as defined in the agreement, of (i) no greater than 2.75 to 1 on the last day of the fiscal quarter commencing with the fiscal quarter ended March 31, 2010 through and including the fiscal quarter ended June 30, 2010 and (ii) 2.50 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2010 through and including the fiscal quarter ended June 30, 2011 and (iii) 2.25 to 1 as of the last day of each fiscal quarter commencing with the fiscal quarter ended September 30, 2011 through and including the fiscal quarter ended June 30, 2012 and (iv) 2.00 to 1 as of the last day of each fiscal quarter thereafter through maturity. At March 31, 2010, the company was in compliance with all covenants under its credit agreement with a ratio of approximately 0.15x for the priority debt-to-EBITDA covenant.

The revolving credit facility includes a $100 million limit on the issuance of letters of credit. At March 31, 2010, and September 30, 2009, approximately $26 million and $27 million of letters of credit were issued, respectively. The company had an additional $4 and $5 million outstanding at March 31, 2010 and September 30, 2009, respectively, on letters of credit available through other facilities.

Borrowings under the revolving credit facility are collateralized by approximately $605 million of the company's assets, primarily consisting of eligible domestic U.S. accounts receivable, inventory, plant, property and equipment, intellectual property and the company's investment in all or a portion of certain of its wholly-owned subsidiaries.

Borrowings under the revolving credit facility are subject to interest based on quoted LIBOR rates plus a margin, and a commitment fee on undrawn amounts, both of which are based upon the company's current credit rating for the senior secured facility. At March 31, 2010, the margin over the LIBOR rate was 275 basis points for the $143 million available under the facility from non-extending banks, and the commitment fee was 50 basis points. At March 31, 2010, the margin over LIBOR rate was 500 basis points for the $396 million available under the facility from extending banks, and the commitment fee was 75 basis points.

Certain of the company's subsidiaries, as defined in the credit agreement, irrevocably and unconditionally guarantee amounts outstanding under the revolving credit facility. Similar subsidiary guarantees are provided for the benefit of the holders of the publicly-held notes outstanding under the company's indentures (see Note 21).

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Convertible Securities

In February 2007, the company issued $200 million of 4.00 percent convertible senior unsecured notes due 2027 (the 2007 convertible notes). In March 2006, the company issued $300 million of 4.625 percent convertible senior unsecured notes due 2026 (the 2006 convertible notes). The 2007 convertible notes bear cash interest at a rate of 4.00 percent per annum from the date of issuance through February 15, 2019, payable semi-annually in arrears on February 15 and August 15 of each year. After February 15, 2019, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.00 percent. The 2006 convertible notes bear cash interest at a rate of 4.625 percent per annum from the date of issuance through March 1, 2016, payable semi-annually in arrears on March 1 and September 1 of each year. After March 1, 2016, the principal amount of the notes will be subject to accretion at a rate that provides holders with an aggregate annual yield to maturity of 4.625 percent.

On October 1, 2009, the company adopted, as required, the guidance for accounting for convertible debt instruments that, upon conversion, may be settled in cash. This guidance was applied retrospectively to all periods presented. See Note 3 for additional information on the adoption and its impact on the company’s financial statements.

Conversion Features – convertible securities

The 2007 convertible notes are convertible into shares of the company’s common stock at an initial conversion rate, subject to adjustment, equivalent to 37.4111 shares of common stock per $1,000 initial principal amount of notes, which represents an initial conversion price of approximately $26.73 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company’s conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company’s election. Holders may convert their notes at any time on or after February 15, 2025. The maximum number of shares of common stock the 2007 convertible notes are convertible into is approximately 7 million.

The 2006 convertible notes are convertible into shares of the company’s common stock at an initial conversion rate, subject to adjustment, equivalent to 47.6667 shares of common stock per $1,000 initial principal amount of notes, which represents an initial conversion price of approximately $20.98 per share. If converted, the accreted principal amount will be settled in cash and the remainder of the company’s conversion obligation, if any, in excess of such accreted principal amount will be settled in cash, shares of common stock, or a combination thereof, at the company’s election. Holders may convert their notes at any time on or after March 1, 2024. The maximum number of shares of common stock the 2006 convertible notes are convertible into is approximately 14 million.

Prior to February 15, 2025 (2007 convertible notes) and March 1, 2024 (2006 convertible notes), holders may convert their notes only under the following circumstances:

- during any calendar quarter, if the closing price of the company’s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120 percent of the applicable conversion price;
- during the five business day period after any five consecutive trading day period in which the average trading price per $1,000 initial principal amount of notes is equal to or less than 97 percent of the average conversion value of the notes during such five consecutive trading day period;
- upon the occurrence of specified corporate transactions; or
- if the notes are called by the company for redemption.

Redemption Features – convertible securities

On or after February 15, 2019, the company may redeem the 2007 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of February 15, 2019 and 2022, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 2007 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

On or after March 1, 2016, the company may redeem the 2006 convertible notes, in whole or in part, for cash at a redemption price equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest. On each of March 1, 2016, 2018, 2020, 2022 and 2024, or upon certain fundamental changes, holders may require the company to purchase all or a portion of their 2006 convertible notes at a purchase price in cash equal to 100 percent of the accreted principal amount plus any accrued and unpaid interest.

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The 2007 and 2006 convertible notes are fully and unconditionally guaranteed by certain subsidiaries of the company that currently guarantee the company's obligations under its senior secured credit facility and other publicly-held notes (see Revolving Credit Facility above).

Accounts Receivable Securitization

Since 2005 the company participated in a U.S. accounts receivable securitization program to enhance financial flexibility and lower interest costs (see Note 8). In September 2009, in anticipation of the expiration of the existing facility, the company entered into a new, two year $125 million U.S. receivables financing arrangement which is provided on a committed basis by a syndicate of financial institutions led by GMAC Commercial Finance LLC and expires in September 2011. The weighted average interest rate on borrowings under this arrangement was approximately 7.50 percent at March 31, 2010. At March 31, 2010, no amount was outstanding under this program. At September 30, 2009, $83 million was outstanding under this program. Amounts outstanding under this agreement are reported as short-term debt in the consolidated balance sheet and are collateralized by eligible receivables purchased and held by ARC. This program does not have specific financial covenants; however, it does have a cross-default provision to the company's revolving credit facility agreement.

Interest Rate Swap Agreement

In March 2010, the company entered into an interest rate swap agreement that effectively converted $125 million of the company's 8-1/8 percent notes due 2015 to variable interest rates. The fair value of the swap was not significant at March 31, 2010. The terms of the interest rate swap agreement require the company to place cash on deposit as collateral if the fair value of the interest rate swap represents a liability for the company at any time. The amount posted as collateral at March 31, 2010 was not significant. The swap has been designated as a fair value hedge and the impact of the changes in its fair values is offset by an equal and opposite change in the carrying value of the related notes. Under the terms of the swap agreement, the company receives a fixed rate of interest of 8-1/8 percent on notional amounts of $125 million and pays a variable rate based on U.S. dollar six-month LIBOR plus a spread of 4.61 percent. The payments under the swap agreement coincide with the interest payment dates on the hedged debt instrument, and the difference between the amounts paid and received is included in interest expense, net.

The company classifies the cash flows associated with its interest rate swaps in cash flows from operating activities in its consolidated statement of cash flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

Interest Rate Cap Agreement

In March 2010, the company entered into an interest rate cap agreement which limits its maximum exposure on the variable interest rate swaps to 7.515 percent over the variable rate spread. The cap instrument does not qualify for hedge accounting; therefore, the impact of the changes in its fair value is being recorded in the consolidated statement of operations. The fair value of the cap instrument was not significant at March 31, 2010.

Leases

The company has various operating leasing arrangements. Future minimum lease payments under these operating leases are $24 million in 2010, $20 million in 2011, $16 million in 2012, $14 million in 2013, $12 million in 2014 and $25 million thereafter.

17. Financial Instruments

The company's financial instruments include cash and cash equivalents, short-term debt, long-term debt, interest rate swaps, interest rate cap and foreign exchange forward contracts. The company uses derivatives for hedging and non-trading purposes in order to manage its interest rate and foreign exchange rate exposures. The company's interest rate swap agreement and interest rate cap agreement are discussed in Note 16.

Foreign Exchange Contracts

The company's operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates. The company has a foreign currency cash flow hedging program to reduce the company's exposure to changes in exchange rates. The company uses

foreign currency forward contracts to manage the company’s exposures arising from foreign currency exchange risk. Gains and losses on the underlying foreign currency exposures are partially offset with gains and losses on the foreign currency forward contracts.

ARVINMERITOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Under this program, the company has designated the foreign exchange contracts (the "contracts") as cash flow hedges of underlying forecasted foreign currency purchases and sales. The effective portion of changes in the fair value of the contracts is recorded in Accumulated Other Comprehensive Loss (AOCL) in the consolidated balance sheet and is recognized in operating income when the underlying forecasted transaction impacts earnings. The fair values of the foreign exchange derivative instruments are presented on a gross basis as the company does not have any derivative contracts which are subject to master netting arrangements.

The company's foreign exchange contracts generally mature within twelve months. At March 31, 2010 and September 30, 2009, the company had outstanding contracts with notional amounts of $68 million and $89 million, respectively. These notional values consist primarily of contracts for the European euro and Swedish krona, and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates.

At March 31, 2010 and September 30, 2009, there was a loss of $1 million and $2 million recorded in AOCL, respectively. The company expects to reclassify this amount from AOCL to operating income during the next six months as the forecasted hedged transactions are recognized in earnings.

The company classifies the cash flows associated with the contracts in cash flows from operating activities in the consolidated statement of cash flows. This is consistent with the classification of the cash flows associated with the underlying hedged item.

Fair Value

Fair values of financial instruments are summarized as follows (in millions):

	March 31, 2010 Carrying Value	Fair Value	September 30, 2009 Carrying Value	Fai[r] Va[lue]
[Cas]h and cash equivalents	$ 274	$ 274	$ 95	$
[For]eign exchange contracts – liability				

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.

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:

September 30, 2008	Amortized Cost	Unrealized Gains	Gross Unrealized Losses 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	Estimated Fair Value (Liability)	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (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

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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

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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

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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	$ (71)
A&E			13	13
Pretax unfavorable (favorable) net prior year development before impact of premium development	(4)	(68)	14	(58)
Pretax unfavorable (favorable) premium development	3	(2)	(3)	(2)
Total pretax unfavorable (favorable) net prior year development	$ (1)	$ (70)	$ 11	$ (60)
Three Months Ended September 30, 2007				
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (67)	$ 3	$ 4	$ (60)
A&E			3	3
Pretax unfavorable (favorable) net prior year development before impact of premium development	(67)	3	7	(57)
Pretax favorable premium development	(5)	(3)	(2)	(10)
Total pretax unfavorable (favorable) net prior year development	$ (72)	$ -	$ 5	$ (67)

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages offset by unfavorable experience in workers' compensation (including excess workers' compensation coverages) and large account business.

For general liability excluding construction defect, $228 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of $207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property exposures,

$31 million of favorable development was primarily the result of decreased frequency and severity in recent years. The remaining favorable development was the result of favorable experience across several miscellaneous coverages in Standard Lines.

Unfavorable development of $248 million for workers' compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of $161 million for large account business was also driven primarily by workers' compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of $90 million on excess workers' compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach

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excess layers. The remaining unfavorable development was driven primarily by commercial auto liability coverages in recent accident years due to an increase in frequency.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability and surety business, partially offset by unfavorable experience in professional liability coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately $52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Favorable development of approximately $22 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006. The remaining favorable development was due primarily to favorable outcomes on individual claims in accident years 2004 through 2006 for miscellaneous professional and general liability coverages.

Unfavorable development of approximately $18 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years.

Other Insurance

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to the commutation of a ceded reinsurance arrangement. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

2007 Net Prior Year Development

Standard Lines

Approximately $42 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased severity on open claims within the general liability exposures in accident years 2003 and prior, as well as lower frequency in accident years 2004 through 2006.

Approximately $25 million of favorable claim and allocated claim adjustment expense development was recorded related to property exposures, primarily due to decreased frequency and severity on claims in accident years 2005 and 2006. The severity change was driven by decreased incurred losses as a result of changes in individual claims reserve estimates.

Nine Month Comparison

Nine 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)	$ (54)	$ (50)	$ 9	$ (95)
A&E			21	21

Pretax unfavorable (favorable) net prior year development before impact of premium development		(54)		(50)		30		(74)
Pretax unfavorable (favorable) premium development		4		(20)		(3)		(19)
Total pretax unfavorable (favorable) net prior year development	$	(50)	$	(70)	$	27	$	(93)

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Nine Months Ended September 30, 2007	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)	$ (74)	$ (4)	$ 12	$ (66)
A&E			7	7
Pretax unfavorable (favorable) net prior year development before impact of premium development	(74)	(4)	19	(59)
Pretax favorable premium development	(15)	(13)	(5)	(33)
Total pretax unfavorable (favorable) net prior year development	$ (89)	$ (17)	$ 14	$ (92)

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages including marine exposures, partially offset by unfavorable experience in workers' compensation (including excess workers' compensation coverages) and large account business.

For general liability excluding construction defect, $254 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of $207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property coverages including marine exposures, approximately $95 million of favorable development was primarily the result of decreased frequency and severity in recent years. The $95 million of favorable property and marine development includes approximately $29 million due to favorable outcomes on claims relating to catastrophes, primarily in accident year 2005.

Unfavorable development of $248 million for workers' compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of $161 million for large account business was also driven primarily by workers' compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of $114 million on excess workers' compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach excess layers.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability, professional liability coverages in recent years, and surety business, partially offset by unfavorable experience in professional liability coverages in older years.

Favorable claim and allocated claim adjustment expense reserve development of approximately $52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Approximately $22 million of favorable development was recorded for professional liability coverages due primarily to favorable outcomes on individual claims in accident years 2004 through 2006. Favorable development of approximately $14 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006.

Unfavorable development of approximately $33 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years. The favorable premium development is primarily the result of a change in ultimate premiums within a foreign affiliate's property and financial lines.

Other Insurance

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to commutations of certain ceded reinsurance arrangements. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

2007 Net Prior Year Development

Standard Lines

Approximately $42 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased severity on open claims within the general liability exposures in accident years 2003 and prior, as well as lower frequency in accident years 2004 through 2006. In addition, approximately $14 million of unfavorable premium development was taken primarily as a result of favorable claim and allocated claim adjustment expense reserve development on retrospectively rated large account policies relating to the automobile and general liability lines of business in accident years 2001 and subsequent. This favorable claim and allocated claim adjustment expense reserve development was due to lower than anticipated frequency and severity.

Approximately $58 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity on claims related to property exposures, primarily in accident years 2005 and 2006. The change was driven by decreased incurred losses as a result of changes in individual claims reserve estimates.

Approximately $42 million of favorable premium development was recorded mainly as a result of additional premium resulting from audits on recent policies related to workers' compensation and general liability books of business. This was partially offset by $27 million of unfavorable claim and claim adjustment expense reserve development related to this premium.

Approximately $16 million of unfavorable premium development was recorded due to a change in the estimate of CNA's exposure related to its participation in involuntary pools. This unfavorable premium development was partially offset by $9 million of favorable claim and allocated claim adjustment expense reserve development.

Additional unfavorable prior year reserve development was recorded in the workers' compensation line of business as a result of continued claim cost inflation in older accident years, driven by increasing medical inflation and advances in medical care. This unfavorable development was offset by favorable development in commercial auto, monoline general liability and umbrella product lines. This favorable development was due to improved severity in recent accident years.

Specialty Lines

Approximately $9 million of favorable claim and claim adjustment expense reserve development was recorded in the excess and surplus line of business. This favorable development was primarily related to improved frequency and severity on excess general liability claims across several accident years.

Approximately $9 million of favorable premium development was recorded mainly as a result of additional premium resulting from audits on recent policies related primarily to general liability coverages. Unfavorable claim and allocated claim adjustment expense reserve development was recorded related to those premiums.

Other Insurance

Approximately $9 million of unfavorable claim and allocated claim adjustment expense reserve development was related to commutation activity, a portion of which was offset by a release of a previously established allowance for uncollectible reinsurance.

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10. Debt

In January of 2008, CNA repaid its $150 million 6.45% senior note at maturity.

In March of 2008, Texas Gas Transmission, LLC, a wholly owned subsidiary of Boardwalk Pipeline, issued $250 million aggregate principal amount of 5.5% senior notes due 2013 in a private placement. The proceeds from this offering were primarily used to finance a portion of its expansion projects.

11. Statutory Accounting Practices

CNA's ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNA by its insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Dividends from Continental Casualty Company ("CCC") are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department of Financial and Professional Regulation – Division of Insurance (the "Department"), may be paid only from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of September 30, 2008, CCC is in a negative earned surplus position. Any future dividend payments made during 2008 would be subject to the Department's prior approval.

CNA's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the National Association of Insurance Commissioners ("NAIC") to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of September 30, 2008 and December 31, 2007, all of CNA's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Combined statutory capital and surplus and net income, determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities for the property and casualty and the life insurance subsidiaries, were as follows:

	Statutory Capital and Surplus	
	September 30, 2008	December 31, 2007
(In millions)		
Property and casualty companies (a)	$ 7,967	$ 8,511
Life company	514	471

(a) Surplus includes the property and casualty companies' equity ownership of the life company's capital and surplus.

Statutory Net Income (Loss)	
Three Months Ended	Nine Months Ended

(In millions)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Property and casualty companies	$ (259)	$ 164	$ -	$ 570
Life company	(26)	(3)	5	26

In conformity with accounting practices prescribed by insurance regulatory authorities, preliminary statutory capital and surplus as of September 30, 2008, presented above, reflects the impact of a $1.0 billion surplus note, which will be issued subsequent to September 30, 2008 but prior to the filing of CCC's third quarter statutory statements. See Note 20 of the Notes to Consolidated Condensed Financial Statements for further discussion.

12. Comprehensive Income (Loss)

The components of Accumulated other comprehensive income (loss) are as follows:

(In millions)	Unrealized Gains (Losses) on Investments	Foreign Currency	Pension Liability	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2007	$ 584	$ 86	$ (283)	$ 387
Unrealized holding losses, net of tax of $163	(263)			(263)
Adjustment for items included in net income, net of tax of $59	(102)			(102)
Foreign currency translation adjustment, net of tax of $2		31		31
Pension liability adjustment, net of tax of $2			7	7
Balance, September 30, 2007	$ 219	$ 117	$ (276)	$ 60
Balance, January 1, 2008	$ 12	$ 117	$ (194)	$ (65)
Unrealized holding losses, net of tax of $1,265	(2,062)			(2,062)
Adjustment for items included in net income, net of tax of $79 and $20	133		34	167
Foreign currency translation adjustment, net of tax		(56)		(56)
Pension liability adjustment, net of tax of $5			(11)	(11)
Disposal of discontinued operations, net of tax of $33			53	53
Balance, September 30, 2008	$ (1,917)	$ 61	$ (118)	$ (1,974)

13. Significant Transactions

Diamond Offshore

In the first nine months of 2007, the holders of $451 million in principal amount of Diamond Offshore’s 1.5% debentures converted their outstanding debentures into 9.2 million shares of Diamond Offshore’s common stock at a price of $49.02 per share. In addition, the holders of $2 million aggregate principal amount of Diamond Offshore’s Zero Coupon Debentures converted their outstanding debentures into 20,658 shares of Diamond Offshore’s common stock at a price of $73.00 per share.

The Company’s ownership interest in Diamond Offshore declined from approximately 54% to 51% due to these transactions. In accordance with Securities and Exchange Commission Staff Accounting Bulletin Topic 5-H, “Accounting for Sales of Stock by a Subsidiary” (“SAB No. 51”), the Company recognized a pretax gain of $142 million ($92 million after provision for deferred income taxes) on the issuance of subsidiary stock.

Prior to the conversion of Diamond Offshore's 1.5% convertible debentures, the Company carried a deferred tax liability related to interest expense imputed on the bonds for U.S. federal income tax purposes. As a result of the conversion, the deferred tax liability was settled and a tax benefit of $26 million, net of minority interest, was included in Shareholders' equity as an increase in Additional paid-in capital.

Boardwalk Pipeline

In the second quarter of 2008, Boardwalk Pipeline sold 10 million common units at a price of $25.30 per unit in a public offering and received net proceeds of $243 million. In addition, the Company contributed $5 million to maintain its 2% general partner interest. The Company's percentage ownership interest in Boardwalk Pipeline declined as a result of this transaction. The issuance price of the common units exceeded the Company's carrying amount, increasing the amount of cumulative pretax SAB No. 51 gains to approximately $536 million at September 30, 2008, from $472 million at December 31, 2007. In accordance with SAB No. 51, recognition of a gain is only appropriate if the class of securities sold by the subsidiary does not contain any preference over the subsidiary's other classes of securities. As a result, the Company has deferred gain recognition until the common units no longer have preference over other classes of securities.

In June of 2008, the Company purchased 22,866,667 of Boardwalk Pipeline's newly created class B units representing limited partner interests ("class B units") for $30 per class B unit, or an aggregate purchase price of $686 million. The Company contributed an additional $14 million to maintain its 2% general partner interest. Boardwalk Pipeline intends to use the proceeds of approximately $700 million to fund a portion of the costs of its ongoing expansion projects.

Beginning with the distribution in respect of the quarter ending September 30, 2008, the class B units share in quarterly distributions of available cash from operating surplus with Boardwalk Pipeline's common units, until each common unit and class B unit has received a quarterly distribution of $0.30. The class B units do not participate in quarterly distributions above $0.30 per unit and are convertible into common units of Boardwalk Pipeline on a one-for-one basis at any time after June 30, 2013.

14. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. The benefits for certain plans which cover salaried employees and certain union employees are based on formulas which include, among others, years of service and average pay. The benefits for one plan which covers union workers under various union contracts and certain salaried employees are based on years of service multiplied by a stated amount. Benefits for another plan are determined annually based on a specified percentage of annual earnings (based on the participant's age) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements.

Other Postretirement Benefit Plans - The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company funds certain of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

At December 31, 2007, the Company expected to contribute $24 million to its pension plans and $13 million to its postretirement healthcare and life insurance benefit plans in 2008. During the nine months ended September 30, 2008, CNA decided to contribute an additional $43 million to their pension plan bringing the expected pension contributions to $67 million.

During the first nine months of 2008, the Company made $71 million of total contributions to the pension plans and $9 million to the postretirement healthcare and life insurance benefit plans.

Net periodic benefit cost components:

	Pension Benefits	
	Three Months Ended September 30,	Nine Months Ended September 30,

(In millions)	2008	2007	2008	2007
Service cost	$ 8	$ 7	$ 23	$ 24
Interest cost	41	40	123	121
Expected return on plan assets	(49)	(47)	(145)	(141)
Amortization of net loss	1	2	2	2
Amortization of prior service cost		(1)		(1)
Actuarial loss	1	3	3	9
Settlement costs				4
Net periodic benefit cost	$ 2	$ 4	$ 6	$ 18

	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2008	2007	2008	2007
Service cost	$ 1		$ 2	$ 1
Interest cost	3	$ 4	9	11
Expected return on plan assets	(2)	(1)	(4)	(3)
Amortization of prior service benefit	(5)	(6)	(17)	(19)
Actuarial loss		1	1	2
Regulatory asset decrease	1	1	4	4
Net periodic benefit cost	$ (2)	$ (1)	$ (5)	$ (4)

15. Business Segments

The Company's reportable segments are primarily based on its individual operating subsidiaries. Each principal operating subsidiary is headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position. Investment gains (losses) and the related income taxes, excluding those of CNA Financial, are included in the Corporate and other segment.

CNA's core property and casualty commercial insurance operations are reported in two business segments: Standard Lines and Specialty Lines. Standard Lines includes standard property and casualty coverages sold to small businesses and middle market entities and organizations in the U.S. primarily through an independent agency distribution system. Standard Lines also includes commercial insurance and risk management products sold to large corporations in the U.S. primarily through insurance brokers. Specialty Lines provides a broad array of professional, financial and specialty property and casualty products and services, including excess and surplus lines, primarily through insurance brokers and managing general underwriters. Specialty Lines also includes insurance coverages sold globally through CNA's foreign operations. The non-core operations are managed in Life & Group Non-Core segment and Other Insurance segment. Life & Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Reinsurance Company Limited. This segment also includes the results related to the centralized adjusting and settlements of A&E.

Diamond Offshore's business primarily consists of operating 46 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. The majority of these rigs are located in the Gulf of Mexico region with the remainder operating in Brazil, the North Sea, and various other foreign markets.

HighMount's business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama, with estimated proved reserves totaling approximately 2.5 trillion cubic feet equivalent as of December 31, 2007.

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

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

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-insurance subsidiaries, corporate interest expenses and other corporate administrative costs.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

The following tables set forth the Company's consolidated revenues and income (loss) by business segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues (a):				
CNA Financial:				
Standard Lines	$ 734	$ 1,032	$ 2,601	$ 3,127
Specialty Lines	947	1,074	3,035	3,140
Life and Group Non-Core	(11)	308	534	972
Other Insurance	(11)	70	92	231
Total CNA Financial	1,659	2,484	6,262	7,470
Diamond Offshore	868	655	2,630	1,935
HighMount	200	100	590	100
Boardwalk Pipeline	222	141	641	490
Loews Hotels	90	90	292	285
Corporate and other	(69)	55	89	430
Total	$ 2,970	$ 3,525	$ 10,504	$ 10,710
Income (loss) before income tax and minority interest (a):				
CNA Financial:				
Standard Lines	$ (272)	$ 232	$ (39)	$ 584
Specialty Lines	120	239	512	697
Life and Group Non-Core	(369)	(224)	(472)	(281)
Other Insurance	(17)	2	(17)	19
Total CNA Financial	(538)	249	(16)	1,019
Diamond Offshore	446	285	1,441	945
HighMount	74	30	225	30
Boardwalk Pipeline	73	40	226	156
Loews Hotels	7	7	57	47
Corporate and other	(103)	27	(5)	351
Total	$ (41)	$ 638	$ 1,928	$ 2,548
Net income (loss) (a):				
CNA Financial:				
Standard Lines	$ (151)	$ 141	$ 1	$ 357
Specialty Lines	64	128	284	385
Life and Group Non-Core	(207)	(121)	(250)	(141)
Other Insurance	(9)	8	(5)	22
Total CNA Financial	(303)	156	30	623
Diamond Offshore	145	95	475	320
HighMount	47	19	142	19
Boardwalk Pipeline	31	19	98	74

Loews Hotels	6	4	36	29
Corporate and other	(70)	16	(5)	227
Income (loss) from continuing operations	(144)	309	776	1,292
Discontinued operations	7	246	4,712	685
Total	$ (137)	$ 555	$ 5,488	$ 1,977

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues and Income (loss) before income tax and minority interest:				
CNA Financial:				
Standard Lines	$ (178)	$ (29)	$ (254)	$ (116)
Specialty Lines	(115)	(13)	(154)	(62)
Life and Group Non-Core	(298)	(9)	(321)	(26)
Other Insurance	(60)	(6)	(84)	(13)
Total CNA Financial	(651)	(57)	(813)	(217)
Corporate and other	1	3	3	173
Total	$ (650)	$ (54)	$ (810)	$ (44)
Net income (loss):				
CNA Financial:				
Standard Lines	$ (103)	$ (17)	$ (148)	$ (68)
Specialty Lines	(66)	(7)	(88)	(36)
Life and Group Non-Core	(175)	(5)	(188)	(15)
Other Insurance	(35)	(4)	(49)	(7)
Total CNA Financial	(379)	(33)	(473)	(126)
Corporate and other		1	1	111
Total	$ (379)	$ (32)	$ (472)	$ (15)

16. Legal Proceedings

California Long Term Care Litigation

Shaffer v. Continental Casualty Company, et al., U.S. District Court, Central District of California, CV06-2235 RGK, is a class action on behalf of certain California individual long term health care policyholders, alleging that CCC and CNA knowingly or negligently used unrealistic actuarial assumptions in pricing these policies. On January 8, 2008, CCC, CNA and the plaintiffs entered into a binding agreement settling the case on a nationwide basis for the policy forms potentially affected by the allegations of the complaint. Following a fairness hearing, the Court entered an order approving the settlement. This order was appealed to the Ninth Circuit Court of Appeals. The appellants' brief is due to be filed on December 22, 2008. CNA believes it has meritorious defenses to this appeal and intends to defend the appeal vigorously. The agreement did not have a material adverse effect on the financial condition, cash flows or results of operations of the Company, however it still remains subject to the favorable resolution of the appeal.

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNA and several of its insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (FSH). The plaintiffs allege bid rigging and improprieties

in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations (“RICO”) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs have appealed the dismissal of their complaint to the Third Circuit Court of Appeals. The parties have filed their briefs on the appeal. Oral argument, if granted, will be held on April 20, 2009. CNA believes it has meritorious defenses to this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

Global Crossing Limited Litigation

CCC has been named as a defendant in an action brought by the bankruptcy estate of Global Crossing Limited ("Global Crossing") in the United States Bankruptcy Court for the Southern District of New York, Global Crossing Estate Representative, for itself and as the Liquidating Trustee of the Global Crossing Liquidating Trust v. Gary Winnick, et al., Case No. 04 Civ. 2558 (GEL). In the complaint, plaintiff seeks damages from CCC and the other defendants for alleged fraudulent transfers and alleged breaches of fiduciary duties arising from actions taken by Global Crossing while CCC was a shareholder of Global Crossing. The Court dismissed some of the claims against CCC as a matter of law. Pretrial proceedings are ongoing and no trial date has been set. CCC believes it has meritorious defenses to the claims in this action and continues to defend the case vigorously. However, adverse developments could have a material adverse effect on CNA's business and the Company's results of operations and/or equity.

CNA is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note 9 for further discussion.

The Company has been named as a defendant in the following four cases alleging substantial damages based on alleged health effects caused by smoking cigarettes or exposure to tobacco smoke, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In Cochran vs. R.J. Reynolds Tobacco Company, et al. (2002, Circuit Court, George County, Mississippi), the Company filed a motion to dismiss the complaint for lack of personal jurisdiction during 2003, which remains pending. In Cypret vs. The American Tobacco Company, Inc. et al. (1998, Circuit Court, Jackson County, Missouri), the Company plans to file a motion to dismiss the complaint for lack of personal jurisdiction in the event it receives personal service of this action. In Clalit vs. Philip Morris, Inc., et al. (1998, Jerusalem District Court of Israel), the court dismissed the Company from this action for lack of personal jurisdiction during 2006, and the plaintiff has noticed an appeal. In Young vs. The American Tobacco Company, Inc. et al. (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending.

The Company does not believe it is a proper defendant in any of the foregoing tobacco related cases and as a result, does not believe the outcome will have a material affect on the Company's results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Company and Lorillard and its subsidiaries, Lorillard and its subsidiaries have agreed to indemnify and hold the Company harmless from all costs and expenses based upon or arising out of the operation or conduct of Lorillard's business, including among other things, smoking and health claims and litigation such as the four cases described above.

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company's results of operations or equity.

17. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2008, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $873 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2008, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire. As of September 30, 2008 and December 31, 2007, CNA has recorded approximately $23 million and $27 million of liabilities related to these indemnification agreements.

In connection with the issuance of preferred securities by CNA Surety Capital Trust I, CNA Surety, a 62% owned and consolidated subsidiary of CNA, issued a guarantee of $80 million to guarantee the payment by CNA Surety

Capital Trust I of annual dividends of $1.9 million over 26 years and redemption of $30 million of preferred securities.

Diamond Offshore Construction Projects

As of September 30, 2008 Diamond Offshore had purchase obligations aggregating approximately $61 million related to the major upgrade of the Ocean Monarch. Diamond Offshore expects to complete funding of this project in 2008. However, the actual timing of these expenditures will vary based on the completion of various construction milestones and the timing of the delivery of equipment, which are beyond Diamond Offshore's control.

HighMount Volumetric Production Payment Transactions

As part of the acquisition of exploration and production assets from Dominion Resources, Inc., HighMount assumed an obligation to deliver approximately 15 Bcf of natural gas through February 2009 under previously existing Volumetric Production Payment ("VPP") agreements. Under these agreements, certain HighMount acquired properties are subject to fixed-term overriding royalty interests which had been conveyed to the VPP purchaser. While HighMount is obligated under the agreement to produce and deliver to the purchaser its portion of future natural gas production from the properties, HighMount retains control of the properties and rights to future development drilling. If production from the properties subject to the VPP is inadequate to deliver the natural gas provided for in the VPP, HighMount has no obligation to make up the shortfall. At September 30, 2008, the remaining obligation under these agreements is approximately 3.7 Bcf of natural gas.

Boardwalk Pipeline Purchase Commitments

Boardwalk Pipeline is engaged in several major expansion projects that will require the investment of significant capital resources. As of September 30, 2008, Boardwalk Pipeline had purchase commitments of $295 million primarily related to its expansion projects.

18. Discontinued Operations

Lorillard

As discussed in Note 2, in June of 2008, the Company disposed of its entire ownership interest in Lorillard. The Consolidated Condensed Financial Statements have been reclassified to reflect Lorillard as a discontinued operation. Accordingly, the assets and liabilities, revenues and expenses and cash flows of Lorillard 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.

CNA

CNA has discontinued operations, which consist of run-off insurance and reinsurance operations acquired in its merger with The Continental Corporation in 1995. As of September 30, 2008, the remaining run-off business is administered by Continental Reinsurance Corporation International, Ltd., a wholly owned Bermuda subsidiary. The business consists of facultative property and casualty, treaty excess casualty and treaty pro-rata reinsurance with underlying exposure to a diverse, multi-line domestic and international book of business encompassing property, casualty and marine liabilities.

The income (loss) from discontinued operations reported below related to CNA primarily represents the net investment income, realized investment gains and losses, foreign currency gains and losses, effects of the accretion of the loss reserve discount and re-estimation of the ultimate claim and claim adjustment expense reserve of the discontinued operations.

In the third quarter of 2008, CNA recognized a change in estimate of the tax benefit related to the 2007 sale of its United Kingdom discontinued operations subsidiary.

Bulova

The Company sold Bulova for approximately $263 million in January of 2008. The Company recorded a pretax gain of approximately $126 million, $75 million after tax, for the nine months ended September 30, 2008.

Results of Discontinued Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Net investment income	$ 2	$ 33	$ 20	$ 99
Manufactured products		1,094	1,750	3,148
Investment gains	1	5	3	8
Other				1
Total	3	1,132	1,773	3,256
Expenses:				
Insurance related expenses	3	3	8	23
Cost of manufactured products sold		638	1,039	1,839
Other operating expenses		105	173	305
Interest		2	2	4
Total	3	748	1,222	2,171
Income before income tax and minority interest	-	384	551	1,085
Income tax (expense) benefit	8	(138)	(200)	(401)
Minority interest	(1)		(1)	1
Results of discontinued operations	7	246	350	685
Gain on disposal (net of tax of $51)			4,362	
Net income from discontinued operations	$ 7	$ 246	$ 4,712	$ 685

Lorillard’s revenues amounted to 99.5% of total revenues of discontinued operations for the nine months ended September 30, 2008 and 95.1% and 95.3% for the three and nine months ended September 30, 2007. Lorillard’s pretax income amounted to 100% of total pretax income of discontinued operations for the nine months ended September 30, 2008 and 99.2% and 99.5% for the three and nine months ended September 30, 2007.

The components of discontinued operations included in the Consolidated Condensed Balance Sheets are as follows:

	September 30, 2008	December 31, 2007
(In millions)		
Assets of discontinued operations:		
Investments	$ 166	$ 1,495
Cash		20
Receivables		293
Reinsurance receivables	6	1
Property, plant and equipment		218
Deferred income taxes		575
Goodwill and other intangible assets		5
Other assets	1	408
Insurance reserves and other liabilities	(172)	(174)
Assets of discontinued operations	$ 1	$ 2,841

Liabilities of discontinued operations:		
Other liabilities	$ -	$ 1,637

The assets and liabilities of Lorillard totaling $2.6 billion and $1.6 billion, and Bulova totaling $218 million and $50 million, respectively, as of December 31, 2007 are included in Assets of discontinued operations and Liabilities of discontinued operations in the Consolidated Condensed Balance Sheet. The assets of CNA’s discontinued operations totaling $1 million and $23 million as of September 30, 2008 and December 31, 2007 are included in Assets of discontinued operations in the Consolidated Condensed Balance Sheets.

CNA’s accounting and reporting for discontinued operations is in accordance with APB No. 30, “Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.” In accordance with APB No. 30, CNA’s assets and liabilities

of discontinued operations are presented in net assets. At September 30, 2008 and December 31, 2007, the insurance reserves are net of discounts of $76 million and $73 million, respectively.

19. Consolidating Financial Information

The following schedules present the Company's consolidating balance sheet information at September 30, 2008 and December 31, 2007, and consolidating statements of operations information for the nine months ended September 30, 2008 and 2007. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income tax and minority interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

The Corporate and Other column primarily reflects the parent company's investment in its subsidiaries, invested cash portfolio, the assets and liabilities of discontinued operations of Lorillard and Bulova and corporate long term debt. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company's investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

Loews Corporation
Consolidating Balance Sheet Information

September 30, 2008 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 37,059	$ 608	$ 84	$ 13	$ 45	$ 4,469		$ 42,278
Cash	115	28	64	10	15	4		236
Receivables	11,202	708	81	56	35	122	$ (3)	12,201
Property, plant and equipment	346	3,337	3,384	5,343	354	45		12,809
Deferred income taxes	2,445						(979)	1,466
Goodwill and other intangible assets	106	20	1,066	163	3			1,358
Assets of discontinued operations	1							1
Investments in capital stocks of subsidiaries						12,838	(12,838)	-
Other assets	846	166	66	357	45	2	(1)	1,481
Deferred acquisition costs of insurance subsidiaries	1,157							1,157
Separate account business	430							430
Total assets	$ 53,707	$ 4,867	$ 4,745	$ 5,942	$ 497	$ 17,480	$ (13,821)	$ 73,417
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 39,469						$ (1)	$ 39,468
Payable to brokers	1,001	$ 20	$ 89	$ 2		$ 481		1,593
Collateral on loaned securities	6							6
Short term debt	200				$ 73			273
Long term debt	1,807	503	1,715	2,353	156	867		7,401
Reinsurance balances payable	367							367
Deferred income taxes		422	103	92	48	314	(979)	-
Other liabilities	2,345	554	187	743	14	130	(3)	3,970
Separate account business	430							430
Total liabilities	45,625	1,499	2,094	3,190	291	1,792	(983)	53,508
Minority interest	1,154	1,651		1,363				4,168
Shareholders' equity	6,928	1,717	2,651	1,389	206	15,688	(12,838)	15,741
Total liabilities and shareholders' equity	$ 53,707	$ 4,867	$ 4,745	$ 5,942	$ 497	$ 17,480	$ (13,821)	$ 73,417

Loews Corporation
Consolidating Balance Sheet Information

December 31, 2007 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 41,789	$ 633	$ 34	$ 316	$ 58	$ 3,839		$ 46,669
Cash	94	7	19	1	15	4		140
Receivables	10,672	523	136	87	22	32	$ (3)	11,469
Property, plant and equipment	350	3,058	3,121	3,303	365	21		10,218
Deferred income taxes	1,224		3				(786)	441
Goodwill and other intangible assets	106	20	1,061	163	3			1,353
Assets of discontinued operations	23					2,818		2,841
Investments in capital stocks of subsidiaries						14,967	(14,967)	-
Other assets	824	130	47	272	36	39	(1)	1,347
Deferred acquisition costs of insurance subsidiaries	1,161							1,161
Separate account business	476							476
Total assets	$ 56,719	$ 4,371	$ 4,421	$ 4,142	$ 499	$ 21,720	$ (15,757)	$ 76,115
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 40,222						$ (1)	$ 40,221
Payable to brokers	441		$ 38			$ 101		580
Collateral on loaned securities	63							63
Short term debt	350	$ 3			$ 5			358
Long term debt	1,807	503	1,647	$ 1,848	229	866		6,900
Reinsurance balances payable	401							401
Deferred income taxes		362		60	45	319	(786)	-
Liabilities of discontinued operations						1,637		1,637
Other liabilities	2,463	587	280	561	16	91	(8)	3,990
Separate account business	476							476
Total liabilities	46,223	1,455	1,965	2,469	295	3,014	(795)	54,626
Minority interest	1,467	1,425		1,006				3,898
Shareholders' equity	9,029	1,491	2,456	667	204	18,706	(14,962)	17,591
Total liabilities and shareholders' equity	$ 56,719	$ 4,371	$ 4,421	$ 4,142	$ 499	$ 21,720	$ (15,757)	$ 76,115

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Loews Corporation
Consolidating Statement of Operations Information

Nine Months Ended September 30, 2008	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 5,386						$ (1)	$ 5,385
Net investment income	1,449	$ 10		$ 2	$ 1	$ 69		1,531
Intercompany interest and dividends						1,053	(1,053)	-
Investment gains (losses)	(813)	1						(812)
Gain on issuance of subsidiary stock						2		2
Contract drilling revenues		2,589						2,589
Other	240	31	$ 590	639	291	18		1,809
Total	6,262	2,631	590	641	292	1,142	(1,054)	10,504
Expenses:								
Insurance claims and policyholders' benefits	4,380							4,380
Amortization of deferred acquisition costs	1,083							1,083
Contract drilling expenses		873					(1)	872
Other operating expenses	715	310	308	369	227	53		1,982
Interest	100	6	57	46	8	42		259
Total	6,278	1,189	365	415	235	95	(1)	8,576
Income (loss) before income tax and minority interest	(16)	1,442	225	226	57	1,047	(1,053)	1,928
Income tax expense (benefit)	(89)	462	83	61	21	(1)		537
Minority interest	43	505		67				615
Total	(46)	967	83	128	21	(1)	-	1,152
Income from continuing operations	30	475	142	98	36	1,048	(1,053)	776
Discontinued operations, net:								
Results of operations	9					341		350
Gain on disposal						4,362		4,362
Net income	$ 39	$ 475	$ 142	$ 98	$ 36	$ 5,751	$ (1,053)	$ 5,488

Loews Corporation
Consolidating Statement of Operations Information

Nine Months Ended September 30, 2007	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 5,617						$ (1)	$ 5,616
Net investment income	1,859	$ 26		$ 16	$ 1	$ 263		2,165
Intercompany interest and dividends						1,171	(1,171)	-
Investment gains (losses)	(217)	2	$ 32					(183)
Gain on issuance of subsidiary stock		(3)				142		139
Contract drilling revenues		1,854						1,854
Other	211	55	100	474	284	1	(6)	1,119
Total	7,470	1,934	132	490	285	1,577	(1,178)	10,710
Expenses:								
Insurance claims and policyholders' benefits	4,496							4,496
Amortization of deferred acquisition costs	1,137							1,137
Contract drilling expenses		715						715
Other operating expenses	713	258	58	288	229	45	(7)	1,584
Interest	105	17	12	46	9	41		230
Total	6,451	990	70	334	238	86	(7)	8,162
Income before income tax and minority interest	1,019	944	62	156	47	1,491	(1,171)	2,548
Income tax expense	283	292	22	47	18	112		774
Minority interest	113	334		35				482
Total	396	626	22	82	18	112	-	1,256
Income from continuing operations	623	318	40	74	29	1,379	(1,171)	1,292
Discontinued operations, net	(7)					692		685
Net income	$ 616	$ 318	$ 40	$ 74	$ 29	$ 2,071	$ (1,171)	$ 1,977

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20. Subsequent Events

CNA Preferred Issue and CCC Surplus Note

Under an agreement dated October 27, 2008, CNA will issue, and Loews has agreed to purchase, $1.25 billion of CNA non-voting cumulative senior preferred stock (“Preferred Issue”).

CNA will use the proceeds from the Preferred Issue to increase the statutory surplus of its principal insurance subsidiary, CCC, through the purchase of a $1.0 billion surplus note of CCC. Surplus notes are financial instruments with a stated maturity date and scheduled interest payments, issued by insurance enterprises with the approval of the insurer’s domiciliary state. Surplus notes are treated as capital under statutory accounting. All payments of interest and principal on this note are subject to the prior approval of the Illinois Department of Financial and Professional Regulation - Division of Insurance. The surplus note of CCC will have a term of 20 years and will accrue interest at a rate of 10.0% per year.

Limited Partnership Investments

The Company’s limited partnership investments consist of 82 individual partnerships which cover a broad range of investment strategies including fixed income arbitrage, global arbitrage, long/short equity, relative value, multi-strategy and private equity. The investments across partnerships and investment strategies provide for risk diversification within the limited partnership portfolio and the overall investment portfolio. These strategies consist primarily of underlying marketable securities and may include low levels of leverage and the use of derivatives which may potentially introduce more volatility and risk to the partnership returns. The continued disruption and turmoil in the capital markets has had a negative impact on limited partnership returns.

As described in Note 1 of the Notes to Consolidated Financial Statements within the Company’s 2007 Form 10-K, the Company’s carrying value of investments in limited partnerships typically reflects a reporting lag. Subsequent to September 30, 2008, the Company received preliminary September 2008 results from the general partners of certain limited partnership investments indicating a pretax loss of approximately $110 million that will be reflected in the fourth quarter results due to the reporting lag.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with our Consolidated Condensed Financial Statements included in Item 1 of this Report, Risk Factors included in Part II, Item 1A of this Report, and the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2007. This MD&A is comprised of the following sections:

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OVERVIEW

We are a holding company. Our subsidiaries are engaged in the following lines of business:

- commercial property and casualty insurance (CNA Financial Corporation ("CNA"), a 90% owned subsidiary);
- 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, natural gas liquids and, to a lesser extent, oil (HighMount Exploration & Production LLC ("HighMount"), a wholly owned subsidiary);

- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 70% owned subsidiary); and

- operation of hotels (Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary).

Unless the context otherwise requires, references in this report to “Loews Corporation,” “the Company,” “we,” “our,” “us” like terms refer to the business of Loews Corporation excluding its subsidiaries.

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Consolidated Financial Results

Net income (loss) and earnings (loss) per share information attributable to Loews common stock and former Carolina Group stock is summarized in the table below.

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
(In millions, except per share data)				
Net income (loss) attributable to Loews common stock:				
Income (loss) before net investment losses	$ 235	$ 341	$ 1,248	$ 1,307
Net investment losses (a)	(379)	(32)	(472)	(15)
Income (loss) from continuing operations	(144)	309	776	1,292
Discontinued operations, net (b)	7	100	4,501	280
Net income (loss) attributable to Loews common stock	(137)	409	5,277	1,572
Net income attributable to former Carolina Group stock -				
Discontinued operations (c)		146	211	405
Consolidated net income (loss)	$ (137)	$ 555	$ 5,488	$ 1,977
Net income (loss) per share:				
Loews common stock:				
Income (loss) from continuing operations	$ (0.33)	$ 0.58	$ 1.58	$ 2.40
Discontinued operations, net (b)	0.02	0.19	9.14	0.52
Loews common stock	$ (0.31)	$ 0.77	$ 10.72	$ 2.92
Former Carolina Group stock - Discontinued operations (c)	$ -	$ 1.34	$ 1.95	$ 3.73

(a) Includes a gain of $92 for the nine months ended September 30, 2007 related to a reduction in the Company's ownership interest in Diamond Offshore from the conversion of Diamond Offshore's 1.5% convertible debentures into Diamond Offshore common stock.

(b) Includes a tax-free non-cash gain of $4,287 related to the Separation of Lorillard and an after tax gain of $75 from the sale of Bulova Corporation for the nine months ended September 30, 2008.

(c) The Carolina Group and Carolina Group stock were eliminated effective June 10, 2008 upon completion of the Separation of Lorillard.

Investments in Subsidiaries

To assist our CNA subsidiary in strengthening the statutory capital of its principal insurance subsidiary Continental Casualty Company ("CCC"), which has been adversely impacted by the ongoing disruption in the capital markets, we agreed to purchase $1.25 billion of a new series of non-voting cumulative senior preferred stock from CNA. The new preferred stock will accrue cumulative dividends at the rate of 10% per annum, payable quarterly, for the first five years after issuance, with the dividend rate resetting thereafter and on each subsequent five year anniversary to the higher of 10% or the 10-year U.S. Treasury rate at such time plus 7%. No dividends may be declared on CNA's common stock while the new preferred stock is outstanding. CNA will use $1.0 billion of the proceeds from the new preferred stock to increase the statutory surplus of CCC. We expect to complete the purchase of the new preferred stock during the fourth quarter of 2008, subject to customary closing conditions.

Our Board of Directors also approved a commitment to purchase up to $1.0 billion of equity securities from Boardwalk Pipeline to facilitate the funding of the anticipated costs to complete its pipeline expansion projects. We would provide that equity capital to the extent that external funds are not available to Boardwalk Pipeline on acceptable terms. Boardwalk Pipeline anticipates that it will require a portion of this equity capital prior to the end of this year and the balance during the first half of 2009.

Income (Loss) from Continuing Operations

The loss from continuing operations for the third quarter of 2008 primarily resulted from a decline in results at CNA reflecting higher net investment losses described below, a $145 million (after tax and minority interest) increase in catastrophe losses primarily from hurricanes and a reduction in investment income reflecting losses from limited partnership investments. Investment income at the holding company also included losses in 2008, as compared to gains

in the prior year period. These declines were partially offset by significantly improved results at Diamond Offshore due to higher dayrates in 2008 and improved results at HighMount and Boardwalk Pipeline. Results in 2007 also included a $96 million charge at CNA (after tax and minority interest) in connection with a settlement of an arbitration proceeding related to a run-off book of business.

Net investment losses included in loss from continuing operations amounted to $379 million (after tax and minority interest) in the third quarter of 2008 compared to net investment losses of $32 million (after tax and minority interest) in the comparable period of the prior year. For the three months ended September 30, 2008, the Company recorded net realized investment losses of $178 million related to securities issued by Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, $58 million related to securities issued by Washington Mutual, $57 million related to securities issued by Icelandic banks and $21 million related to securities issued by American International Group.

The decline in income from continuing operations for the nine months ended September 30, 2008 primarily reflects a decline in results at CNA, the increased investment losses and the reduced investment income discussed above. These decreases were partially offset by improved results at Diamond Offshore, HighMount and Boardwalk Pipeline.

Separation of Lorillard

In June of 2008, we disposed of our entire ownership interest in our wholly owned subsidiary, Lorillard, Inc. ("Lorillard"), through the following two integrated transactions, collectively referred to as the "Separation":

- On June 10, 2008, we 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 our Restated Certificate of Incorporation (the "Redemption"); and

- On June 16, 2008, we 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 ours and we no longer own 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 us in the Exchange Offer was recorded as a decrease in our 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 us from the Exchange Offer, which was reported as a gain on disposal of the discontinued business.

Our Consolidated Condensed Financial Statements have been reclassified to reflect Lorillard as a discontinued operation. Accordingly, the assets and liabilities, revenues and 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.

Prior to the Redemption, we 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 our 100% ownership of Lorillard, including all dividends paid by Lorillard to us, 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.

Parent Company Structure

We are a holding company and derive substantially all of our cash flow from our subsidiaries. We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our stockholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies (see Liquidity and Capital Resources – CNA Financial, below). Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders.

At September 30, 2008, the book value per share of Loews common stock was $36.10, compared to $32.40 at December 31, 2007.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

The consolidated condensed financial statements and accompanying notes have been prepared in accordance with GAAP, applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the consolidated condensed financial statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that we believe are reasonable under the known facts and circumstances.

We consider the accounting policies discussed below to be critical to an understanding of our consolidated condensed financial statements as their application places the most significant demands on our judgment.

- Insurance Reserves
- Reinsurance
- Litigation
- Valuation of Investments and Impairment of Securities
- Long Term Care Products
- Pension and Postretirement Benefit Obligations
- Valuation of HighMount’s Proved Reserves

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates and the Results of Operations by Business Segment – CNA Financial – Reserves – Estimates and Uncertainties sections of our MD&A included under Item 7 of our Form 10-K for the year ended December 31, 2007 for further information.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation (“CNA”). CNA is a 90% owned subsidiary.

CNA’s core property and casualty commercial insurance operations are reported in two business segments: Standard Lines and Specialty Lines. Standard Lines includes standard property and casualty coverages sold to small businesses and middle market entities and organizations in the U.S. primarily through an independent agency distribution system. Standard Lines also includes commercial insurance and risk management products sold to large corporations in the U.S. primarily through insurance brokers. Specialty Lines provides a broad array of professional, financial and specialty property and casualty products and services, including excess and surplus lines, primarily through insurance brokers and managing general underwriters. Specialty Lines also includes insurance coverages sold globally through CNA’s foreign operations (“CNA Global”). The non-core operations are managed in Life & Group Non-Core segment and Other Insurance segment. Life & Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Reinsurance Company Limited. This segment also includes the results related to the centralized adjusting and settlements of A&E.

Segment Results

The following discusses the results of continuing operations for CNA's operating segments. CNA utilizes the net operating income financial measure to monitor its operations. Net operating income is calculated by excluding from net income the after tax and minority interest of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting principles. In evaluating the results of its Standard Lines and Specialty Lines segments, CNA utilizes the loss ratio, the expense ratio, the dividend ratio, and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

Standard Lines

The following table summarizes the results of operations for Standard Lines.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions, except %)				
Net written premiums	$ 723	$ 753	$ 2,342	$ 2,524
Net earned premiums	762	841	2,313	2,546
Net investment income	136	209	499	664
Net operating income	(48)	158	149	425
Net realized investment losses	(103)	(17)	(148)	(68)
Net income (loss)	(151)	141	1	357
Ratios:				
Loss and loss adjustment expense	96.3%	60.9%	81.1%	66.2%
Expense	34.4	32.3	31.3	32.1
Dividend	(1.4)	0.4	(0.2)	0.1
Combined	129.3%	93.6%	112.2%	98.4%

Three Months Ended September 30, 2008 Compared to 2007

Net written premiums for Standard Lines decreased $30 million for the three months ended September 30, 2008 as compared with the same period in 2007, primarily due to decreased production. The competitive market conditions are expected to put ongoing pressure on premium and income levels, and the expense ratio. This unfavorable impact was partially offset by decreased ceded premiums. Net earned premiums decreased $79 million for the three months ended September 30, 2008 as compared with the same period in 2007, consistent with the decreased net written premiums.

Standard Lines averaged rate decreases of 5.0% for the three months ended September 30, 2008, as compared to decreases of 4.0% for the three months ended September 30, 2007 for the contracts that renewed during those periods. Retention rates of 80.0% and 73.0% were achieved for those contracts that were available for renewal in each period.

Net results decreased $292 million for the three months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily attributable to decreased net operating results and higher net realized investment

losses. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating results decreased $206 million for the three months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily driven by higher catastrophe impacts, lower net investment income and less favorable net prior year development. The catastrophe impacts were $144 million after tax and minority interest in the third quarter of 2008, which included a $6 million after tax and minority interest catastrophe-related insurance assessment, as compared to catastrophe losses of $6 million after tax and minority interest in the third quarter of 2007.

The combined ratio increased 35.7 points for the three months ended September 30, 2008 as compared with the same period in 2007. The loss ratio increased 35.4 points primarily due to increased catastrophe losses and lower favorable net prior year development, partially offset by lower current accident year loss ratios across most lines of business.

Catastrophes losses had an adverse impact of 31.0 points on the loss ratio for the three months ended September 30, 2008.

During the third quarter of 2008, CNA's ongoing actuarial reviews confirmed various trends in the number and size of claims across certain lines of business, and CNA recorded favorable and unfavorable development for those lines in the third quarter of 2008. See additional discussion in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1. The trend in recent accident years was generally favorable across several lines of business. Since CNA's estimates for the current accident year partially rely on the trends and results for recent accident years, the current accident year non-catastrophe losses decreased by $53 million as referenced in the loss ratio discussion above.

The expense ratio increased 2.1 points for the three months ended September 30, 2008 as compared with the same period in 2007. The increase was primarily driven by CNA's estimate of the ultimate assessment from the Texas Windstorm Insurance Association related to catastrophe losses incurred in the third quarter of 2008.

The dividend ratio decreased 1.8 points for the three months ended September 30, 2008 as compared with the same period in 2007, due to favorable dividend development.

Favorable net prior year development of $1 million was recorded for the three months ended September 30, 2008, including $4 million of favorable claim and allocated claim adjustment expense reserve development and $3 million of unfavorable premium development. Favorable net prior year development of $72 million, including $67 million of favorable claim and allocated claim adjustment expense reserve development and $5 million of favorable premium development, was recorded for the three months ended September 30, 2007. Further information on Standard Lines net prior year development for the three months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Nine Months Ended September 30, 2008 Compared to 2007

Net written premiums for Standard Lines decreased $182 million and net earned premiums decreased $233 million for the nine months ended September 30, 2008 as compared with the same period in 2007, due to the reasons discussed above in the three month comparison.

Standard Lines averaged rate decreases of 6.0% for the nine months ended September 30, 2008, as compared to decreases of 4.0% for the nine months ended September 30, 2007 for the contracts that renewed during those periods. Retention rates of 81.0% and 77.0% were achieved for those contracts that were available for renewal in each period.

Net income decreased $356 million for the nine months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily attributable to decreased net operating income and higher net realized investment losses. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating income decreased $276 million for the nine months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily driven by the items discussed in the three month comparison above. The catastrophe impacts were $201 million after tax and minority interest for the nine months ended September 30, 2008, as compared to catastrophe losses of $30 million after tax and minority interest in the same period of 2007.

The combined ratio increased 13.8 points for the nine months ended September 30, 2008 as compared with the same period in 2007. The loss ratio increased 14.9 points primarily due to increased catastrophe losses and higher current accident year loss ratios across certain lines of business. Catastrophes losses related to 2008 events had an adverse

impact of 14.5 points on the loss ratio for the nine months ended September 30, 2008. The expense ratio decreased 0.8 points for the nine months ended September 30, 2008 as compared with the same period in 2007.

Favorable net prior year development of $50 million was recorded for the nine months ended September 30, 2008, including $54 million of favorable claim and allocated claim adjustment expense reserve development and $4 million of unfavorable premium development. Favorable net prior year development of $89 million, including $74 million of favorable claim and allocated claim adjustment expense reserve development and $15 million of favorable premium development, was recorded for the nine months ended September 30, 2007. Further information on Standard Lines net prior year development for the nine months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of September 30, 2008 and December 31, 2007 for Standard Lines.

(In millions)	September 30, 2008	December 31, 2007
Gross Case Reserves	$ 6,071	$ 5,988
Gross IBNR Reserves	6,086	6,060
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 12,157	$ 12,048
Net Case Reserves	$ 4,877	$ 4,750
Net IBNR Reserves	5,100	5,170
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 9,977	$ 9,920

Specialty Lines

The following table summarizes the results of operations for Specialty Lines.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except %)	2008	2007	2008	2007
Net written premiums	$ 875	$ 886	$ 2,583	$ 2,619
Net earned premiums	882	885	2,614	2,600
Net investment income	121	152	408	463
Net operating income	130	135	372	421
Net realized investment losses	(66)	(7)	(88)	(36)
Net income	64	128	284	385
Ratios:				
Loss and loss adjustment expense	58.5%	62.8%	62.8%	62.7%
Expense	29.0	26.6	27.8	26.3
Dividend	0.3	0.2	0.4	0.2
Combined	87.8%	89.6%	91.0%	89.2%

Three Months Ended September 30, 2008 Compared to 2007

Net written premiums for Specialty Lines decreased $11 million for the three months ended September 30, 2008 as compared with the same period in 2007. Premiums written in 2008 were unfavorably impacted by decreased production as compared with the same period in 2007. The competitive market conditions are expected to put ongoing pressure on premium and income levels, and the expense ratio. This unfavorable impact was partially offset by decreased ceded premiums. Net earned premiums decreased $3 million for the three months ended September 30, 2008 as compared with the same period in 2007, consistent with the decrease in net written premiums.

Specialty Lines averaged rate decreases of 3.0% for the three months ended September 30, 2008 as compared to decreases of 4.0% for the three months ended September 30, 2007 for the contracts that renewed during those periods.

Retention rates of 84.0% and 82.0% were achieved for those contracts that were available for renewal in each period.

Net income decreased $64 million for the three months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily attributable to higher net realized investment losses. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating income decreased $5 million for the three months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily driven by lower net investment income, decreased current accident year underwriting results and higher catastrophe losses. These unfavorable results were partially offset by favorable net prior year development. Catastrophe losses were $7 million after tax and minority interest in the third quarter of 2008. There were no catastrophe losses in the three months ended September 30, 2007.

The combined ratio improved 1.8 points for the three months ended September 30, 2008 as compared with the same period in 2007. The loss ratio improved 4.3 points, primarily due to favorable net prior year development for the three months ended September 30, 2008. This was partially offset by higher current accident year loss ratios recorded in our errors and omissions (E&O) and directors and officers (D&O) coverages for financial institutions due to the current financial markets credit crisis.

The expense ratio increased 2.4 points for the three months ended September 30, 2008 as compared with the same period in 2007. The increase primarily related to changes in estimates for insurance-related assessments and reduced ceding commissions.

Favorable net prior year development of $70 million, including $68 million of favorable claim and allocated claim adjustment expense reserve development and $2 million of favorable premium development, was recorded for the three months ended September 30, 2008. There was $3 million of unfavorable claim and allocated claim adjustment expense reserve development and $3 million of favorable premium development, resulting in no net prior year development for the three months ended September 30, 2007. Further information on Specialty Lines net prior year development for the three months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Nine Months Ended September 30, 2008 Compared to 2007

Net written premiums for Specialty Lines decreased $36 million for the nine months ended September 30, 2008 as compared with the same period in 2007. Premiums written in 2008 were unfavorably impacted by decreased production as compared with the same period in 2007. The competitive market conditions are expected to put ongoing pressure on premium and income levels, and the expense ratio. This unfavorable impact was partially offset by decreased ceded premiums. The U.S. Specialty Lines reinsurance structure was primarily quota share reinsurance through April 2007. CNA elected not to renew this coverage upon its expiration. With CNA's current diversification in the previously reinsured lines of business and its management of the gross limits on the business written, CNA did not believe the cost of renewing the program was commensurate with its projected benefit. Net earned premiums increased $14 million for the nine months ended September 30, 2008 as compared to the same period in 2007, which reflects the decreased use of reinsurance.

Specialty Lines averaged rate decreases of 3.0% for each of the nine month periods ended September 30, 2008 and 2007 for the contracts that renewed during those periods. Retention rates of 84.0% and 83.0% were achieved for those contracts that were available for renewal in each period.

Net income decreased $101 million for the nine months ended September 30, 2008 as compared with the same period in 2007. This decrease was primarily attributable to lower net operating income and higher net realized investment losses. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating income decreased $49 million for the nine months ended September 30, 2008 as compared with the same period in 2007, primarily due to the items discussed in the three month comparison above. Catastrophe losses were $8 million after tax and minority interest for the nine months ended September 30, 2008 as compared with $1 million after tax and minority interest in the same period in 2007.

The combined ratio increased 1.8 points for the nine months ended September 30, 2008 as compared with the same period in 2007. The loss ratio was favorably impacted by net prior year development, and unfavorably impacted by higher current accident year loss ratios as discussed in the three month comparison above and increased catastrophe

losses. The expense ratio increased 1.5 points for the nine months ended September 30, 2008 as compared to the same period in 2007. The increase primarily related to the items discussed in the three month comparison above.

Favorable net prior year development of $70 million, including $50 million of favorable claim and allocated claim adjustment expense reserve development and $20 million of favorable premium development, was recorded for the nine months ended September 30, 2008. Favorable net prior year development of $17 million, including $4 million of favorable claim and allocated claim adjustment expense reserve development and $13 million of favorable premium development, was recorded for the nine months ended September 30, 2007. Further information on Specialty Lines net prior year development for the nine months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of September 30, 2008 and December 31, 2007 for Specialty Lines.

(In millions)	September 30, 2008	December 31, 2007
Gross Case Reserves	$ 2,662	$ 2,585
Gross IBNR Reserves	5,702	5,818
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 8,364	$ 8,403
Net Case Reserves	$ 2,204	$ 2,090
Net IBNR Reserves	4,681	4,527
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 6,885	$ 6,617

Life & Group Non-Core

The following table summarizes the results of operations for Life & Group Non-Core.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2008	2007	2008	2007
Net earned premiums	$ 154	$ 156	$ 460	$ 469
Net investment income	135	145	376	494
Net operating loss	(32)	(116)	(62)	(126)
Net realized investment losses	(175)	(5)	(188)	(15)
Net loss	(207)	(121)	(250)	(141)

Three Months Ended September 30, 2008 Compared to 2007

Net earned premiums for Life & Group Non-Core decreased $2 million for the three months ended September 30, 2008 as compared with the same period in 2007. The net earned premiums relate primarily to the group and individual long term care businesses.

The net loss in 2008 was primarily due to net realized investment losses. See the Investments section of this MD&A for further discussion of the net realized investment results. The results in 2008 were also impacted by adverse investment performance on a portion of CNA's pension deposit business. The net loss in 2007 included an after tax and minority interest loss of $96 million related to the settlement of the IGI Contingency.

Nine Months Ended September 30, 2008 Compared to 2007

Net earned premiums for Life & Group Non-Core decreased $9 million for the nine months ended September 30, 2008 as compared with the same period in 2007.

Net loss increased $109 million for the nine months ended September 30, 2008 as compared with the same period in 2007, primarily due to the reasons discussed above in the three month comparison. The decreased net investment

income included a decline of trading portfolio results of $144 million, which was offset by a corresponding decrease in the policyholders' fund reserves supported by the trading portfolio. The trading portfolio supports the indexed group annuity portion of CNA's pension deposit business.

During the first quarter of 2008, CNA decided to exit the indexed group annuity portion of its pension deposit business. This business had net results of $(9) million and $(10) million for the nine months ended September 30, 2008 and 2007. The related assets were $222 million and related liabilities were $204 million at September 30, 2008. CNA expects these liabilities to be settled with the policyholders during the remainder of 2008 with no material impact to results of operations.

Other Insurance

The following table summarizes the results of operations for the Other Insurance segment, including A&E and intrasegment eliminations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Net investment income	$ 47	$ 74	$ 166	$ 238
Revenues	(11)	70	92	231
Net operating income	26	12	44	29
Net realized investment losses	(35)	(4)	(49)	(7)
Net income (loss)	(9)	8	(5)	22

Three Months Ended September 30, 2008 Compared to 2007

Revenues decreased $81 million for the three months ended September 30, 2008 as compared with the same period in 2007. Revenues were unfavorably impacted by higher net realized investment losses and lower net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net results decreased $17 million for the three months ended September 30, 2008 as compared with the same period in 2007. The decrease was primarily due to decreased revenues as discussed above, partially offset by a release from the allowance for uncollectible reinsurance receivables of $24 million arising from a change in estimate as further discussed in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1. In addition, the 2007 results included current accident year losses related to certain mass torts.

Unfavorable net prior year development of $11 million was recorded for the three months ended September 30, 2008, including $14 million of unfavorable claim and allocated claim adjustment expense reserve development and $3 million of favorable premium development. Unfavorable net prior year development of $5 million was recorded for the three months ended September 30, 2007, including $7 million of unfavorable claim and allocated claim adjustment expense reserve development and $2 million of favorable premium development. Further information on Corporate & Other Non-Core net prior year development for the three months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Nine Months Ended September 30, 2008 Compared to 2007

Revenues decreased $139 million for the nine months ended September 30, 2008 as compared with the same period in 2007. Revenues were unfavorably impacted by lower net investment income and higher net realized investment losses. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net results decreased $27 million for the nine months ended September 30, 2008 as compared with the same period in 2007, primarily due to the reasons discussed above in the three month comparison.

Unfavorable net prior year development of $27 million was recorded for the nine months ended September 30, 2008, including $30 million of unfavorable claim and allocated claim adjustment expense reserve development and $3

million of favorable premium development. Unfavorable net prior year development of $14 million was recorded for the nine months ended September 30, 2007, including $19 million of unfavorable claim and allocated claim adjustment expense reserve development and $5 million of favorable premium development. Further information on Corporate & Other Non-Core net prior year development for the nine months ended September 30, 2008 and 2007 is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of September 30, 2008 and December 31, 2007 for Corporate & Other Non-Core.

(In millions)	September 30, 2008	December 31, 2007
Gross Case Reserves	$ 1,886	$ 2,159
Gross IBNR Reserves	2,686	2,951
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 4,572	$ 5,110
Net Case Reserves	$ 1,182	$ 1,328
Net IBNR Reserves	1,597	1,787
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 2,779	$ 3,115

A&E Reserves

CNA's property and casualty insurance subsidiaries have actual and potential exposures related to asbestos and environmental pollution ("A&E") claims. Further information on A&E claim and claim adjustment expense reserves and net prior year development is included in Note 9 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Asbestos

CNA has resolved a number of its large asbestos accounts by negotiating settlement agreements. Structured settlement agreements provide for payments over multiple years as set forth in each individual agreement.

In 1985, 47 asbestos producers and their insurers, including The Continental Insurance Company ("CIC"), executed the Wellington Agreement. The agreement was intended to resolve all issues and litigation related to coverage for asbestos exposures. Under this agreement, signatory insurers committed scheduled policy limits and made the limits available to pay asbestos claims based upon coverage blocks designated by the policyholders in 1985, subject to extension by policyholders. CIC was a signatory insurer to the Wellington Agreement.

CNA has also used coverage in place agreements to resolve large asbestos exposures. Coverage in place agreements are typically agreements with CNA's policyholders identifying the policies and the terms for payment of asbestos related liabilities. Claim payments are contingent on presentation of documentation supporting the demand for claim payment. Coverage in place agreements may have annual payment caps. Coverage in place agreements are evaluated based on claims filings trends and severities.

CNA categorizes active asbestos accounts as large or small accounts. CNA defines a large account as an active account with more than $100,000 of cumulative paid losses. CNA has made resolving large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less of cumulative paid losses. Approximately 81.0% and 81.2% of CNA's total active asbestos accounts are classified as small accounts at September 30, 2008 and December 31, 2007.

CNA also evaluates its asbestos liabilities arising from its assumed reinsurance business and its participation in various pools, including Excess & Casualty Reinsurance Association ("ECRA").

IBNR reserves relate to potential development on accounts that have not settled and potential future claims from unidentified policyholders.

The following tables depict CNA’s overall pending asbestos accounts and associated reserves at September 30, 2008 and December 31, 2007.

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September 30, 2008	Number of Policyholders	Net Paid Losses	Net Asbestos Reserves	Percent of Asbestos Net Reserves
(In millions of dollars)				
Policyholders with settlement agreements				
Structured settlements	16	$ 16	$ 135	11.1%
Wellington	3	1	11	0.9
Coverage in place	36	16	87	7.2
Total with settlement agreements	55	33	233	19.2
Other policyholders with active accounts				
Large asbestos accounts	233	65	226	18.6
Small asbestos accounts	994	21	84	6.9
Total other policyholders	1,227	86	310	25.5
Assumed reinsurance and pools		6	127	10.5
Unassigned IBNR			545	44.8
Total	1,282	$ 125	$ 1,215	100.0%
December 31, 2007				
Policyholders with settlement agreements				
Structured settlements	14	$ 29	$ 151	11.4%
Wellington	3	1	12	1.0
Coverage in place	34	38	100	7.6
Total with settlement agreements	51	68	263	20.0
Other policyholders with active accounts				
Large asbestos accounts	233	45	237	17.9
Small asbestos accounts	1,005	15	93	7.0
Total other policyholders	1,238	60	330	24.9
Assumed reinsurance and pools		8	133	10.0
Unassigned IBNR			596	45.1
Total	1,289	$ 136	$ 1,322	100.0%

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.

CNA is involved in significant asbestos-related claim litigation, which is described in Note 9 of the Consolidated Condensed Financial Statements included under Item 1.

Environmental Pollution

CNA classifies its environmental pollution accounts into several categories, which include structured settlements, coverage in place agreements and active accounts. Structured settlement agreements provide for payments over multiple years as set forth in each individual agreement.

CNA has also used coverage in place agreements to resolve pollution exposures. Coverage in place agreements are typically agreements with its policyholders identifying the policies and the terms for payment of pollution related liabilities. Claim payments are contingent on presentation of adequate documentation of damages during the policy periods and other documentation supporting the demand for claim payment. Coverage in place agreements may have annual payment caps.

CNA categorizes active accounts as large or small accounts in the pollution area. CNA defines a large account as an active account with more than $100,000 cumulative paid losses. CNA has made closing large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less of cumulative paid losses. Approximately 74.4% and 72.9% of CNA's total active pollution accounts are classified as small accounts as of September 30, 2008 and December 31, 2007.

CNA also evaluates its environmental pollution exposures arising from its assumed reinsurance and its participation in various pools, including ECRA.

CNA carries unassigned IBNR reserves for environmental pollution. These reserves relate to potential development on accounts that have not settled and potential future claims from unidentified policyholders.

The tables below depict CNA's overall pending environmental pollution accounts and associated reserves at September 30, 2008 and December 31, 2007.

September 30, 2008	Number of Policyholders	Net Paid Losses	Net Environmental Pollution Reserves	Percent of Environmental Pollution Net Reserve
(In millions of dollars)				
Policyholders with settlement agreements				
Structured settlements	11	$ 2	$ 6	3.1%
Coverage in place	16	2	15	7.7
Total with settlement agreements	27	4	21	10.8
Other policyholders with active accounts				
Large pollution accounts	110	34	49	25.3
Small pollution accounts	320	11	33	17.0
Total other policyholders	430	45	82	42.3
Assumed reinsurance and pools		2	29	14.9
Unassigned IBNR			62	32.0
Total	457	$ 51	$ 194	100.0%
December 31, 2007				
Policyholders with settlement agreements				
Structured settlements	10	$ 9	$ 6	2.5%
Coverage in place	18	8	14	5.8
Total with settlement agreements	28	17	20	8.3

Other policyholders with active accounts						
Large pollution accounts	112		17		53	21.9
Small pollution accounts	298		9		42	17.4
Total other policyholders	410		26		95	39.3
Assumed reinsurance and pools			1		31	12.7
Unassigned IBNR					96	39.7
Total	438	$	44	$	242	100.0%

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries (“Diamond Offshore”). Diamond Offshore is a 50.4% owned subsidiary.

The following table summarizes the results of operations for Diamond Offshore for the three and nine months ended September 30, 2008 and 2007 as presented in Note 19 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Contract drilling	$ 882	$ 628	$ 2,589	$ 1,854
Net investment income	3	9	10	26
Investment gains (losses)	1	2	1	(1)
Other revenue, primarily operating	(17)	18	31	55
Total	869	657	2,631	1,934
Expenses:				
Contract drilling	315	281	873	715
Other operating	104	87	310	258
Interest	3	2	6	17
Total	422	370	1,189	990
Income before income tax and minority interest	447	287	1,442	944
Income tax expense	147	89	462	292
Minority interest	155	102	505	334
Net income	$ 145	$ 96	$ 475	$ 318

Diamond Offshore’s revenues vary based upon demand, which affects the number of days the fleet is utilized and the dayrates earned. When a rig is idle, no dayrate is earned and revenues will decrease as a result. Revenues can also be affected as a result of the acquisition or disposal of rigs, required surveys and shipyard upgrades. In order to improve utilization or realize higher dayrates, Diamond Offshore may mobilize its rigs from one market to another. However, during periods of mobilization, revenues may be adversely affected. As a response to changes in demand, Diamond Offshore may withdraw a rig from the market by stacking it or may reactivate a rig stacked previously, which may decrease or increase revenues, respectively.

The two most significant variables affecting revenues are dayrates for rigs and rig utilization rates, each of which is a function of rig supply and demand in the marketplace. As utilization rates increase, dayrates tend to increase as well, reflecting the lower supply of available rigs, and vice versa. Demand for drilling services is dependent upon the level of expenditures set by oil and gas companies for offshore exploration and development as well as a variety of political and economic factors. The availability of rigs in a particular geographical region also affects both dayrates and utilization rates. These factors are not within Diamond Offshore’s control and are difficult to predict.

Diamond Offshore’s operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Diamond Offshore’s contract drilling expenses represent all direct and indirect costs associated with the operation and maintenance of its drilling equipment. The principal components of Diamond Offshore’s contract drilling costs are, among other things, direct and indirect costs of labor and benefits, repairs and maintenance,

freight, regulatory inspections, boat and helicopter rentals and insurance. Labor and repair and maintenance costs represent the most significant components of contract drilling expenses. In general, Diamond Offshore's labor costs increase primarily due to higher salary levels, rig staffing requirements and costs associated with labor regulations in the geographic regions in which Diamond Offshore's rigs operate. Diamond Offshore has experienced and continues to experience upward pressure on salaries and wages as a result of the strengthening offshore drilling market and increased competition for skilled workers. In response to these market conditions, Diamond Offshore has implemented retention programs, including increases in compensation. Costs to repair and maintain equipment fluctuate depending upon the type of activity the drilling unit is performing, as well as the age and condition of the equipment and the regions in which the rigs are working.

Contract drilling expenses generally are not affected by changes in dayrates, and short term reductions in utilization do not necessarily result in lower operating expenses. For instance, if a rig is to be idle for a short period of time, few decreases in contract drilling expenses may actually occur since the rig is typically maintained in a prepared or "ready

stacked" state with a full crew. In addition, when a rig is idle, Diamond Offshore is responsible for certain contract drilling expenses such as rig fuel and supply boat costs, which are typically costs of the operator when a rig is under contract. However, if the rig is to be idle for an extended period of time, Diamond Offshore may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income.

Operating income is also negatively impacted when Diamond Offshore performs certain regulatory inspections that are due every five years ("5-year survey") for each of Diamond Offshore's rigs as well as intermediate surveys, which are performed at interim periods between 5-year surveys. Contract drilling revenue decreases because these surveys are performed during scheduled downtime in a shipyard. No revenue is generally earned during periods of downtime for regulatory surveys. Contract drilling expenses increase as a result of these surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance costs may be required resulting from the survey or may have been previously planned to take place during this mandatory downtime. The number of rigs undergoing a 5-year survey will vary from year to year, as well as from quarter to quarter.

The growing global economic crisis created an environment of uncertainty during the third quarter of 2008 that has continued into the fourth quarter of 2008. The price of crude oil fell from $142 per barrel at the beginning of the period to $100 per barrel at the close, and was trading in the mid-$60s range in late October. At the same time, reported dayrates for offshore rigs continued to rise, setting records for both the current fleet and new-build rigs, as well as U.S. Gulf of Mexico jack-ups. Diamond Offshore is unable to predict the impact on its business of a continued decline in commodity prices and the global economy. Possible negative impacts, among others, could include a decline in dayrates for new contracts, and a slowing in the pace of new contract activity.

During the last quarter of 2008, Diamond Offshore expects that six of its rigs will undergo 5-year regulatory inspections and will be out of service for approximately 266 days in the aggregate, including downtime for planned maintenance projects. Diamond Offshore expects to spend an additional approximately 308 days during the remainder of 2008 for an intermediate survey, the mobilization of rigs, completion of contract modifications, extended maintenance projects not performed in conjunction with regulatory surveys and repairs to the Ocean Tower as discussed in "Liquidity and Capital Resources – Diamond Offshore." In addition, Diamond Offshore expects that an additional five of its rigs will undergo 5-year surveys during 2009 and will be out of service for approximately 280 days in the aggregate. During 2009, Diamond Offshore also expects to spend an additional approximately 921 days for intermediate surveys, the mobilization of rigs, contract modifications for international contracts, extended maintenance projects and completion of repairs to the Ocean Tower. In addition, Diamond Offshore expects the Ocean Bounty to be taken out of service at some time subsequent to the first quarter of 2009 for a water depth upgrade and repowering project. Diamond Offshore expects these projects to take approximately one year to complete and will extend into 2010. However, Diamond Offshore can provide no assurance as to the exact timing and/or duration of downtime associated with regulatory inspections, planned rig mobilizations and other shipyard projects.

Revenues increased by $212 million and $697 million, or 32.3% and 36.0%, and net income increased by $49 million and $157 million, or 51.0% and 49.4%, in the three and nine months ended September 30, 2008, as compared to the corresponding periods of the prior year. Continued high overall utilization and historically high dayrates for Diamond Offshore's floater fleet contributed to an overall increase in net income. In many of the floater markets in which Diamond Offshore operates, average dayrates increased as Diamond Offshore's rigs operated under contracts at higher dayrates than those earned during the third quarter of 2007. Diamond Offshore's results for the three and nine months ended September 30, 2008 were impacted by $25 million and $8 million in pretax losses on foreign currency forward exchange contracts, primarily from mark-to-market accounting, which is included in Other revenue.

Revenues from high specification floaters and intermediate semisubmersible rigs increased by $231 million and $724 million in the three and nine months ended September 30, 2008, as compared to the corresponding periods of the prior year. The increase primarily reflects increased dayrates of $198 million and $569 million and increased utilization of $31 million and $142 million, respectively.

Revenues from jack-up rigs increased $22 million and $11 million, in the three and nine months ended September 30, 2008, as compared to the corresponding periods of the prior year, due primarily to increased dayrates of $23 million and $11 million and increased utilization of $3 million and $9 million, respectively. Revenues were unfavorably impacted by a decrease in the recognition of mobilization fees and other operating revenues, primarily for the Ocean Spur, of $4 million and $7 million in the three and nine months ended September 30, 2007.

Net income increased in the three and nine months ended September 30, 2008, as compared to the corresponding periods of the prior year, due to the revenue increases as noted above, partially offset by increased contract drilling expenses. Overall cost increases for maintenance and repairs between the 2008 and 2007 periods reflect the impact of high, sustained utilization of Diamond Offshore’s drilling units across its fleet, higher maintenance costs, contract

preparation and mobilization costs. Diamond Offshore's results for the third quarter of 2008 also include normal operating costs for its newly constructed jack-up rigs, the Ocean Shield and Ocean Scepter, that began operating offshore Malaysia in the second quarter of 2008 and offshore Argentina during the third quarter of 2008, respectively. The increase in overall operating and overhead costs also reflects the impact of higher prices throughout the offshore drilling industry and its support businesses, including higher costs associated with hiring and retaining skilled personnel for Diamond Offshore’s worldwide offshore fleet.

Interest expense decreased $11 million in the nine months ended September 30, 2008, primarily due to the reduced interest expense and the absence of a $9 million write-off of debt issuance costs related to conversions of Diamond Offshore’s 1.5% debentures into common stock in 2007.

HighMount

HighMount Exploration & Production LLC (“HighMount”). HighMount is a wholly owned subsidiary.

HighMount commenced operations on July 31, 2007, when it acquired certain exploration and production assets, and assumed certain related obligations, from subsidiaries of Dominion Resources, Inc. Prior to the acquisition, natural gas forwards were entered into in order to manage the commodity price risk of the natural gas assets to be acquired. The mark-to-market adjustments related to these forwards have been reflected as investment gains in the following table. Concurrent with the closing of the acquisition, these forwards were designated as hedges and included in HighMount’s operating results or Accumulated other comprehensive income on the Consolidated Condensed Balance Sheet.

We use the following terms throughout this discussion of HighMount’s results of operations, with “equivalent” volumes computed with oil and natural gas liquid (“NGL”) quantities converted to Mcf, on an energy equivalent ratio of one barrel to six Mcf:

Bbl	- Barrel (of oil or NGLs)
Bcf	- Billion cubic feet (of natural gas)
Bcfe	- Billion cubic feet of natural gas equivalent
Mbbl	- Thousand barrels (of oil or NGLs)
Mcf	- Thousand cubic feet (of natural gas)
Mcfe	- Thousand cubic feet of natural gas equivalent

The following table summarizes the results of operations for HighMount for the three and nine months ended September 30, 2008 and 2007 as presented in Note 19 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007 (1)	2008	2007 (1)
(In millions)				
Revenues:				
Other revenue, primarily operating	$ 200	$ 100	$ 590	$ 100
Investment gains		1		32
Total	200	101	590	132
Expenses:				
Operating	106	58	308	58

Interest	20	12	57	12
Total	126	70	365	70
Income before income tax	74	31	225	62
Income tax expense	27	11	83	22
Net income	$ 47	$ 20	$ 142	$ 40

(1) HighMount commenced operations on July 31, 2007.

HighMount's revenues, profitability and future growth depend substantially on natural gas and NGL prices and HighMount's ability to increase its natural gas and NGL production. In recent years, there has been significant price volatility in natural gas and NGL prices due to a variety of factors HighMount cannot control or predict. These factors, which include weather conditions, political and economic events, and competition from other energy sources, impact supply and demand for natural gas, which determines the pricing. In addition, the price HighMount realizes for its gas production is affected by HighMount's hedging activities as well as locational differences in market prices. HighMount's

decision to increase its natural gas production is dependent upon HighMount's ability to realize attractive returns on its capital investment program. Returns are affected by commodity prices, capital and operating costs.

HighMount's operating income is primarily affected by revenue factors, but is also a function of varying levels of production expenses, production and ad valorem taxes, as well as depreciation, depletion and amortization ("DD&A") expenses. HighMount's production expenses represent all costs incurred to operate and maintain wells and related equipment and facilities. The principal components of HighMount's production expenses are, among other things, direct and indirect costs of labor and benefits, repairs and maintenance, materials, supplies, and fuel. In general, HighMount's labor costs increase primarily due to higher salary levels and continued upward pressure on salaries and wages as a result of the increased competition for skilled workers. In response to these market conditions, HighMount has implemented retention programs, including increases in compensation. Production expenses are also affected by increases of the cost of fuel, materials, and supplies. HighMount's production and ad valorem taxes increase primarily when prices of natural gas and NGL increase, but they are also affected by changes in production, as well as appreciated property values. HighMount calculates depletion using the units-of-production method, which depletes the capitalized costs and future development costs associated with evaluated properties based on the ratio of production volumes for the current period to total remaining reserve volumes for the evaluated properties. HighMount's depletion expense is affected by its capital spending program and projected future development costs, as well as reserve changes resulting from drilling programs, well performance, and revisions due to changing commodity prices.

Presented below are production and sales statistics related to HighMount's operations for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007 (1)	2008	2007 (1)
Gas production (Bcf)	19.7	13.7	59.3	13.7
Gas sales (Bcf)	18.1	12.6	54.5	12.6
Oil production/sales (Mbbls)	86.6	38.1	259.8	38.1
NGL production/sales (Mbbls)	805.9	582.0	2,656.4	582.0
Equivalent production (Bcfe)	25.1	17.4	76.8	17.4
Equivalent sales (Bcfe)	23.4	16.4	72.0	16.4
Average realized prices without hedging results:				
Gas (per Mcf)	$ 9.46	$ 5.24	$ 9.06	$ 5.24
NGL (per Bbl)	63.86	44.71	60.06	44.71
Oil (per Bbl)	114.38	72.88	109.00	72.88
Equivalent (per Mcfe)	9.92	5.81	9.47	5.81
Average realized prices with hedging results:				
Gas (per Mcf)	$ 7.85	$ 5.29	$ 7.73	$ 5.29
NGL (per Bbl)	56.41	44.33	49.53	44.33
Oil (per Bbl)	114.38	72.88	109.00	72.88
Equivalent (per Mcfe)	8.42	5.84	8.07	5.84
Average cost per Mcfe:				
Production expenses	$ 1.20	$ 0.94	$ 1.03	$ 0.94
Production and ad valorem taxes	0.81	0.50	0.76	0.50
General and administrative expenses	0.61	0.50	0.67	0.50

Depletion expense	1.65	1.40	1.56	1.40

(1) HighMount commenced operations on July 31, 2007.

The increase in the volumes produced and sold included in the table above, as well as HighMount's revenues and expenses, is mainly attributable to the fact that the 2007 comparative periods presented herein represent two months of activity, compared to three and nine months of activity in 2008.

Three Months Ended September 30, 2008 Compared to 2007

HighMount's operating revenues, which consist primarily of natural gas and NGL sales, increased by $100 million to $200 million for the third quarter of 2008, compared to $100 million for the third quarter of 2007. HighMount commenced operations on July 31, 2007. The increase was primarily due to the increase in volumes sold of 7.0 Bcfe,

which increased revenues by $41 million, as well as higher commodity prices in 2008 compared to 2007, which contributed another $96 million to the increase in revenues. These increases were partially offset by a decrease of $35 million due to the effect of HighMount's hedging activities.

Operating expenses primarily consist of production expenses, production and ad valorem taxes, general and administrative costs and DD&A. Production expenses totaled $28 million, or $1.20 per Mcfe sold, in the three months ended September 30, 2008 compared to $15 million, or $0.94 per Mcfe sold, in the three months ended September 30, 2007. The increase in production expenses of $13 million was primarily due to the increase in volumes sold, which increased production expense by $7 million. The increase on a per unit basis contributed $6 million and is primarily the result of a higher cost environment.

Production and ad valorem taxes during the three months ended September 30, 2008 and 2007 were $19 million and $8 million, respectively. The increase of $11 million was due primarily to increased production taxes as a result of higher natural gas and NGL prices, increased production, and appreciated property values. For the three months ended September 30, 2008 and 2007, production and ad valorem taxes were $0.81 and $0.50 per Mcfe, respectively. General and administrative expenses, which consist primarily of compensation related costs, increased by $6 million, to $14 million in the third quarter of 2008, compared to $8 million in the third quarter of 2007. General and administrative expense increased on a per Mcfe basis from $0.50 in 2007 to $0.61 in 2008 primarily due to increased headcount and compensation related expenses.

DD&A expenses increased by $18 million to $45 million for the third quarter of 2008, compared to $27 million for the third quarter of 2007. DD&A expenses included depletion of natural gas and NGL properties of $41 million and $24 million for the three months ended September 30, 2008 and 2007, respectively. Depletion expense increased by $17 million in 2008, compared to 2007, due primarily to an $11 million increase from production volumes and $6 million due to higher depletion expense per Mcfe. HighMount's depletion rate per Mcfe increased by $0.25 per Mcfe to $1.65 per Mcfe in the third quarter of 2008, compared to $1.40 per Mcfe in the third quarter of 2007. The increase of HighMount's depletion expense on a per unit basis was primarily due to higher capital costs and higher projected future development costs, the result of higher prices and other economic conditions, particularly the cost of steel and diesel fuel.

Nine Months Ended September 30, 2008 Compared to 2007

HighMount's operating revenues increased by $490 million to $590 million for the nine months ended September 30, 2008, compared to $100 million for the same period of 2007. HighMount commenced operations on July 31, 2007. The increase was primarily due to the increase in volumes sold of 55.6 Bcfe, which increased revenues by $323 million, as well as higher commodity prices in 2008 compared to 2007, which contributed another $263 million to the increase in revenues. The increase in revenue due to higher volumes and prices was offset by a decrease of $101 million due to the effect of HighMount's hedging activities.

Production expenses totaled $74 million, or $1.03 per Mcfe sold, in the nine months ended September 30, 2008 compared to $15 million, or $0.94 per Mcfe sold, in the nine months ended September 30, 2007. The increase in production expenses of $59 million was primarily due to the increase in volumes sold, which increased production expense by $53 million. The increase on a per unit basis contributed $6 million and is primarily the result of a higher cost environment.

Production and ad valorem taxes during the nine months ended September 30, 2008 and 2007 were $55 million and $8 million, respectively. The increase of $47 million was due primarily to increased production taxes as a result of higher natural gas and NGL prices, increased production, and appreciated property values. For the nine months ended September 30, 2008 and 2007, production and ad valorem taxes were $0.76 and $0.50 per Mcfe, respectively. General

and administrative expenses increased by $40 million to $48 million during the nine months ended September 30, 2008, compared to $8 million during the same period of 2007. General and administrative expense increased on a per Mcfe basis from $0.50 in 2007 to $0.67 in 2008 primarily due to increased headcount and compensation related expenses.

DD&A expenses increased by $104 million to $131 million for the nine months ended September 30, 2008, compared to $27 million for the same period of 2007. DD&A expenses included depletion of natural gas and NGL properties of $120 million and $24 million for the nine months ended September 30, 2008 and 2007, respectively. Depletion expense increased by $96 million in 2008, compared to 2007, due primarily to an $83 million increase from higher production volumes and $13 million due to higher depletion expense per Mcfe. HighMount's depletion rate per Mcfe increased by $0.16 per Mcfe to $1.56 per Mcfe in 2008, compared to $1.40 per Mcfe in 2007. The increase of HighMount's depletion expense on a per unit basis was primarily due to higher capital costs and higher projected future development costs, the result of higher prices and other economic conditions, particularly the cost of steel and diesel fuel.

Boardwalk Pipeline

Boardwalk Pipeline Partners, LP and subsidiaries ("Boardwalk Pipeline"). Boardwalk Pipeline is a 70% owned subsidiary.

The following table summarizes the results of operations for Boardwalk Pipeline for the three and nine months ended September 30, 2008 and 2007 as presented in Note 19 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Other revenue, primarily operating	$ 221	$ 136	$ 639	$ 474
Net investment income	1	5	2	16
Total	222	141	641	490
Expenses:				
Operating	140	86	369	288
Interest	9	15	46	46
Total	149	101	415	334
Income before income tax and minority interest	73	40	226	156
Income tax expense	20	11	61	47
Minority interest	22	10	67	35
Net income	$ 31	$ 19	$ 98	$ 74

Boardwalk Pipeline's business is affected by trends involving natural gas price levels and natural gas price spreads, including spreads between physical locations on its pipeline system, which affect its transportation revenues, and spreads in natural gas prices across time (for example summer to winter), which primarily affect its parking and lending ("PAL") and storage revenues. High natural gas prices in recent years have helped to drive increased production levels in locations such as the Bossier Sands and Barnett Shale gas producing regions in East Texas, which has resulted in additional supply being available on the west side of Boardwalk Pipeline's system. This has resulted in widened west-to-east basis differentials which have benefited its transportation revenues. The high natural gas prices have also driven increased production in regions such as the Fayetteville Shale in Arkansas and the Caney Woodford Shale in Oklahoma, which, together with the higher production levels in East Texas, have formed the basis for several pipeline expansion projects including those being undertaken by Boardwalk Pipeline. Wide spreads in natural gas prices between time periods during the past two to three years, for example fall 2006 to spring 2007, were favorable for Boardwalk Pipeline's PAL and interruptible storage services during that period. These spreads decreased substantially in 2007, and have continued to decrease into 2008, which resulted in reduced PAL and interruptible storage revenues. Boardwalk Pipeline cannot predict future time period spreads or basis differentials.

Total revenues increased $81 million to $222 million for the third quarter of 2008, compared to $141 million for the 2007 period. Gas transportation revenues increased $38 million, excluding fuel, due mainly to Boardwalk Pipeline's expansion projects. Boardwalk Pipeline's fuel revenues increased $20 million due to expansion-related throughput and an increase in the price of natural gas. Other revenues increased $17 million due to a gain on the disposition of coal reserves and $15 million related to a gain on the sale of gas associated with Boardwalk Pipeline's western Kentucky storage expansion project.

Net income increased $12 million to $31 million in the third quarter of 2008, compared to $19 million in the third quarter of 2007, primarily due to the increased revenue discussed above, partially offset by a $54 million increase in operating expenses. The primary drivers were a $21 million increase in fuel costs from providing service on Boardwalk Pipeline's expansion projects and higher natural gas prices. Depreciation and other taxes, primarily comprised of property taxes, increased $18 million due to an increase in Boardwalk Pipeline's asset base from expansion. The 2007 period was also favorably impacted by $5 million from insurance recoveries related to the 2005 hurricanes.

Total revenues for the nine months ended September 30, 2008 increased $151 million to $641 million, compared to $490 million for the nine months ended September 30, 2007. Gas transportation revenues, excluding fuel, increased $83 million, $76 million of which was related to Boardwalk Pipeline's expansion projects and the remainder to higher interruptible services. Fuel revenues increased $39 million due to expansion-related throughput and higher natural gas prices. Gas storage revenues increased $10 million related to an increase in storage capacity associated with Boardwalk Pipeline's western Kentucky storage expansion project. These increases were partially offset by lower PAL revenues of

$25 million due to unfavorable natural gas price spreads. Other revenues for 2008 include a $31 million gain on the sale of gas related to Boardwalk Pipeline's western Kentucky storage expansion project, a $17 million gain on the disposition of coal reserves and an $11 million gain from the settlement of a contract claim.

Net income increased $24 million to $98 million in the first nine months of 2008, compared to $74 million in the first nine months of 2007, primarily due to the increased revenues discussed above, partially offset by an $81 million increase in operating expenses. The primary drivers were increased depreciation and other taxes, primarily comprised of property taxes, of $43 million associated with an increase in Boardwalk Pipeline's asset base due to expansion and increased fuel costs of $42 million from providing service on Boardwalk Pipeline's expansion projects and higher natural gas prices. The 2007 net income was unfavorably impacted by a $15 million impairment charge related to Boardwalk Pipeline's Magnolia storage facility.

Loews Hotels

Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews Hotels is a wholly owned subsidiary.

The following table summarizes the results of operations for Loews Hotels for the three and nine months ended September 30, 2008 and 2007 as presented in Note 19 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Other revenue, primarily operating	$ 90	$ 90	$ 291	$ 284
Net investment income			1	1
Total	90	90	292	285
Expenses:				
Operating	81	80	227	229
Interest	2	3	8	9
Total	83	83	235	238
Income before income tax	7	7	57	47
Income tax expense	1	3	21	18
Net income	$ 6	$ 4	$ 36	$ 29

Revenues were flat for the three months ended September 30, 2008, as compared to the corresponding period of 2007. Revenues increased by $7 million, or 2.5%, for the nine months ended September 30, 2008, as compared to the corresponding period of 2007.

Net income increased by $2 million and $7 million, or 50.0% and 24.1%, respectively in the three and nine months ended September 30, 2008, as compared to the corresponding periods of 2007.

For the three months ended September 30, 2008, revenue per available room increased to $180.59, compared to $180.10 in the prior year, reflecting improvements in average room rates of $6.35, or 2.8%, partially offset by lower occupancy rates.

Revenues increased in the nine months ended September 30, 2008, as compared to the corresponding period of 2007, due to an increase in revenue per available room to $188.92, compared to $184.86 in the prior year, reflecting improvements in average room rates of $9.96, or 4.1% offset by lower occupancy rates.

Net income for the three months ended September 30, 2008 increased primarily due to an increase in joint venture equity income, partially offset by increased operating expenses.

Net income for the nine months ended September 30, 2008 increased primarily due to an $11 million gain related to an adjustment in the carrying value of a joint venture investment, partially offset by increased operating expenses.

Revenue per available room is an industry measure of the combined effect of occupancy rates and average room rates on room revenues. Other hotel operating revenues primarily include guest charges for food and beverages.

Corporate and Other

Corporate operations consist primarily of investment income, discontinued operations of Lorillard through June of 2008 and Bulova through January of 2008, investment gains (losses) from non-insurance subsidiaries, corporate interest expenses and other corporate administrative costs.

The following table summarizes the results of operations for Corporate and Other for the three and nine months ended September 30, 2008 and 2007 as presented in Note 19 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Revenues:				
Net investment income (loss)	$ (88)	$ 58	$ 69	$ 263
Investment gains			2	142
Other	18	1	17	1
Total	(70)	59	88	406
Expenses:				
Operating	19	21	52	45
Interest	15	13	42	41
Total	34	34	94	86
Income (loss) before income tax	(104)	25	(6)	320
Income tax expense (benefit)	(34)	10	(1)	112
Income (loss) from continuing operations	(70)	15	(5)	208
Discontinued operations, net:				
Results of operations	(1)	246	341	692
Gain on disposal			4,362	
Net income (loss)	$ (71)	$ 261	$ 4,698	$ 900

Revenues decreased by $129 million and $318 million for the three and nine months ended September 30, 2008 as compared to the corresponding periods of 2007. Net income decreased by $332 million for the three months ended September 30, 2008 and increased by $3,798 million for the nine months ended September 30, 2008, as compared to the corresponding periods of 2007.

Revenues decreased in the three months ended September 30, 2008, as compared to the corresponding period of 2007, due primarily to decreased net investment income of $146 million. Revenues decreased in the nine months ended September 30, 2008 primarily due to decreased investment income of $194 million and reduced investment gains. Investment gains for 2007 included a $142 million pretax gain ($92 million after tax) related to the issuance of Diamond Offshore common stock from the conversion of $451 million principal amount of Diamond Offshore’s 1.5% debentures into Diamond Offshore common stock.

In 2008, the Company completed the sale of Bulova Corporation and disposed of its entire ownership interest in Lorillard, Inc. The results of operations and gains on disposal of these businesses are presented as discontinued operations. Discontinued operations for the nine months ended September 30, 2008 includes a $4.3 billion gain on the Separation of Lorillard and a $75 million gain on the sale of Bulova.

Income (loss) from continuing operations decreased primarily due to the reduction in revenues discussed above for the three and nine months ended September 30, 2008 as compared to the corresponding periods of 2007.

LIQUIDITY AND CAPITAL RESOURCES

CNA Financial

Cash Flow

CNA’s principal operating cash flow sources are premiums and investment income from its insurance subsidiaries. CNA’s primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the nine months ended September 30, 2008, net cash provided by operating activities was $1,261 million as compared with $713 million for the same period in 2007. Cash provided by operating activities was favorably impacted by increased net sales of trading securities to fund policyholders' withdrawals of investment contract products issued by CNA, decreased loss payments and decreased tax payments. Policyholders' fund withdrawals are reflected as financing cash flows. Cash provided by operating activities was unfavorably impacted by decreased premium collections and decreased investment income.

For the nine months ended September 30, 2008, net cash used by investing activities was $508 million as compared with $667 million for the same period in 2007. Cash flows used by investing activities related principally to purchases of fixed maturity securities. The cash flow from investing activities is impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

For the nine months ended September 30, 2008, net cash used by financing activities was $733 million as compared with $83 million for the same period in 2007. In January 2008, CNA repaid its $150 million 6.45% senior note. CNA also purchased outstanding shares of its common stock as discussed below. Additionally, the increase in cash used for financing activities is related to increased policyholders' fund withdrawals in 2008 as compared to 2007, which are reflected as a Return of investment contract account balances on the Consolidated Condensed Statements of Cash Flows.

Liquidity

CNA believes that its present cash flows from operations, investing activities and financing activities are sufficient to fund its working capital and debt obligation needs and CNA does not expect this to change in the near term due to the following factors:

- CNA does not anticipate changes in its core property and casualty commercial insurance operations which would significantly impact liquidity and CNA continues to maintain reinsurance contracts which limit the impact of potential catastrophic events.
- CNA has entered into several settlement agreements and assumed reinsurance contracts that require collateralization of future payment obligations and assumed reserves if CNA's ratings or other specific criteria fall below certain thresholds. The ratings triggers are generally more than one level below CNA's current ratings. A downgrade below CNA's current ratings levels would also result in additional collateral requirements for derivative contracts for which CNA is in a liability position at any given point in time. At September 30, 2008, the total potential collateralization requirements amount to approximately $90 million.
- As of September 30, 2008, CNA held short term investments of approximately $710 million.

CNA has an effective shelf registration statement under which it may issue debt or equity securities.

Cumulative Senior Preferred Stock

Under an agreement dated October 27, 2008, CNA will issue, and Loews has agreed to purchase, $1.25 billion of CNA non-voting cumulative senior preferred stock ("Preferred Issue"). The terms of the Preferred Issue were approved by a special committee of independent members of CNA's Board of Directors. The principal terms of the Preferred Issue are as follows:

- The Preferred Issue is perpetual and is senior to CNA's common stock and any future preferred stock as to the payment of dividends and amounts payable upon any liquidation, dissolution or winding up.

- No dividends may be declared on CNA's common stock or any future preferred stock until the Preferred Issue has been repaid in full. As such, CNA has suspended its quarterly dividend payment.

- The Preferred Issue is not convertible into any other securities and may only be redeemed upon the mutual agreement of CNA and Loews.

- The Preferred Issue accrues cumulative dividends at an initial rate of 10.0% per year. On the fifth anniversary of the issuance and every five years thereafter, the dividend rate will increase to the higher of 10.0% or the then current 10-year U.S. Treasury yield plus 700 basis points.

- Dividends are payable quarterly and any dividends not paid when due will be compounded quarterly.

Dividends

On August 20, 2008, CNA paid a quarterly common stock dividend of $0.15 per share, to shareholders of record on August 6, 2008. In accordance with the terms of the Preferred Issue discussed above, CNA has suspended its quarterly common stock dividend payment.

Share Repurchases

CNA's Board of Directors has approved an authorization to purchase, in the open market or through privately negotiated transactions, CNA's outstanding common stock, as CNA's management deems appropriate. In the first quarter of 2008, CNA repurchased a total of 2,649,621 shares at an average price of $26.53 (including commission) per share. In accordance with the terms of the Preferred Issue discussed above, common stock repurchases by CNA are prohibited. No shares of CNA common stock were purchased during the year ended December 31, 2007.

Diamond Offshore

Cash and investments, net of receivables and payables, totaled $636 million at September 30, 2008, compared to $640 million at December 31, 2007. In 2008, Diamond Offshore paid cash dividends totaling $574 million, consisting of special cash dividends in 2008 of $522 million and its regular quarterly cash dividends of $52 million. In October of 2008, Diamond Offshore announced a special cash dividend of $1.875 per share and a regular cash dividend of $0.125 per share.

Cash provided by operating activities was $1,039 million in the first nine months of September 30, 2008, compared to $873 million in the comparable period of 2007. The increase in cash flow from operations is primarily due to an increase in net income and higher favorable adjustments for depreciation and other non-cash items, partially offset by an increase in net cash required to satisfy Diamond Offshore's working capital requirements. Trade and other receivables used $184 million during the first nine months of 2008 compared to providing $25 million during the first nine months of 2007 due to normal changes in the billing cycle combined with the effect of higher dayrates earned by Diamond Offshore's rigs subsequent to the third quarter of 2007.

The upgrade of the Ocean Monarch continues in Singapore with expected delivery of the upgraded rig late in the fourth quarter of 2008. Diamond Offshore expects to spend approximately $315 million to modernize this rig of which $254 million had been spent through September 30, 2008.

Construction of Diamond Offshore's two high-performance, premium jack-up rigs, the Ocean Scepter and the Ocean Shield has been completed. The Ocean Shield and Ocean Scepter are currently operating offshore Malaysia and Argentina, respectively. The aggregate cost for both rigs was approximately $320 million with an additional approximately $10 million spent to acquire drill pipe for the new units.

In September of 2008, the Ocean Tower sustained significant damage during Hurricane Ike, which impacted the Gulf of Mexico and the upper Texas and Louisiana Gulf coasts. The Ocean Tower lost its derrick, drill floor and drill floor equipment during the hurricane, and Diamond Offshore expects the drilling rig to be out of drilling service through the third quarter of 2009. Diamond Offshore has not yet made a final assessment of the estimated costs to repair the Ocean Tower nor has Diamond Offshore determined whether or not it will have an insurable loss related to this rig. Diamond Offshore is currently assessing damages to its remaining drilling fleet within the impacted areas, as well as its shorebase facilities in Louisiana; however, Diamond Offshore does not believe that there is a likelihood that it will have an insurable loss in relation to this portion of the drilling fleet and shorebase facilities.

Diamond Offshore estimates that capital expenditures in 2008 associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements will be approximately $540 million. In the nine months ended September 30, 2008, Diamond Offshore spent approximately $341 million for capital additions, including $111 million towards modification of certain of its rigs to meet contractual requirements.

As of September 30, 2008 and December 31, 2007, there were no loans outstanding under Diamond Offshore's $285 million credit facility; however, $58 million in letters of credit were issued under the credit facility as of September 30, 2008.

Diamond Offshore's liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures and debt service requirements. Cash required to meet Diamond Offshore's capital commitments is determined by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating Diamond Offshore's ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability

upgrades. It is the opinion of Diamond Offshore's management that its operating cash flows and cash reserves will be sufficient to meet these capital commitments; however, Diamond Offshore will continue to make periodic assessments based on industry conditions.

HighMount

Net cash flows provided by operating activities were $391 million for the nine months ended September 30, 2008, compared to $39 million in the prior year. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

The primary driver of cash used in investing activities was capital spending, inclusive of acquisitions. Cash used in investing activities in the nine months ended September 30, 2008 was $415 million and consisted primarily of additions to HighMount's property and equipment. HighMount spent $293 million and $47 million on capital expenditures for its drilling program in 2008 and 2007, respectively. HighMount is experiencing a higher capital cost environment attributable to increased costs for casing, tubing and diesel fuel.

At September 30, 2008, $115 million was outstanding under HighMount's $400 million revolving credit facility. In addition, $12 million in letters of credit have been issued, which reduced the available capacity under the facility to $273 million.

In September of 2008, Lehman Brothers Bank FSB ("Lehman") failed to fund their share (7.6%) of a short term borrowing under the revolving credit facility. All other lenders met their revolving commitments on the September of 2008 borrowing. If Lehman fails to fund future commitments under the revolving credit facility and is not replaced by another lender, the available capacity under the facility would be reduced to $252 million from $273 million.

Boardwalk Pipeline

At September 30, 2008 and December 31, 2007, cash and investments amounted to $23 million and $317 million, respectively. Funds from operations for the nine months ended September 30, 2008 and 2007 amounted to $276 million and $229 million. In the nine months ended September 30, 2008 and 2007, Boardwalk Pipeline's capital expenditures were $1.9 billion and $688 million, respectively.

Boardwalk Pipeline maintains a revolving credit facility, which has aggregate lending commitments of $1.0 billion. A financial institution which has a $50 million commitment under the revolving credit facility filed for bankruptcy protection in the third quarter of 2008 and has not funded its portion of Boardwalk Pipeline's borrowing requests since that time. As of September 30, 2008, Boardwalk Pipeline had $256 million of loans outstanding under the revolving credit facility of which the weighted-average interest rate on the borrowings was 3.0%. Any letters of credit previously issued by Boardwalk Pipeline under the facility expired in the third quarter of 2008. As of September 30, 2008, Boardwalk Pipeline was in compliance with all covenant requirements under its credit facility. Subsequent to September 30, 2008, Boardwalk Pipeline borrowed all of the remaining unfunded commitments under the credit facility (excluding the unfunded commitment of the bankrupt lender noted above), which increased borrowings to $958 million.

In August of 2007, Boardwalk Pipeline entered into a Treasury rate lock for a notional amount of $150 million to hedge the risk attributable to changes in the risk-free component of forward 10 year interest rates through February 1, 2008. The reference rate on the Treasury rate lock was 4.7%. On February 1, 2008, Boardwalk Pipeline paid the counterparty approximately $15 million to settle the Treasury rate lock. The Treasury rate lock was designated as a cash flow hedge; therefore, the loss will be recognized in Interest expense over ten years.

In March of 2008, Texas Gas Transmission, LLC, a wholly owned subsidiary of Boardwalk Pipeline, issued $250 million aggregate principal amount of 5.5% senior notes due 2013. The proceeds from this offering were primarily used to finance a portion of its expansion projects.

In June of 2008, Boardwalk Pipeline sold 10 million common units at a price of $25.30 per unit in a public offering and received net proceeds of $243 million. In addition, the Company contributed $5 million to maintain its 2% general partner interest.

In June of 2008, the Company purchased 22,866,667 of Boardwalk Pipeline’s newly created class B units representing limited partner interests (“class B units”) for $30 per class B unit, or an aggregate purchase price of $686 million. The Company owns approximately 70% of Boardwalk Pipeline, including 100% of Boardwalk Pipeline’s general partner which contributed an additional $14 million to Boardwalk Pipeline to maintain its 2% general partner interest. Boardwalk Pipeline intends to use the proceeds of $700 million to fund a portion of the costs of its ongoing expansion projects.

Beginning with the distribution in respect of the quarter ending September 30, 2008, the class B units share in quarterly distributions of available cash from operating surplus on a pari passu basis with Boardwalk Pipeline's common units, until each common unit and class B unit has received a quarterly distribution of $0.30. The class B units do not participate in quarterly distributions above $0.30 per unit. The class B units will be convertible into common units of Boardwalk Pipeline on a one-for-one basis at any time after June 30, 2013.

Maintenance capital expenditures were $24 million in the first nine months of 2008. Boardwalk Pipeline expects to fund the remainder of its 2008 maintenance capital expenditures of approximately $35 million from operating cash flows.

Boardwalk Pipeline has undertaken significant capital expansion projects, substantially all of which have been or are expected to be funded with proceeds from its equity and debt financings. Boardwalk Pipeline expects the total cost of these projects to be as follows:

(In millions)	Total Estimated Cost	Cash Invested through September 30, 2008
Southeast Expansion	$ 775	$ 635
Gulf Crossing Project	1,800	1,002
Fayetteville and Greenville Laterals	1,290	450
Total	$ 3,865	$ 2,087

Boardwalk Pipeline expects to incur expansion capital expenditures of approximately $0.9 billion in the remainder of 2008 and approximately $0.9 billion in 2009 and 2010 to complete its pipeline expansion projects, based upon current cost estimates. Boardwalk Pipeline has experienced cost increases in these projects and various factors could cause its costs to exceed that amount. Boardwalk Pipeline has financed its expansion capital costs through equity financings and the incurrence of debt, including sales of debt by it and its subsidiaries, borrowings under its revolving credit facility and available operating cash flow in excess of operating needs. To complete its announced projects, Boardwalk Pipeline anticipates it will need to issue as much as $1 billion in equity securities. As discussed in "MD&A – Consolidated Financial Results," the Company's Board of Directors approved a commitment to provide the equity capital to the extent that external funds are not available to Boardwalk Pipeline on acceptable terms. Boardwalk Pipeline anticipates that it will require a portion of this equity capital prior to the end of this year and the balance during the first half of 2009.

During the nine months ended September 30, 2008, Boardwalk Pipeline paid cash distributions of $186 million, including $129 million to us. In October of 2008, Boardwalk Pipeline declared a quarterly distribution of $0.475 per unit.

Loews Hotels

Funds from operations continue to exceed operating requirements. Cash and investments decreased to $60 million at September 30, 2008 from $73 million at December 31, 2007. The decrease is primarily due to $35 million of dividends paid to the Parent Company in the first quarter of 2008, partially offset by cash from operations. Funds for other capital expenditures and working capital requirements are expected to be provided from existing cash balances,

operations and advances or capital contributions from us.

Corporate and Other

Parent Company cash and investments, net of receivables and payables, at September 30, 2008 totaled $4.1 billion, as compared to $3.8 billion at December 31, 2007. The increase in net cash and investments is primarily due to the receipt of $1,053 million in dividends from subsidiaries (including $491 million from Lorillard) and the receipt of $263 million in connection with the sale of Bulova, partially offset by the $700 million purchase of Boardwalk Pipeline's class B units described in "Liquidity and Capital Resources – Boardwalk Pipeline," and $193 million of dividends paid to our shareholders.

As of September 30, 2008, there were 436,088,567 shares of Loews common stock outstanding. As discussed above, effective with the completion of the Separation of Lorillard, the former Carolina Group and former Carolina Group stock have been eliminated. As part of the Separation, we exchanged 65,445,000 shares of Lorillard common stock for 93,492,857 shares of Loews common stock. Depending on market and other conditions, we may purchase shares of our

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and our subsidiaries' outstanding common stock in the open market or otherwise. During the nine months ended September 30, 2008, we purchased 314,000 shares of Loews common stock at an aggregate cost of $12 million.

We have an effective Registration Statement on Form S-3 registering the future sale of an unlimited amount of our debt and equity securities.

We continue to pursue conservative financial strategies while seeking opportunities for responsible growth. These include the expansion of existing businesses, full or partial acquisitions and dispositions, and opportunities for efficiencies and economies of scale.

INVESTMENTS

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments, and are carried at fair value. Securities, included in our trading portfolio, short sales and derivative instruments are marked to market and reported as net investment income in the Consolidated Condensed Statements of Operations.

We enter into short sales and invest in certain derivative instruments that are used for asset and liability management activities, income enhancements to our portfolio management strategy and to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur. Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with our portfolio strategy.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized change in fair value of the derivative instruments recognized in the Consolidated Condensed Balance Sheets. We mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counter-parties. We occasionally require collateral from our derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

We do not believe that any of the derivative instruments we use are unusually complex, nor do the use of these instruments, in our opinion, result in a higher degree of risk.

The prolonged and severe disruptions in the public debt and equity markets, including among other things, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions, have resulted in the Company incurring significant realized and unrealized losses within the insurance and non-insurance portfolios.

Subsequent to September 30, 2008, through the date of this report, conditions in the public debt and equity markets have continued to deteriorate and pricing levels have continued to decline. As a result, depending on market conditions, the Company could incur substantial additional realized and unrealized losses in future periods.

Insurance

Net Investment Income

The significant components of CNA's net investment income are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Fixed maturity securities	$ 501	$ 501	$ 1,495	$ 1,523
Short-term investments	29	57	94	146
Limited partnerships	(77)	19	(70)	142
Equity securities	18	7	62	18
Income (loss) from trading portfolio (a)	(23)	(2)	(104)	41
Other	3	9	14	31
Total investment income	451	591	1,491	1,901
Investment expense	(12)	(11)	(42)	(42)
Net investment income	$ 439	$ 580	$ 1,449	$ 1,859

(a) The change in net unrealized losses on trading securities, included in net investment income, was $(6) million, $(12) million, $(21) million and $(9) million for the three and nine months ended September 30, 2008 and 2007.

Net investment income decreased by $141 million for the three months ended September 30, 2008 compared with the same period in 2007. This decrease was primarily driven by decreased results from limited partnerships, short term investments and the trading portfolio. The decreased returns from short term investments were caused by an overall decrease in rates and a partial shift to lower risk U.S. Treasury Bills and agency discount notes.

Net investment income decreased by $410 million for the nine months ended September 30, 2008 compared with the same period of 2007. The decrease was primarily driven by decreased results from limited partnerships, the trading portfolio and short term investments due to decreased interest rates. The decreased results from the trading portfolio were offset by a corresponding decrease in the policyholders' funds reserves supported by the trading portfolio, which is included in Insurance claims and policyholders' benefits on the Consolidated Condensed Statements of Operations.

The continued disruption and turmoil in the capital markets has had a negative impact on limited partnership returns. See additional discussion in Note 20 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The bond segment of the investment portfolio yielded 5.7% and 5.8% for the nine months ended September 30, 2008 and 2007.

Net Realized Investment Gains (Losses)

The components of CNA's net realized investment results are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Realized investment gains (losses):				
Fixed maturity securities:				
U.S. Government bonds	$ 34	$ 131	$ 20	$ 37
Corporate and other taxable bonds	(289)	(88)	(328)	(113)
Tax-exempt bonds	1	10	51	(43)
Asset-backed bonds	(61)	(81)	(218)	(191)
Redeemable preferred stock		(11)		(12)
Total fixed maturity securities	(315)	(39)	(475)	(322)
Equity securities	(376)	16	(405)	30
Derivative securities	35	(45)	47	62
Short term investments	4	5	11	5
Other invested assets, including dispositions	1	6	9	8
Total realized investment losses	(651)	(57)	(813)	(217)
Income tax benefit	228	19	286	75
Minority interest	44	5	54	16
Net realized investment losses	$ (379)	$ (33)	$ (473)	$ (126)

Net realized investment losses increased $346 million for the three month period and $347 million for the nine month period ended September 30, 2008 as compared with the same periods in 2007.

For the three months ended September 30, 2008, other-than-temporary impairment (OTTI) losses of $341 million, driven by credit issues, were recorded primarily in the non-redeemable preferred equity securities and corporate and other taxable bonds sectors. For the three months ended September 30, 2007, OTTI losses of $108 million were recorded primarily in the corporate and other taxable bonds and asset-backed bonds sectors.

For the three months ended September 30, 2008, CNA recorded net realized investment losses, including OTTI losses, of $178 million related to securities issued by Fannie Mae and Freddie Mac, $58 million related to securities issued by Washington Mutual, $57 million related to securities issued by Icelandic banks and $21 million related to securities issued by American International Group.

For the nine months ended September 30, 2008, OTTI losses of $489 million were recorded primarily in the non-redeemable preferred equity securities, corporate and other taxable bonds and asset-backed bonds sectors. For the nine months ended September 30, 2007, OTTI losses of $261 million were recorded primarily in the corporate and other taxable bonds and asset-backed bonds sectors.

The OTTI losses related to securities for which CNA did not assert an intent to hold until an anticipated recovery in value. The judgment as to whether an impairment is other-than-temporary incorporates many factors including the likelihood of a security recovering to cost, CNA's intent and ability to hold the security until recovery, general market conditions, specific sector views and significant changes in expected cash flows. CNA's decision to record an OTTI loss is primarily based on whether the security's fair value is likely to recover to its amortized cost in light of all of the

factors considered over the expected holding period. Current factors and market conditions that contributed to recording impairments in 2008 included the takeover of the government sponsored entities Freddie Mac and Fannie Mae, the failure of several financial institutions, continued significant credit spread widening in fixed income sectors, market volatility and uncertainty in capital markets world-wide and the lingering impact from the sub-prime residential mortgage concerns.

A primary objective in the management of the fixed maturity and equity portfolios is to optimize return relative to underlying liabilities and respective liquidity needs. CNA's views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions, and the domestic and global economic conditions, are some of the factors that enter into an investment decision. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on its views of a specific issuer or industry sector.

A further consideration in the management of the investment portfolio is the characteristics of the underlying liabilities and the ability to align the duration of the portfolio to those liabilities to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typically long term in nature, CNA segregates investments for asset/liability management purposes.

The segregated investments support liabilities primarily in the Life & Group Non-Core segment including annuities, structured benefit settlements and long term care products. The remaining investments are managed to support the Standard Lines, Specialty Lines and Other Insurance segments.

The effective durations of fixed income securities, short term investments, preferred stocks and interest rate derivatives are presented in the table below. Short term investments are net of securities lending collateral and accounts payable and receivable amounts for securities purchased and sold, but not yet settled.

	September 30, 2008		December 31, 2007	
	Fair Value	Effective Duration (In years)	Fair Value	Effective Duration (In years)
(In millions)				
Segregated investments	$ 8,182	10.2	$ 9,211	10.7
Other interest sensitive investments	26,339	4.1	29,406	3.3
Total	$ 34,521	5.6	$ 38,617	5.1

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures About Market Risk in Item 3 of this Report.

CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk) and credit risk (risk of nonperformance of underlying obligor). CNA also may enter into credit default swaps for the purpose of selling credit protection in order to replicate the risk of fixed income securities. Derivative securities are recorded at fair value at the reporting date. Derivatives are also utilized to mitigate market risk by purchasing Standard & Poor’s (“S&P”) 500 Index futures in a notional amount equal to the contract liability relating to Life & Group Non-Core indexed group annuity contracts. CNA provided cash collateral to satisfy margin deposits on exchange-traded derivatives totaling $12 million as of September 30, 2008. For over-the-counter derivative transactions CNA utilizes International Swaps and Derivatives Association Master Agreements that specify certain limits over which collateral is exchanged. As of September 30, 2008, CNA provided $27 million of cash collateral for over-the-counter derivative instruments.

CNA classifies its fixed maturity and equity securities as either available-for-sale or trading, and as such, they are carried at fair value. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which is included in Net investment income. Changes in fair value related to available-for-sale securities are reported as a component of Other comprehensive income (loss). Changes in fair value of trading securities are reported within Net investment income. As of January 1, 2008, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”. See Note 4 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for further information.

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The following table provides further detail of gross realized investment gains and losses, which include OTTI losses, on available-for-sale fixed maturity and equity securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(In millions)				
Net realized gains (losses) on fixed maturity and equity securities:				
Fixed maturity securities:				
Gross realized gains	$ 75	$ 181	$ 275	$ 324
Gross realized losses	(390)	(220)	(750)	(646)
Net realized losses on fixed maturity securities	(315)	(39)	(475)	(322)
Equity securities:				
Gross realized gains	10	30	21	50
Gross realized losses	(386)	(14)	(426)	(20)
Net realized gains (losses) on equity securities	(376)	16	(405)	30
Net realized losses on fixed maturity and equity securities	$ (691)	$ (23)	$ (880)	$ (292)

The following table provides details of the largest realized investment losses from sales of securities aggregated by issuer, including: the fair value of the securities at date of sale, the amount of the loss recorded and the period of time that the securities had been in an unrealized loss position prior to sale. The period of time that the securities had been in an unrealized loss position prior to sale can vary due to the timing of individual security purchases. Also included is a narrative providing the industry sector along with the facts and circumstances giving rise to the loss.

Issuer Description and Discussion	Fair Value at Date of Sale	Loss On Sale	Months in Unrealized Loss Prior To Sale (a)
(In millions)			
Various notes and bonds issued by the United States Treasury. Securities sold due to outlook on interest rates.	$ 10,309	$ 105	0-6
Non-redeemable preferred stock of Fannie Mae. The company is now in conservatorship.	2	48	7-12
Fixed income securities of an investment banking firm that filed bankruptcy causing the market value of the securities to decline rapidly.	13	40	0-12
Non-redeemable preferred stock of Freddie Mac. The company is now in conservatorship.	1	23	0-12
Mortgage backed pass-through securities were sold based on deteriorating performance of the underlying loans and the resulting rapid market price decline.	36	18	0-6

Fixed income securities of a provider of wireless and wire line communication services. Securities were sold to reduce exposure because the company announced a significant shortfall in operating results, causing significant credit deterioration which resulted in a rating downgrade.	37	16	0-6
Total	$ 10,398	$ 250	

(a) Represents the range of consecutive months the various positions were in an unrealized loss prior to sale.

Valuation and Impairment of Investments

The following table details the carrying value of CNA's general account investments:

(In millions of dollars)	September 30, 2008		December 31, 2007	
General account investments:				
Fixed maturity securities available-for-sale:				
U.S. Treasury securities and obligations of government agencies	$ 1,518	4.1%	$ 687	1.7%
Asset-backed securities	8,779	23.7	11,409	27.3
States, municipalities and political subdivisions-tax-exempt	6,966	18.8	7,675	18.4
Corporate securities	8,419	22.7	8,952	21.4
Other debt securities	3,381	9.1	4,299	10.3
Redeemable preferred stock	73	0.2	1,058	2.5
Total fixed maturity securities available-for-sale	29,136	78.6	34,080	81.6
Fixed maturity securities trading:				
U.S. Treasury securities and obligations of government agencies			5	
Asset-backed securities	14		31	0.1
Corporate securities	24		123	0.3
Other debt securities	2		18	
Total fixed maturity securities trading	40		177	0.4
Equity securities available-for-sale:				
Common stock	389	1.0	452	1.1
Preferred stock	572	1.6	116	0.3
Total equity securities available-for-sale	961	2.6	568	1.4
Short term investments available-for-sale	4,728	12.8	4,497	10.8
Short term investments trading	21	0.1	180	0.4
Limited partnerships	2,110	5.7	2,214	5.3
Other investments	63	0.2	73	0.1
Total general account investments	$ 37,059	100.0%	$ 41,789	100.0%

A significant judgment in the valuation of investments is the determination of when an OTTI has occurred. CNA analyzes securities on at least a quarterly basis. Part of this analysis is to monitor the length of time and severity of the decline below amortized cost for those securities in an unrealized loss position.

Investments in the general account had a net unrealized loss of $3,386 million at September 30, 2008 compared with a net unrealized gain of $74 million at December 31, 2007. The unrealized position at September 30, 2008 was comprised of a net unrealized loss of $3,243 million for fixed maturity securities, a net unrealized loss of $148 million for equity securities and a net unrealized gain of $5 million for short term investments. The unrealized position at December 31, 2007 was comprised of a net unrealized loss of $131 million for fixed maturity securities, a net unrealized gain of $202 million for equity securities and a net unrealized gain of $3 million for short term

investments. See Note 3 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for further detail on the unrealized position of our general account investment portfolio.

The following table provides the composition of fixed maturity securities available-for-sale in a gross unrealized loss position at September 30, 2008 by maturity profile. Securities not due at a single date are allocated based on weighted average life.

	Percent of Market Value	Percent of Unrealized Loss
Due in one year or less	1.0%	
Due after one year through five years	10.0	4.0%
Due after five years through ten years	14.0	11.0
Due after ten years	75.0	85.0
Total	100.0%	100.0%

CNA's non-investment grade fixed income securities available-for-sale at September 30, 2008 that were in a gross unrealized loss position had a fair value of $2,690 million. The following tables summarize the fair value and gross unrealized loss of non-investment grade securities categorized by the length of time those securities have been in a continuous unrealized loss position and further categorized by the severity of the unrealized loss position in 10.0% increments as of September 30, 2008 and December 31, 2007.

		Fair Value as a Percentage of Amortized Cost				
September 30, 2008	Estimated Fair Value	90-99%	80-89%	70-79%	<70%	Gross Unrealized Loss
(In millions)						
Fixed income securities:						
Non-investment grade:						
0-6 months	$ 1,037	$ 40	$ 40	$ 17	$ 25	$ 122
7-12 months	839	20	46	55	82	203
13-24 months	798	14	70	38	46	168
Greater than 24 months	16			4	7	11
Total non-investment grade	$ 2,690	$ 74	$ 156	$ 114	$ 160	$ 504
December 31, 2007						
Fixed income securities:						
Non-investment grade:						
0-6 months	$ 1,527	$ 56	$ 14	$ 3		$ 73
7-12 months	125	6	2			8
13-24 months	26	1	1	1	$ 1	4
Greater than 24 months	9	1	1			2
Total non-investment grade	$ 1,687	$ 64	$ 18	$ 4	$ 1	$ 87

As part of the ongoing OTTI monitoring process, CNA evaluated the facts and circumstances based on available information for each of the non-investment grade securities and determined that the securities presented in the above tables were temporarily impaired when evaluated at September 30, 2008 or December 31, 2007. This determination was based on a number of factors that CNA regularly consider including, but not limited to the issuers' ability to meet current and future interest and principal payments, an evaluation of the issuers' financial condition and near term prospects, CNA's assessment of the sector outlook and estimates of the fair value of any underlying collateral. In all

cases where a decline in value is judged to be temporary, CNA has the intent and ability to hold these securities for a period of time sufficient to recover the amortized cost of its investment through an anticipated recovery in the fair value of such securities or by holding the securities to maturity. In many cases, the securities held are matched to liabilities as part of ongoing asset/liability duration management. As such, CNA continually assesses its ability to hold securities for a time sufficient to recover any temporary loss in value or until maturity. CNA believes it has sufficient levels of liquidity so as to not impact the asset/liability management process.

CNA's equity securities classified as available-for-sale as of September 30, 2008 that were in a gross unrealized loss position had a fair value of $563 million and gross unrealized losses of $335 million. Under the same process as followed for fixed maturity securities, CNA monitors the equity securities for other-than-temporary declines in value. In all cases where a decline in value is judged to be temporary, CNA has the intent and ability to hold these securities for a

period of time sufficient to recover the cost of its investment through an anticipated recovery in the fair value of such securities. The majority of the unrealized losses in this category are related to non-redeemable preferred stock holdings of financial institutions. The holdings in this industry sector have been adversely impacted by significant credit spread widening brought on by the volatility in the capital markets in addition to the government sponsored entities Freddie Mac and Fannie Mae being placed in conservatorship for which CNA has recognized realized investment losses. The remainder of the holdings in this category are being monitored and CNA believes, given current facts and circumstances, are sufficiently capitalized and will recover in value.

Invested assets are exposed to various risks, such as interest rate and credit risk. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value of these assets, it is possible that changes in these risks in the near term, including increases in interest rates and further credit spread widening, could have an adverse material impact on our results of operations or equity.

The general account portfolio consists primarily of high quality bonds, 89.3% and 89.1% of which were rated as investment grade (rated BBB- or higher) at September 30, 2008 and December 31, 2007.

The following table summarizes the ratings of CNA's general account bond portfolio at carrying value.

	September 30, 2008		December 31, 2007	
(In millions of dollars)				
U.S. Government and affiliated agency securities	$ 1,515	5.2%	$ 816	2.5%
Other AAA rated	11,477	39.4	16,728	50.4
AA and A rated	7,518	25.8	6,326	19.1
BBB rated	5,481	18.8	5,713	17.2
Non-investment grade	3,112	10.8	3,616	10.8
Total	$ 29,103	100.0%	$ 33,199	100.0%

At September 30, 2008 and December 31, 2007, approximately 97.0% and 95.0% of the general account portfolio was issued by U.S. Government and affiliated agencies or was rated by S&P or Moody's Investors Service ("Moody's"). The remaining bonds were rated by other rating agencies or CNA.

Non-investment grade bonds, as presented in the tables above, are primarily high-yield securities rated below BBB- by bond rating agencies, as well as other unrated securities that, according to CNA's analysis, are below investment grade. High-yield securities generally involve a greater degree of risk than investment grade securities. However, expected returns should compensate for the added risk. This risk is also considered in the interest rate assumptions for the underlying insurance products.

The carrying value of securities that are either subject to trading restrictions or trade in illiquid private placement markets at September 30, 2008 was $392 million, which represents 1.1% of CNA's total investment portfolio. These securities were in a net unrealized gain position of $164 million at September 30, 2008.

Short Term Investments

The carrying value of the components of the general account short term investment portfolio is presented in the following table:

(In millions)	September 30, 2008	December 31, 2007
Short term investments available-for-sale:		
Commercial paper	$ 1,035	$ 3,040
U.S. Treasury securities	2,192	577
Money market funds	121	72
Other, including collateral held related to securities lending	1,380	808
Total short term investments available-for-sale	4,728	4,497
Short term investments trading:		
Commercial paper		35
Money market funds	21	139
Other		6
Total short term investments trading	21	180
Total short term investments	$ 4,749	$ 4,677

Securities Lending Activities

CNA lends securities to unrelated parties, primarily major brokerage firms through two programs: an internally managed program and an external program managed by CNA's lead custodial bank as agent. The securities lending program is for the purpose of enhancing income. CNA does not lend securities for operating or financing purposes. Borrowers of these securities must deposit and maintain collateral with CNA of at least 102% of the fair value of the securities loaned, adjusted to fair value daily, regardless of whether the collateral is cash or securities. Only cash collateral is accepted for CNA's internally managed program and is typically invested in the highest quality commercial paper with maturities of less than 7 days. U.S. Government, agencies or Government National Mortgage Association securities are accepted as non-cash collateral for the external program. CNA maintains effective control over all loaned securities and, therefore, continues to report such securities as Fixed maturity securities in the Consolidated Condensed Balance Sheets.

The lending programs are matched-book programs where the collateral is invested to substantially match the term of the loan which limits risk. In accordance with CNA lending agreements, securities on loan are returned immediately to CNA upon notice. The fair value of collateral held related to securities lending included in other short term investments was $53 million at December 31, 2007. There was no collateral held at September 30, 2008. The fair value of non-cash collateral was $543 million and $273 million at September 30, 2008 and December 31, 2007.

Asset-backed and Sub-prime Mortgage Exposure

The following table provides detail of the Company's exposure to asset-backed and sub-prime mortgage related securities as of September 30, 2008.

September 30, 2008	MBS (a)	CMO (b)	ABS (c)	CDO (d)	Total	Percent of Total Security Type	Percent of Total Investments
		Security Type					
(In millions of dollars)							
U.S. government agencies	$ 448	$ 1,061			$ 1,509	16.9%	3.6%
AAA		4,566	$ 1,929	$ 9	6,504	72.4	15.4
AA		42	294	25	361	4.0	0.9
A		1	107	71	179	2.0	0.4
BBB		33	291	10	334	3.7	0.8
Non-investment grade and equity tranches		27	43	23	93	1.0	0.2
Total fair value	$ 448	$ 5,730	$ 2,664	$ 138	$ 8,980	100.0%	21.3%
Total amortized cost	$ 454	$ 6,603	$ 3,018	$ 361	$ 10,436		
Percent of total fair value by security type	5.0%	63.8%	29.7%	1.5%	100.0%		
Sub-prime (included above)							
Fair value			$ 1,371	$ 7	$ 1,378	15.3%	3.3%
Amortized cost			1,535	32	1,567	15.0%	3.7%
Alt-A (included above)							
Fair value		$ 1,084		$ 4	$ 1,088	12.1%	2.6%
Amortized cost		1,268		8	1,276	12.2%	3.0%

(a) Mortgage-backed securities ("MBS")
(b) Collateralized mortgage obligations ("CMO")
(c) Asset-backed securities ("ABS")
(d) Collateralized debt obligations ("CDO")

Included in our fixed maturity securities at September 30, 2008 were $8,980 million of asset-backed securities, at fair value, which represents 21.3% of total invested assets. Of the total asset-backed securities, 89.3% were U.S. Government Agency issued or AAA rated. Of the total invested assets, $1,378 million or 3.3% have exposure to sub-prime residential mortgage (sub-prime) collateral, as measured by the original deal structure, while 2.6% have exposure to Alternative A (Alt-A) collateral. Of the securities with sub-prime exposure, approximately 97.0% were rated investment grade, while 98.0% of the Alt-A securities were rated investment grade. We believe that each of these securities would be rated investment grade even without the benefit of any applicable third-party guarantees. In addition to sub-prime exposure in fixed maturity securities, there is exposure of approximately $41 million through limited partnerships and sold credit default swaps which provide the buyer protection against declines in sub-prime indices.

All asset-backed securities in an unrealized loss position are reviewed as part of the ongoing OTTI process, which resulted in OTTI losses of $17 million and $122 million after tax and minority interest for the three and nine months ended September 30, 2008. Included in these OTTI losses were $15 million and $99 million after tax related to securities with sub-prime and Alt-A exposure. Our review of these securities includes an analysis of cash flow modeling under various default scenarios, the seniority of the specific tranche within the deal structure, the composition of the collateral and the actual default experience. Given current market conditions and the specific facts and circumstances related to our individual sub-prime and Alt-A exposures, we believe that all remaining unrealized losses are temporary in nature. Continued deterioration in these markets beyond our current expectations may cause us to reconsider and record additional OTTI losses.

ACCOUNTING STANDARDS

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.” This standard will improve, simplify, and converge internationally the reporting of 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. Moreover, SFAS No. 160 requires that transactions between an entity and noncontrolling interests be treated as equity transactions. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. As a result, after January 1, 2009, the Company’s deferred gains related to the issuances of Boardwalk Pipeline common units ($536 million at September 30, 2008) will be recognized in the shareholders’ equity section of the Consolidated Condensed Balance Sheets as opposed to the Consolidated Condensed Statements 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. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the disclosure requirements of SFAS No. 161.

In May of 2008, the FASB issued FASB Staff Position (“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. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact that adopting FSP No. APB 14-1 will have on our results of operations and equity.

In September of 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of SFAS No. 133 and FASB Interpretation (“FIN”) No. 45; and Clarification of the Effective Date of SFAS No. 161.” This FSP requires disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instruments and requires additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of this FSP that amend SFAS No. 133 and FIN No. 45 shall be effective for reporting periods ending after November 15, 2008. We are currently evaluating the disclosure requirements of this FSP.

FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this Report as well as some statements in periodic press releases and some oral statements made by our officials and our subsidiaries during presentations about us, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimat “believe,” “will be,” “will continue,” “will likely result,” and similar expressions. In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, which may be provided by management are also forward-looking statements as defined by the Act.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected. These risks and uncertainties include, among others:

Risks and uncertainties primarily affecting us and our insurance subsidiaries

- the impact of competitive products, policies and pricing and the competitive environment in which CNA operates, including changes in CNA's book of business;

- product and policy availability and demand and market responses, including the level of CNA's ability to obtain rate increases and decline or non-renew under priced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

- development of claims and the impact on loss reserves, including changes in claim settlement policies;
- the performance of reinsurance companies under reinsurance contracts with CNA;
- the effects upon insurance markets and upon industry business practices and relationships of current litigation, investigations and regulatory activity by the New York State Attorney General's office and other authorities concerning contingent commission arrangements with brokers and bid solicitation activities;
- legal and regulatory activities with respect to certain non-traditional and finite-risk insurance products, and possible resulting changes in accounting and financial reporting in relation to such products, including our restatement of financial results in May of 2005 and CNA's relationship with an affiliate, Accord Re Ltd., as disclosed in connection with that restatement;
- regulatory limitations, impositions and restrictions upon us, including the effects of assessments and other surcharges for guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies and other financial industry participants under the Emergency Economic Stabilization Act of 2008 recoupment provisions;
- weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow;
- regulatory requirements imposed by coastal state regulators in the wake of hurricanes or other natural disasters, including limitations on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessments to fund any shortfalls arising from the inability of quasi-governmental insurers to pay claims;
- man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;
- the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to CNA's ability to contain its terrorism exposure effectively, notwithstanding the extension until 2014 of the Terrorism Risk Insurance Act of 2002;
- the occurrence of epidemics;
- exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint and other mass torts;
- the sufficiency of CNA's loss reserves and the possibility of future increases in reserves;
- regulatory limitations and restrictions, including limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;
- the risks and uncertainties associated with CNA's loss reserves as outlined under "Results of Operations by Business Segment – CNA Financial – Reserves – Estimates and Uncertainties" in the MD&A portion of our Annual Report on Form 10-K for the year ended December 31, 2007;

- the possibility of further changes in CNA's ratings by ratings agencies, including the inability to access certain markets or distribution channels, and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices;

- the effects of corporate bankruptcies and accounting errors on capital markets, as well as on the markets for directors and officers and errors and omissions coverages, along with the effects of liquidity crises that may impact the types, liquidity and valuation of investments that may be held by insurers and their holding companies;

- general economic and business conditions, including inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;
- the effectiveness of current initiatives by claims management to reduce the loss and expense ratios through more efficacious claims handling techniques; and
- changes in the composition of CNA's operating segments.

Risks and uncertainties primarily affecting us and our energy subsidiaries

- the impact of changes in demand for oil and natural gas and oil and gas price fluctuations on E&P activity;
- costs and timing of rig upgrades;
- utilization levels and dayrates for offshore oil and gas drilling rigs;
- timing and duration of required regulatory inspections for offshore oil and gas drilling rigs;
- the availability and cost of insurance, and the risks associated with self-insurance, covering drilling rigs;
- regulatory issues affecting natural gas transmission, including ratemaking and other proceedings particularly affecting our gas transmission subsidiaries;
- the ability of Boardwalk Pipeline to renegotiate, extend or replace existing customer contracts on favorable terms;
- the successful development and projected cost and timing of planned expansion projects as well as the financing of such projects; and
- the development of additional natural gas reserves and changes in reserve estimates.

Risks and uncertainties affecting us and our subsidiaries generally

- general economic and business conditions;
- changes in financial markets (such as interest rate, credit, currency, commodities and equities markets) or in the value of specific investments including the short and long-term effects of losses produced or threatened in relation to sub-prime residential mortgage-backed securities (sub-prime) including claims under directors and officers and errors and omissions coverages in connection with market disruptions recently experienced in relation to the sub-prime crisis and financial markets and credit crisis in the U.S. economy;
- changes in domestic and foreign political, social and economic conditions, including the impact of the global war on terrorism, the war in Iraq, the future outbreak of hostilities and future acts of terrorism;
- potential changes in accounting policies by the FASB, the SEC or regulatory agencies for any of our subsidiaries' industries which may cause us or our subsidiaries to revise their financial accounting and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries' business or financial performance;
- the impact of regulatory initiatives and compliance with governmental regulations, judicial rulings and jury verdicts;

- the results of financing efforts; by us and our subsidiaries, including any additional investments by us in our subsidiaries;
- the closing of any contemplated transactions and agreements;
- the successful integration, transition and management of acquired businesses;
- the outcome of pending or future litigation, including any tobacco-related suits to which we are or may become a party;

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- the availability of indemnification by Lorillard and its subsidiaries for any tobacco-related liabilities that we may incur as a result of tobacco-related lawsuits or otherwise, as provided in the Separation Agreement; and

- the impact of the Separation on our future financial position, results of operations, cash flows and risk profile.

Developments in any of these areas, which are more fully described elsewhere in this Report, could cause our results to differ materially from results that have been or may be anticipated or projected. Forward-looking statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are a large diversified holding company. As such, we and our subsidiaries have significant amounts of financial instruments that involve market risk. Our measure of market risk exposure represents an estimate of the change in fair value of our financial instruments. Changes in the trading portfolio are recognized in the Consolidated Condensed Statements of Operations. Market risk exposure is presented for each class of financial instrument held by us at September 30, 2008 and December 31, 2007, assuming immediate adverse market movements of the magnitude described below. We believe that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since our investment portfolio is subject to change based on our portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

Exposure to market risk is managed and monitored by senior management. Senior management approves our overall investment strategy and has responsibility to ensure that the investment positions are consistent with that strategy with an acceptable level of risk. We may manage risk by buying or selling instruments or entering into offsetting positions.

Interest Rate Risk – We have exposure to interest rate risk arising from changes in the level or volatility of interest rates. We attempt to mitigate our exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. We monitor our sensitivity to interest rate risk by evaluating the change in the value of our financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates by varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of our investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of our financial instruments to selected changes in market rates and prices which we believe are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of our interest sensitive assets and liabilities that were held on September 30, 2008 and December 31, 2007 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly, the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on our earnings or shareholders' equity. Further, the computations do not contemplate any actions we could undertake in response to changes in interest rates.

Our debt is denominated in U.S. Dollars and has been primarily issued at fixed rates, therefore, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $292 million and $333 million at September 30, 2008 and December 31, 2007, respectively. A 100 basis point decrease would result in an increase in market value of $320 million and $350 million at September 30, 2008 and December 31, 2007, respectively. HighMount has entered into interest rate swaps for a notional amount of $1.6 billion to hedge its exposure to fluctuations in LIBOR. These swaps effectively fix the interest rate at 5.8%. Gains or losses from derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the hedged transaction.

Equity Price Risk – We have exposure to equity price risk as a result of our investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured

assuming an instantaneous 25% decrease in the underlying reference price or index from its level at September 30, 2008 and December 31, 2007, with all other variables held constant.

Foreign Exchange Rate Risk – Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. We have foreign exchange rate exposure when we buy or sell foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by our asset/liability matching strategy and through the use of futures for those instruments which are not matched. Our foreign transactions are primarily denominated in Australian dollars, Canadian dollars, British pounds, Japanese yen and the European Monetary Unit. The sensitivity analysis assumes an instantaneous 20% decrease in the foreign currency exchange rates versus the U.S. dollar from their levels at September 30, 2008 and December 31, 2007, with all other variables held constant.

Commodity Price Risk – We have exposure to price risk as a result of our investments in commodities. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous increase of 20% from their levels at September 30, 2008 and December 31, 2007. The impact of a change in commodity prices on HighMount’s non-trading commodity-based financial derivative instruments at a point in time is not necessarily representative of the results that will be realized when such contracts are ultimately settled. Net losses from commodity derivative instruments used for hedging purposes, to the extent realized, will generally be offset by recognition of the underlying hedged transaction, such as revenue from sales.

Credit Risk – We are exposed to credit risk relating to the risk of loss resulting from the nonperformance by a customer of its contractual obligations. Boardwalk Pipeline has exposure related to receivables for services provided, as well as volumes owed by customers for imbalances or gas lent by Boardwalk Pipeline to them, generally under parking and lending services and no notice services. Boardwalk Pipeline maintains credit policies intended to minimize risk and actively monitors these policies. Natural gas price volatility has increased dramatically in recent years, which has materially increased Boardwalk Pipeline’s credit risk related to gas loaned to customers. As of September 30, 2008, the amount of gas loaned out by Boardwalk Pipeline was approximately 7.6 trillion British thermal units (“TBtu”) and the amount considered an imbalance was approximately 4.2 TBtu. Assuming an average market price during September 2008 of $7.54 per million British thermal units (“MMBtu”), the market value of gas loaned out and considered an imbalance at September 30, 2008, would have been approximately $89 million. If any significant customer of Boardwalk Pipeline should have credit or financial problems resulting in a delay or failure to repay the gas they owe to Boardwalk Pipeline, this could have a material adverse effect on our financial condition, results of operations and cash flows.

The following tables present our market risk by category (equity markets, interest rates, foreign currency exchange rates and commodity prices) on the basis of those entered into for trading purposes and other than trading purposes.

Trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
(In millions)				
Equity markets (1):				
Equity securities (a)	$ 502	$ 744	$ (126)	$ (186)
Futures - short			83	102
Options - purchased	50	35	3	1
-written	(65)	(16)	(67)	(5)
Short sales	(83)	(84)	21	21
Limited partnership investments	241	443	(26)	(30)
Interest rate (2):				
Futures – long			(41)	(9)
Fixed maturities – long	597	582	(1)	(4)
Fixed maturities – short		(16)		2
Short term investments	3,281	2,628		
Other derivatives	(2)		1	(3)

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% and (2) an increase in interest rates of 100 basis points. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

(a) A decrease in equity prices of 25% would result in market risk amounting to $(171) at December 31, 2007. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
(In millions)				
Equity markets (1):				
Equity securities:				
General accounts (a)	$ 964	$ 568	$ (241)	$ (142)
Separate accounts	35	45	(9)	(11)
Limited partnership investments	1,966	1,878	(110)	(106)
Interest rate (2):				
Fixed maturities (a)(b)	29,136	34,081	(1,747)	(1,900)
Short term investments (a)	5,392	5,602	(16)	(4)
Other invested assets	7	8		
Interest rate swaps and other (c)	(76)	(88)	60	81
Other derivative securities	58	38	6	33
Separate accounts (a):				
Fixed maturities	376	419	(17)	(20)
Short term investments	14	6		
Debt	(6,997)	(7,204)		
Commodities (3):				
Forwards – short (c)	86	11	(119)	(119)
Forwards – long				3
Options – written	1		(1)	

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25%, (2) an increase in interest rates of 100 basis points and (3) an increase in commodity prices of 20%.

(a) Certain securities are denominated in foreign currencies. An assumed 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(293) and $(317) at September 30, 2008 and December 31, 2007, respectively.

(b) Certain fixed maturities positions include options embedded in convertible debt securities. A decrease in underlying equity prices of 25% would result in market risk amounting to $(7) and $(106) at September 30, 2008 and December 31, 2007, respectively.

(c) The market risk at September 30, 2008 and December 31, 2007 will generally be offset by recognition of the underlying hedged transaction.

Item 4. Controls and Procedures.

The Company maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Exchange Act"), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions regarding required disclosure.

The Company's principal executive officer ("CEO") and principal financial officer ("CFO") undertook an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. The CEO and CFO have concluded that the Company's controls and procedures were effective as of September 30, 2008.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended September 30, 2008, that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Information with respect to legal proceedings is incorporated by reference to Note 16 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2007 includes a detailed discussion of certain material risk factors facing our company. The information presented below describes updates and additions to such risk factors and should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

We could have a liability in the future for tobacco-related lawsuits.

As a result of our ownership of Lorillard prior to the Separation, which was consummated in June 2008, from time to time we have been named as a defendant in tobacco-related lawsuits. We are currently a defendant in four such lawsuits and could be named as a defendant in additional tobacco-related suits, notwithstanding the completion of the Separation. In the Separation Agreement entered into between us and Lorillard and its subsidiaries in connection with the Separation, Lorillard and each of its subsidiaries has agreed to indemnify us for liabilities related to Lorillard's tobacco business, including liabilities that we may incur for current and future tobacco-related litigation against us. An adverse decision in a tobacco-related lawsuit against us could, if the indemnification is deemed for any reason to be unenforceable or any amounts owed to us thereunder are not collectible, in whole or in part, have a material adverse effect on our financial condition, results of operations and equity. We do not expect that the Separation will alter the legal exposure of either entity with respect to tobacco-related claims. We do not believe that we had or have any liability for tobacco-related claims, and we have never been held liable for any such claims.

The Emergency Economic Stabilization Act of 2008 may impact the fair value determinations of CNA's invested assets and may lead to regulatory limitations, impositions and restrictions upon CNA.

One of the main features of the Emergency Economic Stabilization Act of 2008 ("the Act"), which took effect October 3, 2008, is the establishment of the Troubled Assets Relief Program ("TARP"). Although CNA is eligible to participate in TARP, CNA has not yet decided whether to tender its eligible securities. Regardless of CNA's participation decision, several provisions of the Act could affect CNA. Purchase prices under TARP could impact marketplace fair values of similar securities, thereby impacting CNA's fair value determinations. Also, the mandatory plan adopted to recoup the net losses of TARP within the next five years may target financial institutions such as CNA and may lead to regulatory limitations, impositions and future assessments. All of these factors may have an adverse material impact on CNA's business, insurer financial strength and debt ratings, and our results of operations and equity.

We provide capital to our subsidiaries from time to time, which reduces cash balances at the parent company.

We are a holding company and get substantially all of our income and cash flow from our operating subsidiaries. Certain of our operating subsidiaries require substantial amounts of capital from time to time to fund expansions, enhance capital or to satisfy rating agency or regulatory requirements or for other reasons. Sufficient capital to satisfy these needs may not be available to our subsidiaries when needed on acceptable terms from the capital markets or other third parties. In such cases, we have in the past, and may in the future, provide substantial amounts of debt or equity capital to our subsidiaries, which may not be on market terms. Any such investments reduce the amount of cash available at the parent company which might otherwise be used to fund acquisitions, share buybacks, dividends or

other investments or to fund other capital requirements of our subsidiaries. Significantly reduced levels of cash at the parent company could also result in a downgrade of our ratings by the major credit rating agencies which could have a material adverse effect on our results of operations and equity.

Continued deterioration in the public debt and equity markets could lead to additional investment losses.

The prolonged and severe disruptions in the public debt and equity markets, including among other things, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions, have resulted in significant realized and unrealized losses in the investment portfolios of CNA and the parent company. For the nine months ended September 30, 2008 we incurred substantial realized and unrealized investment losses, as described in MD&A under Item 2 of this report. Subsequent to September 30, 2008, through the date of this report, conditions in the public debt and equity markets have continued to deteriorate and pricing levels have continued to decline. As a result,

depending on market conditions, we could incur substantial additional realized and unrealized losses in future periods, which could have a material adverse impact on our financial condition, results of operations and equity.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Items 2(a) and (b) are inapplicable.

(c) STOCK REPURCHASES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
September 1, 2008 - September 30, 2008	314,000	$ 38.85	N/A	N/A

Item 6. Exhibits.

xhibit

he Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)

he Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)

he Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act

he Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act c

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

LOEWS CORPORATION
(Registrant)

Dated: October 29, 2008

By: /s/ Peter W. Keegan
PETER W. KEEGAN
Senior Vice President and
Chief Financial Officer
(Duly authorized officer
and principal financial
officer)