SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from ____________ to ____________

Commission file number 1-6541

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

Delaware	13-2646102
(State of other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

667 MADISON AVENUE, NEW YORK, N.Y. 10021-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Class	Outstanding at May 3, 2002
Common Stock, $1.00 par value	189,032,500 shares
Carolina Group Stock, $.01 par value	40,250,000 shares

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions of dollars)	March 31, 2002	December 31, 2001
Assets:		
Investments:		
Fixed maturities, amortized cost of $32,242.1 and $31,004.1	$31,137.3	$31,191.0
Equity securities, cost of $1,527.6 and $1,457.3	1,727.1	1,646.0
Other investments	1,616.5	1,587.3
Short term investments	6,767.6	6,734.8
Total investments	41,248.5	41,159.1
Cash	129.2	181.3
Receivables-net	19,948.0	19,452.8
Property, plant and equipment-net	3,004.1	3,075.3
Deferred income taxes	759.5	607.0
Goodwill and other intangible assets-net	307.2	323.8
Other assets	4,609.2	4,229.8
Deferred acquisition costs of insurance subsidiaries	2,466.6	2,423.9
Separate account business	3,691.1	3,798.1
Total assets	$76,163.4	$75,251.1
Liabilities and Shareholders' Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$30,880.4	$31,266.2
Future policy benefits	7,054.8	7,306.4
Unearned premiums	4,960.3	4,505.3
Policyholders' funds	540.1	546.0
Total insurance reserves	43,435.6	43,623.9
Payable for securities purchased	2,261.2	1,365.6
Securities sold under agreements to repurchase	1,171.2	1,602.4
Long-term debt, less unamortized discount	5,924.4	5,920.3
Reinsurance balances payable	2,881.7	2,722.9
Other liabilities	4,268.6	4,595.2
Separate account business	3,691.1	3,798.1
Total liabilities	63,633.8	63,628.4
Minority interest	1,951.9	1,973.4
Shareholders' equity	10,577.7	9,649.3
Total liabilities and shareholders' equity	$76,163.4	$75,251.1

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Income

(In millions, except per share data)	Three Months Ended March 31, 2002	2001
Revenues:		
Insurance premiums	$2,836.1	$2,496.8
Investment income, net of expenses	463.1	583.3
Investment gains	23.5	407.5
Manufactured products (including excise taxes of $180.4 and $150.7)	1,004.5	937.4
Other	459.2	503.9
Total	4,786.4	4,928.9
Expenses:		
Insurance claims and policyholders' benefits	2,310.1	2,069.4
Amortization of deferred acquisition costs	440.4	423.6
Cost of manufactured products sold	607.4	563.7
Other operating expenses	868.6	862.4
Interest	76.5	86.3
Total	4,303.0	4,005.4
	483.4	923.5
Income tax	171.5	328.4
Minority interest	28.0	69.7
Total	199.5	398.1
Income from continuing operations	283.9	525.4
Discontinued operations net	(31.0)	0.2
Cumulative effect of changes in accounting principles net		(53.3)
Net income	$ 252.9	$ 472.3
Net income attributable to:		
Loews Common Stock:		
Income from continuing operations	$ 265.9	$ 525.4
Discontinued operations net	(31.0)	0.2
Cumulative effect of change in accounting principles net		(53.3)
Loews Common Stock	234.9	472.3
Carolina Group Stock	18.0	
Total	$ 252.9	$ 472.3
Income per Loews common share:		
Income from continuing operations	$ 1.39	$ 2.67
Discontinued operations	(0.16)	
Cumulative effect of changes in accounting principles		(0.27)
Net income	$ 1.23	$ 2.40
Net income per Carolina Group common share	$ 0.45	
Weighted average number of shares outstanding:		
Loews Common Stock	191.09	197.23
Carolina Group Stock	40.25	

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Three Months Ended March 31, 2002	2001
Operating Activities:		

Net income	$ 252.9	$ 472.3
Adjustments to reconcile net income to net cash used by operating activities net	80.4	(339.2)
Discontinued operations	31.0	
Cumulative effect of changes in accounting principles		53.3
Changes in assets and liabilities net:		
Reinsurance receivable	(155.9)	(140.1)
Other receivables	292.1	(154.0)
Prepaid reinsurance premiums	(326.0)	(219.8)
Deferred acquisition costs	(38.7)	(25.7)
Insurance reserves and claims	181.5	(265.8)
Reinsurance balances payable	159.0	583.9
Other liabilities	(337.3)	(90.4)
Trading securities	(290.2)	160.2
Other net	16.4	(114.1)
	(134.8)	(79.4)
Investing Activities:		
Purchases of fixed maturities	(16,795.2)	(27,932.0)
Proceeds from sales of fixed maturities	15,870.8	21,907.6
Proceeds from maturities of fixed maturities	661.0	6,339.1
Securities sold under agreements to repurchase	(431.3)	1,428.9
Purchase of equity securities	(333.4)	(312.2)
Proceeds from sales of equity securities	285.3	305.3
Change in short term investments	(20.2)	(1,407.2)
Purchases of property, plant and equipment	(100.2)	(102.3)
Proceeds from sales of property, plant and equipment	90.3	261.0
Change in other investments	(52.1)	(215.0)
	(825.0)	273.2
Financing Activities:		
Dividends paid to Loews shareholders	(28.7)	(24.6)
Dividends paid to minority interests	(7.7)	(7.9)
Purchases of Loews treasury shares	(104.5)	
Purchases of treasury shares by subsidiaries	(16.9)	
Principal payments on long term debt	(0.2)	(154.0)
Receipts credited to policyholders	0.1	0.8
Withdrawals of policyholders account balances	(13.5)	(20.8)
Issuance of Loews Common Stock	0.4	
Issuance of Carolina Group Stock	1,070.5	
Other	8.2	(0.6)
	907.7	(207.1)
Net change in cash	(52.1)	(13.3)
Cash, beginning of period	181.3	195.2
Cash, end of period	$ 129.2	$ 181.9

See accompanying Notes to Consolidated Condensed Financial Statements.

(Dollars in millions, except per share data)

1. Basis of Presentation

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock, referred to as Carolina Group stock, for net proceeds of $1,070.5. This stock is designed to track the performance of the Carolina Group, which consists of: the Company's ownership interest in its wholly owned subsidiary, Lorillard, Inc.; $2,500.0 of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; any and all liabilities, costs and expenses of Loews Corporation and Lorillard, Inc. arising out of the past, present or future business of Lorillard, Inc., and all net income or net losses from the assets and liabilities attributed to the Carolina Group. Each outstanding share of Carolina Group stock has 1/10 of a vote per share. Holders of Carolina Group stock are common stockholders of Loews Corporation.

The issuance of Carolina Group stock has resulted in a two class common stock structure for Loews Corporation. The outstanding Carolina Group stock represents a 23.17% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all Loews's assets and liabilities other than the assets and liabilities attributable to the Carolina Group, and includes as an asset the notional, intergroup debt of the Carolina Group, and a 76.83% intergroup interest in the Carolina Group.

Reference is made to the Notes to Consolidated Financial Statements in the 2001 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

Accounting Changes

In 2002, the Company implemented the provisions of the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." EITF Issue No. 00-14 addresses the recognition, measurement, and income statement characterization of sales incentives, including rebates, coupons and free products or services, offered voluntarily by a vendor without charge to the customer that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. EITF Issue No. 00-25 addresses whether consideration from a vendor to a reseller of the vendor's products is (i) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (ii) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. As a result of both issues, promotional expenses historically included in other operating expenses were reclassified to cost of manufactured products sold, or as reductions of revenues from manufactured products. Prior period amounts were reclassified for comparative purposes. Adoption of these provisions did not have a material impact on the financial position or results of operations of the Company.

In June 2001, the FASB issued a Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach. Amortization of goodwill and intangible assets with indefinite lives, including goodwill recorded in past business combinations, ceased effective January 1, 2002, upon adoption of SFAS No. 142. As permitted by SFAS No. 142, the Company will complete goodwill and other acquired intangible asset impairment tests in 2002. Any resulting asset impairments will be recorded as a cumulative effect of a change in accounting principle as of January 1, 2002.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 essentially applies one accounting model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. Adoption of these provisions did not have a material impact on the financial position or results of operations of the Company; however, it did impact the income statement presentation of certain operations sold in 2002.

In the first quarter of 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS No. 133). The initial adoption of SFAS No. 133 did not have a significant impact on the equity of the Company; however, adoption of SFAS No. 133 resulted in a charge to 2001 earnings of $53.3, net of income taxes and minority interest of $33.0 and $8.0, respectively, to reflect the change in accounting principle. Of this transition amount, approximately $50.5, net of income taxes and minority interest, related to CNA Financial Corporation's ("CNA"), an 89% owned subsidiary, investments and investment-related derivatives. Because CNA already carried its investment and investment-related derivatives at fair value through other comprehensive income, there was an equal and offsetting favorable adjustment of $50.5 to shareholders' equity (accumulated other comprehensive income). The remainder of the transition adjustment is attributable to collateralized debt obligation products that are derivatives under SFAS No. 133. See Note 4 of the Notes to Consolidated Financial Statements in the Company's 2001 Annual Report on Form 10-K.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long lived assets that result from the acquisition, construction, development and/or the normal operation of a long lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption of these provisions will not have a material impact on the financial position or results of operations of the Company.

Comprehensive Income

Comprehensive income includes all changes to shareholders' equity, including net income, except those resulting from investments by shareholders and distributions to shareholders. For the three months ended

March 31, 2002 and 2001, comprehensive income totaled $11.4 and $624.9, respectively. Comprehensive income includes net income, unrealized appreciation (depreciation) and foreign currency translation gains or losses.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2002.

2. Earnings Per Share Attributable to Loews Common Stock and Carolina Group Stock

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 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. At March 31, 2002 and 2001, earnings per common share assuming dilution is the same as basic earnings per share because the impact of securities that could potentially dilute basic earnings per common share is insignificant.

Earnings per share for each class of common stock was determined based on the attribution of earnings to each class of common stock for the period divided by the weighted average number of common shares for each class of common stock outstanding during the period.

The attribution of earnings to each class of common stock, for the three months ended March 31, 2002, was as follows:

Carolina Group Stock:	
Carolina Group net income	$150.7
Less net income for January 2002	73.1
Income available to Carolina Group Stock	77.6
Economic interest of the Carolina Group Stock	23.17%
Income attributable to Carolina Group Stock	$ 18.0
Loews Common Stock:	
Consolidated net income	$252.9
Less income attributable to Carolina Group Stock . . .	(18.0)
Income attributable to Loews Common Stock	$234.9

3. The Consolidating Condensed Balance Sheets of Loews Corporation as of March 31, 2002 and December 31, 2001 and the Consolidating Statements of Income and Cash Flows for the three months ended March 31, 2002 and 2001,

are as follows:

CONSOLIDATING STATEMENTS OF INCOME

Three Months Ended March 31, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 2,836.1		$ 2,836.1
Investment income, net of expenses	$ 11.2	480.9	$ (29.0) (a)	463.1
Investment gains	2.8	20.7		23.5
Manufactured products	973.1	31.4		1,004.5
Other		459.2		459.2
Total	987.1	3,828.3	(29.0)	4,786.4
Expenses:				
Insurance claims and policyholders' benefits		2,310.1		2,310.1
Amortization of deferred acquisition costs		440.4		440.4
Cost of manufactured products sold	592.3	15.1		607.4
Other operating expenses (b) . . .	119.5	749.1		868.6
Interest	29.0	76.5	(29.0) (a)	76.5
Total	740.8	3,591.2	(29.0)	4,303.0
	246.3	237.1		483.4
Income tax	95.6	75.9		171.5
Minority interest		28.0		28.0
Total	95.6	103.9		199.5
Income from operations	150.7	133.2		283.9
Equity in earnings of the Carolina Group		132.7	(132.7) (c)	
Income from continuing operations	150.7	265.9	(132.7)	283.9
Discontinued operations-net . . .		(31.0)		(31.0)
Net income	$ 150.7	$ 234.9	$(132.7)	$ 252.9

(a) To eliminate interest on the intergroup notional debt.
(b) Includes $0.1 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.1 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.
(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING STATEMENTS OF INCOME

Three Months Ended March 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Insurance premiums		$ 2,496.8		$ 2,496.8
Investment income, net of expenses	$ 26.7	556.6		583.3
Investment gains	2.1	405.4		407.5
Manufactured products	905.3	32.1		937.4
Other	1.8	502.1		503.9
Total	935.9	3,993.0		4,928.9
Expenses:				
Insurance claims and policyholders' benefits		2,069.4		2,069.4
Amortization of deferred acquisition costs		423.6		423.6
Cost of manufactured products sold	549.1	14.6		563.7
Other operating expenses (a) . . .	114.2	748.2		862.4
Interest	0.1	86.2		86.3
Total	663.4	3,342.0		4,005.4
	272.5	651.0		923.5
Income tax	106.9	221.5		328.4
Minority interest		69.7		69.7
Total	106.9	291.2		398.1
Income from operations	165.6	359.8		525.4
Equity in earnings of the Carolina Group		165.6	$(165.6) (b)	
Income from continuing operations	165.6	525.4	(165.6)	525.4
Discontinued operations net . . .		0.2		0.2
Cumulative effect of changes in accounting principles net		(53.3)		(53.3)
Net income	$ 165.6	$ 472.3	$(165.6)	$ 472.3

(a) Includes $0.2 of expenses allocated by the Carolina Group to the Loews Group for computer related charges which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING CONDENSED BALANCE SHEET

March 31, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Assets:				
Investments	$ 1,432.3	$39,816.2		$41,248.5
Cash	1.5	127.7		129.2
Receivables net	34.3	19,913.7		19,948.0
Property, plant and equipment net	182.8	2,821.3		3,004.1
Deferred income taxes	430.9	328.6		759.5
Goodwill and other intangible assets net		307.2		307.2
Other assets	464.0	4,145.2		4,609.2
Investment in combined attributed net assets of the Carolina Group		1,596.0	$(1,596.0) (a)	
Deferred acquisition costs of insurance subsidiaries		2,466.6		2,466.6
Separate account business		3,691.1		3,691.1
Total assets	$ 2,545.8	$75,213.6	$(1,596.0)	$76,163.4

Liabilities and Shareholders' Equity:

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Insurance reserves		$43,435.6		$43,435.6
Payable for securities purchased		2,261.2		2,261.2
Securities sold under agreements to repurchase		1,171.2		1,171.2
Long-term debt, less unamortized discount	$ 2,500.0	5,924.4	$(2,500.0) (b)	5,924.4
Reinsurance balances payable		2,881.7		2,881.7
Other liabilities	1,222.4	3,046.2		4,268.6
Separate account business		3,691.1		3,691.1
Total liabilities	3,722.4	62,411.4	(2,500.0)	63,633.8
Minority interest		1,951.9		1,951.9
Shareholders' equity:				
Loews Common stock, $1 par value			191.5 (c)	191.5
Carolina Group Stock, $.01 par value			0.4 (c)	0.4
Additional paid in capital			1,116.4 (c)	1,116.4
Earnings retained in the business			9,439.1 (c)	9,439.1
Accumulated other comprehensive income (loss)			(46.8) (c)	(46.8)
Combined attributed net assets	(1,176.6)	10,850.3	(9,673.7) (c)	
	(1,176.6)	10,850.3	1,026.9	10,700.6
Less Loews Common Stock held in treasury, at cost			(122.9) (c)	(122.9)
Total shareholders' equity	(1,176.6)	10,850.3	904.0	10,577.7
Total liabilities and shareholders' equity	$ 2,545.8	$75,213.6	$(1,596.0)	$76,163.4

(a) To eliminate the Loews Group's intergroup notional debt receivable and its 76.83% equity interest in the combined attributed net assets of the Carolina Group.
(b) To eliminate the intergroup notional debt.
(c) To eliminate the combined attributed net assets of the Carolina Group and the Loews Group, and to record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING CONDENSED BALANCE SHEET

December 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Assets:				
Investments	$1,628.9	$39,530.2		$41,159.1
Cash	1.7	179.6		181.3
Receivables-net	45.9	19,406.9		19,452.8
Property, plant and equipment-net	181.2	2,894.1		3,075.3
Deferred income taxes	426.6	180.4		607.0
Goodwill and other intangible assets-net		323.8		323.8
Other assets	485.1	3,744.7		4,229.8
Investment in combined attributed net assets of the Carolina Group		1,274.5	$ (1,274.5) (a)	
Deferred acquisition costs of insurance subsidiaries		2,423.9		2,423.9
Separate account business		3,798.1		3,798.1
Total assets	$2,769.4	$73,756.2	$ (1,274.5)	$75,251.1
Liabilities and Shareholders' Equity:				
Insurance reserves		$43,623.9		$43,623.9
Payable for securities purchased		1,365.6		1,365.6
Securities sold under agreements to repurchase		1,602.4		1,602.4

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Long term debt, less unamortized discount		5,920.3		5,920.3
Reinsurance balances payable . .		2,722.9		2,722.9
Other liabilities	$1,494.9	3,100.3		4,595.2
Separate account business		3,798.1		3,798.1
Total liabilities	1,494.9	62,133.5		63,628.4
Minority interest		1,973.4		1,973.4
Shareholders' equity:				
Common stock, $1 par value . . .			$ 191.5 (b)	191.5
Additional paid-in capital . . .			48.2 (b)	48.2
Earnings retained in the business			9,214.9 (b)	9,214.9
Accumulated other comprehensive income			194.7 (b)	194.7
Combined attributed net assets .	1,274.5	9,649.3	(10,923.8)(b)	
Total shareholders' equity . . .	1,274.5	9,649.3	(1,274.5)	9,649.3
Total liabilities and shareholders' equity	$2,769.4	$73,756.2	$ (1,274.5)	$75,251.1

(a) To eliminate the Loews Group's 100% equity interest in the combined attributed net assets of the Carolina Group.
(b) To eliminate the combined attributed net assets of the Carolina Group and the Loews Group, and to record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Net cash provided (used) by operating activities	$ (84.2)	$ 49.4	$ (100.0)	$ (134.8)
Investing activities:				
Purchases of property and equipment	(12.6)	(87.6)		(100.2)
Proceeds from sales of property and equipment	1.2	89.1		90.3
Change in short term investments	196.2	(216.4)		(20.2)
Other investing activities		(794.9)		(794.9)
	184.8	(1,009.8)		(825.0)
Financing activities:				
Dividends paid to shareholders . .	(100.0)	(28.7)	100.0	(28.7)
Other financing activities		936.4		936.4
	(100.0)	907.7	100.0	907.7
Net change in cash	0.6	(52.7)		(52.1)
Cash, beginning of period	1.0	180.3		181.3
Cash, end of period	$ 1.6	$ 127.6		$ 129.2

Three Months Ended March 31, 2001

Net cash provided (used) by operating activities	$ 36.8	$ (116.2)	$ (79.4)
Investing activities:			
Purchases of property and equipment	(7.7)	(94.6)	(102.3)
Proceeds from sales of property and equipment	1.4	259.6	261.0
Change in short-term investments .	(30.1)	(1,377.1)	(1,407.2)
Other investing activities		1,521.7	1,521.7
	(36.4)	309.6	273.2
Financing activities:			
Dividends paid to shareholders . .		(24.6)	(24.6)
Other financing activities		(182.5)	(182.5)
		(207.1)	(207.1)
Net change in cash	0.4	(13.7)	(13.3)
Cash, beginning of period	1.4	193.8	195.2
Cash, end of period	$ 1.8	$ 180.1	$ 181.9

4. Reinsurance:

CNA assumes and cedes reinsurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. Reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Generally, property risks are reinsured on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk. CNA's life reinsurance includes coinsurance, yearly renewable term and facultative programs.

CNA's overall reinsurance program includes certain property-casualty contracts, such as the corporate aggregate treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under the funds withheld basis, CNA records a liability for substantially all of the premiums that are ceded under a reinsurance contract. CNA is required to increase the funds withheld balance at stated interest crediting rates. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, interest crediting will cease and additional claim payments are recoverable from the reinsurer. The funds withheld liability is recorded in reinsurance balances payable in the Consolidated Condensed Balance Sheets.

Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, included in other net investment income, was $58.0 and $36.0 for the first quarter of 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,877.0 and $2,724.0 at March 31, 2002 and December 31, 2001.

The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.

The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property-casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under reinsurance agreements.

The effects of reinsurance on earned premiums are shown in the following table:

	Direct	Assumed	Ceded	Net

	Three Months Ended March 31, 2002			
Property and casualty	$ 2,440.0	$ 237.0	$1,015.0	$ 1,662.0
Accident and health	972.0	19.0	(12.0)	1,003.0
Life	263.0	21.0	113.0	171.0
Total	$ 3,675.0	$ 277.0	$1,116.0	$ 2,836.0

	Direct	Assumed	Ceded	Net
	Three Months Ended March 31, 2001			
Property and casualty	$ 2,021.0	$ 310.0	$ 866.0	$ 1,465.0
Accident and health	876.0	56.0	61.0	871.0
Life	258.0	77.0	174.0	161.0
Total	$ 3,155.0	$ 443.0	$1,101.0	$ 2,497.0

For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of CNA's property casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the level of subject premium, but there is a maximum aggregate limit of $1,125.0. Maximum ceded premium under the contract is $683.0, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0%, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $3.0 was recorded for the 2002 Cover for the three months ended March 31, 2002.

The aggregate reinsurance protection from the 2002 Cover attaches at a defined accident year loss and allocated loss adjustment expense (collectively, losses) ratio. Under the contract, CNA has the right to elect to cede losses to the 2002 Cover when its recorded accident year losses exceeds the attachment point. This election period expires March 31, 2004. If no losses are ceded by this date, the contract is deemed to be commuted. If CNA elects to cede any losses to the 2002 Cover, it must continue to cede all losses subject to the terms of the contract.

In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss and allocated loss adjustment expense (collectively, losses) ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 of ceded losses with an aggregate limit of $1,000.0 of ceded losses for the three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 of limit the ceded premium is $230.0. The second section of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 of ceded losses for a maximum ceded premium of $310.0. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum.

The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the September 11, 2001 World Trade Center Disaster and related events ("WTC event"), the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded during 2001, the $500.0 limit on the 1999 accident year under the first section was also

fully utilized. No losses have been ceded to the remaining $500.0 of limit on accident years 2000 and 2001 under the first section.

The impact of the Aggregate Cover on pretax operating results was as follows:

	Three Months Ended March 31, 2002	2001
Ceded earned premiums		$(42.0)
Ceded claim and claim adjustment expenses . .		39.0
Interest charges	$(13.0)	(6.0)
Pretax impact on operating results	$(13.0)	$ (9.0)

In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 of ceded losses. The ceded premiums are a percentage of ceded losses and for the $760.0 of limit, the ceded premium is $456.0. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $563.0 have been ceded under the CCC Cover through March 31, 2002.

The impact of the CCC Cover on pretax operating results was as follows:

	Three Months Ended March 31, 2002	2001
Ceded earned premiums	$(61.0)	$(1.0)
Ceded claim and claim adjustment expenses . .	93.0	
Interest charges	(10.0)	
Pretax impact on operating results	$ 22.0	$(1.0)

5. Other Investments

Other investments include investments in limited partnerships and certain derivative securities. The Company's limited partnership investments are recorded at fair value and typically reflect a reporting lag of up to three months. Fair value represents The Company's equity in the partnership's net assets as determined by the General Partner. The carrying value of the Company's limited partnership investments was $1,367.0 and $1,307.0 as of March 31, 2002 and December 31, 2001.

Limited partnerships are a relatively small portion of the Company's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. The Company is a passive investor in such partnerships and does not have influence over their management, which are committed to operate them according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships.

CNA has committed approximately $181.0 to future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.

6. Receivables:

	March 31, 2002	December 31, 2001

Reinsurance	$13,979.2	$13,823.4
Other insurance	4,013.5	4,006.4
Security sales	1,243.0	648.1
Accrued investment income	378.7	398.3
Federal income taxes	418.0	586.6
Other	288.9	353.7
Total	20,321.3	19,816.5
Less allowance for doubtful accounts and cash discounts	373.3	363.7
Receivables-net	$19,948.0	$19,452.8

7. Shareholders' equity:

	March 31, 2002	December 31, 2001
Preferred stock, $.10 par value,		
Authorized - 100,000,000 shares		
Common stock:		
Loews Common Stock, $1.00 par value:		
Authorized - 600,000,000 shares		
Issued 191,505,000 and 191,493,300 shares	$ 191.5	$ 191.5
Carolina Group Stock, $.01 par value:		
Authorized - 600,000,000 shares		
Issued and outstanding 40,250,000 shares	0.4	
Additional paid-in capital	1,116.4	48.2
Earnings retained in the business	9,439.1	9,214.9
Accumulated other comprehensive income (loss)	(46.8)	194.7
	10,700.6	9,649.3
Less Loews common stock (2,099,200 shares) held in treasury, at cost	122.9	
Total shareholders' equity	$10,577.7	$ 9,649.3

8. Restructuring and Other Related Charges:

2001 Restructuring

In 2001, CNA finalized and approved two separate restructuring plans. The first plan related to CNA's Information Technology operations (the "IT Plan"). The second plan related to restructuring the property casualty segments and Life Operations, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise-wide system initiatives. The IT Plan had two main components, which included the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that includes common architecture and platform standards that directly support CNA's strategies.

In the first quarter of 2001, CNA incurred $6.0 pretax of restructuring and other related charges for the IT Plan related to employee severance charges.

No restructuring and other related charges related to the IT Plan have been incurred in 2002; however, payments were made in the first quarter of 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at March 31, 2002 and the activity in that accrual during the first quarter of 2002.

	Employee Termination And Related Benefit Costs	Other Costs	Total
Accrued costs at December 31, 2002	$10.0	$1.0	$11.0
Payments charged against liability	(1.0)		(1.0)
Accrued costs at March 31, 2002	$ 9.0	$1.0	$10.0

The IT Plan is not expected to result in decreased operating expense in the foreseeable future because savings from the workforce reduction will be used to fund new technology related initiatives. Employee termination and related benefit payments will continue through 2004 due to employment contract obligations.

2001 Plan

The overall goal of the 2001 Plan is to create a simplified and leaner organization for customers and business partners. The major components of the plan include a reduction in the number of strategic business units ("SBUs") in the property casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations include a decision to discontinue writing variable life and annuity business.

No restructuring and other related charges related to the 2001 Plan were incurred in 2002; however, payments were made in the first quarter of 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of March 31, 2002 and the activity in that accrual during the first quarter of 2002.

2001 Plan Accrual

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Total
Accrued costs at December 31, 2001	$ 66.0	$56.0	$30.0	$152.0
Costs that did not require cash			(25.0)	(25.0)
Payments charged against liability	(34.0)	(6.0)		(40.0)
Accrued costs at March 31, 2002	$ 32.0	$50.0	$ 5.0	$ 87.0

9. Significant Transactions:

CNA Vida Disposition

In March of 2002, CNA completed the sale of the common stock of CNA Holdings Limited and its subsidiaries ("CNA Vida"), CNA's life operations in Chile, to Consorcio Financiero S.A. ("Consorcio"). In connection with the sale, CNA received proceeds of $73.0 and recorded a loss from discontinued operations of $31.0, after tax and minority interest. This loss is composed of $32.8 realized loss on the sale of CNA Vida and income of $1.8 from CNA Vida's operations for the three months ended March 31, 2002.

CNA Vida's assets and liabilities at December 31, 2001 were $479.0 and $367.0. CNA Vida's net earned premiums were $24.0 and $33.0 and net operating income was $1.8 and $0.2 for the three months ended March 31, 2002 and 2001. CNA Vida's results of operations, including the loss on sale, is presented as discontinued operations in all periods presented as required by SFAS No. 144.

2001 Dispositions and Planned Dispositions of Certain Subsidiaries

In 2001, CNA planned to dispose of certain subsidiaries of which certain subsidiaries were sold during the fourth quarter resulting in a loss of $33.3 after tax and minority interest. Revenues and net operating loss of these subsidiaries, included in the results of the first quarter of 2001 totaled approximately $7.0 and $2.6.

Certain other subsidiaries for which CNA's intent to sell was announced during 2001, including the U.K. subsidiaries of CNA Re and CNA UniSource, a payroll processing company, continue to be held for disposition as of March 31, 2002. During 2001, a loss of approximately $150.0 was recorded on these subsidiaries which were held for disposition but not yet sold, based upon impairment analyses. Such impairment analyses, which included determining the anticipated loss from the planned disposition of these subsidiaries, involved the estimation of the net realizable value of each subsidiary held for disposition.

The subsidiaries that continue to be held for disposition as of March 31, 2002 contributed revenues of approximately $48.0 and $109.0 and net operating losses of $1.8 and $2.6 in the first quarter of 2002 and 2001. The assets and net assets of these subsidiaries were approximately $2,700.0 and $0.1 as of March 31, 2002. The anticipated sale of the U.K. insurance subsidiaries will be subject to regulatory approval and all anticipated sales are expected to be completed in 2002.

The statutory surplus of CNA Reinsurance Company Ltd., CNA Re's principal reinsurance company in the United Kingdom, was below the required regulatory minimum surplus level at December 31, 2001. After Continental Casualty Company contributed $120.0 of capital on March 25, 2002, the surplus of CNA Reinsurance Company Ltd. is above the regulatory minimum.

10. Discontinued Operations

The Company reports CNA's net assets of discontinued operations, which primarily consists of operations discontinued in the mid-1990's, as other assets in the Consolidated Condensed Balance Sheets. The following table provides more detailed information regarding those net assets.

	March 31, 2002	December 31, 2001
Total investments	$ 471.0	$ 467.0
Other assets	249.0	264.0
Insurance reserves	(404.0)	(412.0)
Other liabilities	(21.0)	(25.0)
Net assets of discontinued operations	$ 295.0	$ 294.0

11. Business Segments:

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property, casualty and life insurance (CNA Financial Corporation, an 89% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 53% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary). Each operating entity is responsible for the operation of its specialized business and is headed by a chief executive officer having the duties and authority commensurate with that position.

CNA's insurance products include property and casualty coverages; life, accident and health insurance; and retirement products and annuities. CNA's services include risk management, information services, health care management and claims administration. CNA's products and services are marketed through agents, brokers, managing general agents and direct sales.

Lorillard's principal products are marketed under the brand names of Newport, Kent, True, Maverick and Old Gold with substantially all of its sales in the United States.

Loews Hotels owns and/or operates 17 hotels, 15 of which are in the United States and two are in Canada. There is also a property in the United States under development with an opening date scheduled in mid-2002.

Diamond Offshore's business primarily consists of operating 45 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. As of March 31, 2002, 28 of these rigs were located in the Gulf of Mexico, 5 were located in Brazil and the remaining 12 were located in various foreign markets.

Bulova distributes and sells watches and clocks under the brand names of Bulova, Wittnauer, Caravelle and Accutron with substantially all of its sales in the United States and Canada. All watches and clocks are purchased from foreign suppliers.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2001 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, 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 by business segment:

	Three Months Ended March 31,	
	2002	2001
Revenues (a):		
CNA Financial:		
Property and casualty	$ 2,006.0	$ 2,090.9
Life	458.1	489.4
Group	991.3	873.5
Other Insurance	(7.5)	115.0
Total CNA Financial	3,447.9	3,568.8
Lorillard	984.3	933.9
Loews Hotels	77.2	84.8
Diamond Offshore	204.1	224.4
Bulova	32.4	32.9
Corporate	40.5	84.1
Total	$ 4,786.4	$ 4,928.9
Income before taxes, minority interest, discontinued operation and cumulative effect of changes in accounting principles:		
CNA Financial:		
Property and casualty	$ 140.2	$ 375.9
Life	67.2	133.1
Group	33.3	27.4
Other Insurance	(67.3)	13.9
Total CNA Financial	173.4	550.3
Lorillard	272.5	270.5
Loews Hotels	9.5	8.7
Diamond Offshore	27.7	47.2
Bulova	3.0	4.3
Corporate	(2.7)	42.5
Total	$ 483.4	$ 923.5

	Three Months Ended March 31,	
	2002	2001
Net income (a):		
CNA Financial:		
Property and casualty	$ 83.5	$ 218.6
Life	38.7	75.0
Group	19.9	16.8
Other Insurance	(38.5)	2.3
Total CNA Financial	103.6	312.7
Lorillard	166.7	164.4
Loews Hotels	6.0	5.5
Diamond Offshore	8.7	14.7
Bulova	1.6	2.4
Corporate	(2.7)	25.7
Income from continuing operations	283.9	525.4
Discontinued operations net	(31.0)	0.2
Cumulative effect of changes in accounting principles net		(53.3)
Total	$ 252.9	$ 472.3

(a) Investment gains (losses) included in Revenues and Net income are as follows:

	Three Months Ended March 31,	
	2002	2001
Revenues:		
CNA Financial:		
Property and casualty	$ 11.0	$ 197.3
Life	13.4	68.5
Group	8.0	7.4
Other Insurance	(31.4)	97.6
Total CNA Financial	1.0	370.8
Corporate and other	22.5	36.7
Total	$ 23.5	$ 407.5
Net income:		
CNA Financial:		
Property and casualty	$ 8.0	$ 109.2
Life	7.3	38.6
Group	4.6	4.1
Other Insurance	(17.7)	55.0
Total CNA Financial	2.2	206.9
Corporate and other	13.6	22.0
Total	$ 15.8	$ 228.9

12. Legal Proceedings and Contingent Liabilities:

INSURANCE RELATED

~~Tobacco Litigation~~

~~Four CNA insurance subsidiaries are defendants in a lawsuit arising out of policies allegedly issued to Liggett Group, Inc. ("Liggett"). The lawsuit was filed by Liggett and its current parent, Brooke Group Holding Inc., in the Delaware Superior Court, New Castle County, on January 26, 2000. The lawsuit, which involves numerous insurers, concerns coverage issues relating to over 1,000 tobacco-related claims asserted against Liggett over the past 20 years. However, Liggett only began submitting claims for coverage under the policies in January 2000. The trial court granted the CNA insurance subsidiaries' summary judgment motions asserting that they have no duty to defend or to indemnify as to a number of representative lawsuits. The Delaware Supreme Court has accepted an appeal of these rulings. CNA believes its coverage defenses are strong; therefore, based on facts and circumstances currently known, management believes that the ultimate outcome of the pending litigation will not materially affect the results of operations and/or financial position of CNA.~~

~~IGI Contingency~~

~~In 1997, CNA Reinsurance Company Limited ("CNA Re Ltd.") entered into an arrangement with IOA Global, Ltd. ("IOA"), an independent managing general agent based in Philadelphia, Pennsylvania, to develop and manage a book of accident and health coverages. Pursuant to this arrangement, IGI Underwriting Agencies, Ltd. ("IGI"), a personal accident reinsurance managing general underwriter, was appointed to underwrite and market the book under the supervision of IOA. Between April 1, 1997 and December 1, 1999, IGI underwrote a number of reinsurance arrangements with respect to personal accident insurance worldwide (the "IGI Program"). Under various arrangements, CNA Re Ltd. both assumed risks as a reinsurer and also ceded a substantial portion of those risks to other companies, including other CNA insurance subsidiaries and ultimately to a group of reinsurers participating in a reinsurance pool known as the Associated Accident and Health Reinsurance Underwriters ("AAHRU") Facility. CNA's Group Operations business unit participated as a pool member in the AAHRU Facility in varying percentages between 1997 and 1999.~~

~~CNA has determined that a small portion of the premiums assumed under the IGI Program related to United States workers compensation "carve-out" business. CNA is aware that a number of reinsurers with workers compensation carve-out insurance exposure have disavowed their obligations under various legal theories. If one or more such companies are successful in avoiding or reducing their liabilities, then it is likely that CNA's potential liability will also be reduced. Moreover, based on information known at this time, CNA reasonably believes it has strong grounds for avoiding a substantial portion of its United States workers compensation carve-out exposure through legal action.~~

~~As noted, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program. CNA believes it has valid and enforceable reinsurance contracts with the AAHRU Facility and other reinsurers with respect to the IGI Program, including the United States workers~~

~~compensation carve out business. However, certain reinsurers dispute their liabilities to CNA, and CNA has commenced arbitration proceedings against such reinsurers.~~

~~CNA has established reserves for its estimated exposure under the program and an estimate for recoverables from retrocessionaires.~~

~~CNA is pursuing a number of loss mitigation strategies. Although the results of these various actions to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty. As a result of these uncertainties, the results of operations in future years may be adversely affected by potentially significant reserve additions. Management does not believe that any such reserve additions will be material to the equity of the Company.~~

~~Other Contingencies~~

~~In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At March 31, 2002 there were approximately $270.0 of outstanding letters of credit.~~

~~CNA has a commitment to purchase a $100.0 floating rate note issued by~~

the California Earthquake Authority in the event California earthquake-related insurance losses exceed $4,900.0 prior to December 31, 2002.

CNA is obligated to make future payments totaling $516.0 for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $81.0 in 2002; $94.0 in 2003; $74.0 in 2004; $64.0 in 2005; and $203.0 in 2006 and beyond.

Environmental Pollution and Other Mass Tort and Asbestos Reserves ("APMT")

CNA's property-casualty insurance subsidiaries have potential exposures related to environmental pollution and other mass tort and asbestos claims.

The following table provides data related to CNA's environmental pollution and other mass tort and asbestos-related claim and claim adjustment expense reserves.

	March 31, 2002		December 31, 2001	
	Environmental Pollution and Other Mass Tort	Asbestos	Environmental Pollution and Other Mass Tort	Asbestos
Gross reserves	$ 779.0	$1,579.0	$ 820.0	$1,590.0
Less ceded reserves	(195.0)	(355.0)	(203.0)	(386.0)
Net reserves	$ 584.0	$1,224.0	$ 617.0	$1,204.0

Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfunds") govern the cleanup and restoration of toxic waste sites and formalize the concept of legal liability for cleanup and restoration by "Potentially Responsible Parties" ("PRPs"). Superfund and the mini-Superfunds establish mechanisms to pay for cleanup of waste sites if PRPs fail to do so, and to assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent upon a variety of factors. Further, the number of waste sites subject to cleanup is unknown. To date, approximately 1,500 cleanup sites have been identified by the Environmental Protection Agency ("EPA") and included on its National Priorities List ("NPL"). State authorities have designated many cleanup sites as well.

Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. These claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form, which includes what is referred to in the industry as an "absolute pollution exclusion." CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2001 or the first three months of 2002, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the

~~federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the effect upon CNA's results of operations and/or financial position.~~

~~Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to cleanup, and the standards for cleanup and liability, the ultimate liability of CNA for environmental pollution claims may vary substantially from the amount currently recorded.~~

~~As of March 31, 2002 and December 31, 2001, CNA carried approximately $584.0 and $617.0 of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. There was no environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the three months ended March 31, 2002. Unfavorable environmental pollution and other mass tort development for the three months ended March 31, 2001 amounted to $3.0.~~

~~CNA's property casualty insurance subsidiaries also have exposure to asbestos related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of March 31, 2002 and December 31, 2001, CNA carried approximately $1,224.0 and $1,204.0 of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. There was no unfavorable asbestos net claim and claim adjustment expense reserve development for the three months ended March 31, 2002. Unfavorable asbestos net claim and claim adjustment expense reserve development for the three months ended March 31, 2001 amounted to $21.0. CNA has attempted to manage its asbestos-related exposures by aggressively resolving older claims.~~

~~In addition, some asbestos-related defendants have asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA currently 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 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.~~

~~Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos related claims may vary substantially from the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos related claims will be medical inflation~~

~~trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of defendants, the mix of asbestos related diseases presented and the possibility of legislative reform. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on CNA's results of operations and/or financial condition.~~

~~The results of operations and financial condition of CNA in future years may continue to be adversely affected by environmental pollution and other mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including the potential for further reserve strengthening, as warranted.~~

~~NON INSURANCE~~

~~TOBACCO RELATED~~

~~Approximately 4,650 product liability cases are pending against cigarette manufacturers in the United States; Lorillard is a defendant in approximately 4,250 of these cases. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Some of the lawsuits also name the Company as a defendant. Among the 4,650 product liability cases are approximately 1,250 cases pending in a West Virginia court. Another group of approximately 2,825 cases has been brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits and is a defendant in most of the cases pending in West Virginia.~~

~~Excluding the flight attendant and West Virginia suits, approximately 575 product liability cases are pending against U.S. cigarette manufacturers. Of these 575 cases, Lorillard is a defendant in approximately 250 cases. The Company is a defendant in approximately 45 of these actions, although it has not received service of process in approximately 10 of them.~~

~~Tobacco litigation includes various types of claims. In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages, as well as equitable and injunctive relief, in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other theories, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the Racketeering Influenced and Corrupt Organizations Act), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust statutes, and failure to warn of the harmful and/or addictive nature of tobacco products.~~

~~Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects resulting from an individual's use of cigarettes and/or smokeless tobacco products, addiction to smoking or exposure to environmental tobacco smoke. These cases are generally referred to as "conventional product liability cases." In other cases, plaintiffs have brought claims as purported class actions on behalf of large numbers of individuals for damages allegedly caused by smoking. These cases are generally referred to as purported "class action cases." In other cases, plaintiffs are U.S. and foreign governmental entities or entities such as labor unions, private companies, hospitals or hospital districts, American Indian tribes, or private citizens suing on behalf of~~

~~taxpayers. Plaintiffs in these cases seek reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages. These cases are generally referred to as "reimbursement cases." In addition, there are claims for contribution and/or indemnity in relation to asbestos claims filed by asbestos manufacturers or the insurers of asbestos manufacturers. These cases are generally referred to as "claims for contribution."~~

~~In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time, ending more than 40 years ago. These cases are generally referred to as "filter cases." Approximately 30 filter cases are pending against Lorillard.~~

~~Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent the Company is a defendant in any of the lawsuits described in this section, the Company believes that it is not a proper defendant in these matters and has moved or plans to move for dismissal of all such claims against it. Litigation is subject to many uncertainties and it is possible that some of these actions could be decided unfavorably. Lorillard will continue to maintain a vigorous defense in all such litigation. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.~~

~~While Lorillard intends to defend vigorously all smoking and health related litigation which may be brought against it, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably.~~

In addition, adverse developments in relation to smoking and health, including the release in 1998 of industry documents, have received widespread media attention. These developments may reflect adversely on the tobacco industry and, together with adverse outcomes in pending cases, could have adverse effects on the ability of Lorillard to prevail in smoking and health litigation and could prompt the filing of additional litigation.

Except for the impact of the State Settlement Agreements as described below, Lorillard is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period or its financial position could be materially affected by an unfavorable outcome of certain pending litigation.

SIGNIFICANT RECENT DEVELOPMENTS -

During April of 2002, the U.S. District Court for the Middle District of North Carolina granted a motion for class certification on behalf of tobacco farmers in the case of DeLoach v. Philip Morris Inc., et al. The class members contend that U.S. cigarette manufacturers conspired to set the prices they offered to U.S. growers for tobacco. An estimated 500,000 farmers are members of the class. As of May 1, 2002, the deadline had not expired for defendants, which include Lorillard, to attempt to pursue an interlocutory appeal from the class certification ruling.

During March of 2002, a jury impaneled by the Circuit Court of Multnomah County, Oregon, returned a verdict in favor of the plaintiff in a suit brought against another cigarette manufacturer, Schwarz v. Philip Morris Incorporated. The jury awarded plaintiff approximately one hundred nineteen thousand dollars in economic damages, fifty thousand dollars in non-economic damages and $150.0 in punitive damages. Many of plaintiff's claims were directed to allegations that the defendant had made false representations regarding the low tar cigarettes smoked by the decedent. The court granted in part the defendant's motion for elimination or reduction of the punitive damages award and reduced the punitive damages verdict to $100.0. The deadline for the defendant to notice an appeal has not expired. Neither the Company nor Lorillard are defendants in this matter.

During March of 2002, a jury impaneled by the U.S. District Court for the District of Rhode Island returned a verdict in favor of the only defendant in a case against another U.S. cigarette manufacturer, Hyde v. Philip Morris Incorporated. As of May 1, 2002, the court had not ruled on the motion for new trial filed by the plaintiff. Neither the Company nor Lorillard are defendants in this matter.

During February of 2002, the U.S. District Court for the Eastern District of New York entered an order in the case of Blue Cross and Blue Shield of New Jersey, et al. v. Philip Morris Incorporated, et al., a health plan reimbursement case, that awarded plaintiffs' counsel approximately $38.0 in attorneys' fees from the defendants, including Lorillard. The award of attorneys' fees followed from a 2001 verdict in favor of one of the plan plaintiffs that is asserting claims in the case, Empire Blue Cross and Blue Shield. Defendants are pursuing a single appeal from the judgment reflecting the verdict and from the order awarding attorneys' fees.

During February of 2002, a jury impaneled by the U.S. District Court for the District of Kansas returned a verdict in favor of the plaintiff in a case against other U.S. cigarette manufacturers, Burton v. R.J. Reynolds Tobacco Company, et al. The jury awarded plaintiff approximately $0.2 in actual damages and found that plaintiff had presented evidence that entitled him to an award of punitive damages from one of the two defendants in the case. Pursuant to Kansas law, the amount plaintiff will be awarded in punitive damages will be determined by the court. As of May 1, 2002, the court has not awarded punitive damages. Neither the Company nor Lorillard are defendants in this matter.

SETTLEMENT OF STATE REIMBURSEMENT LITIGATION - On November 23, 1998, Lorillard, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and R.J. Reynolds Tobacco Company, the "Original Participating Manufacturers," entered into a Master Settlement Agreement with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands to settle the asserted and unasserted health care cost recovery and certain other claims of those states. These settling entities

~~are generally referred to as the "Settling States." The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota, which together with the Master Settlement Agreement are generally referred to as the "State Settlement Agreements."~~

~~The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the Original Participating Manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.~~

~~Lorillard recorded pre-tax charges of $295.8 and $279.2 for the three months ended March 31, 2002 and 2001, respectively, to account for its obligations under the State Settlement Agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur.~~

~~The State Settlement Agreements require that the domestic tobacco industry make annual payments in the following amounts, subject to adjustment for several factors, including inflation, market share and industry volume: 2002, $11,300.0; 2003, $10,900.0; 2004 through 2007, $8,400.0; and thereafter, $9,400.0. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500.0, as well as additional amounts of $250.0 per annum for 2002 through 2003. These payment obligations are the several and not joint obligations of each settling defendant.~~

~~The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.~~

~~In addition, as part of the Master Settlement Agreement, the Original Participating Manufacturers committed to work cooperatively with the tobacco growing community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original Participating Manufacturers reached an agreement to establish a $5,200.0 trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states. Payments to the trust fund are to be allocated among the Original Participating Manufacturers according to their relative market share of domestic cigarette shipments, except that Philip Morris paid more than its market share in 1999 but will have its payment obligations reduced in 2009 and 2010 to make up for the overpayment. Of the total $5,200.0, a total of $1,100.0 was paid since 1999 through March 31, 2002, of which $91.0 was paid by Lorillard. Lorillard believes its remaining payments under the agreement will total approximately $424.0. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and the effect of new increases in state or federal excise taxes on tobacco products that benefit the tobacco growing community.~~

~~The Company believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium price and discount price segments, Lorillard's share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements. Almost all domestic manufacturers have agreed to become subject to the terms of the Master Settlement Agreement.~~

~~CONVENTIONAL PRODUCT LIABILITY CASES - Conventional product liability cases are cases in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, due to use of smokeless tobacco products, or due to cigarette or nicotine dependence or addiction. Plaintiffs in most conventional product liability cases seek unspecified amounts in compensatory damages and punitive damages. Lorillard is a defendant in approximately 1,300 of these cases. This total includes approximately 1,150 cases pending in West Virginia that are part of a consolidated proceeding. Additional cases are pending against other cigarette manufacturers. The Company is a defendant in nine of the cases filed by~~

~~individuals, although four of the cases have not been served on the Company. The Company is not a defendant in any of the conventional product liability cases pending in West Virginia.~~

~~Since January 1, 2000, 15 cases filed by individual plaintiffs have been tried. Lorillard was a defendant in three of the 15 cases, and juries returned verdicts in favor of the defendants in each of these three matters. The Company was not a defendant in any of the 15 conventional product liability cases tried since January 1, 2000. As of May 1, 2002, no trials were proceeding in any matter filed by individuals against Lorillard or the Company, or, to our knowledge, against any other U.S. cigarette manufacturer.~~

~~Lorillard was not a defendant in 12 of the individual cases tried since January 1, 2000. Juries have returned verdicts in favor of the defendants in five of the cases. In one of the suits, a court granted the motion for directed verdict filed by the defendant at the conclusion of plaintiff's evidence. In the six cases decided in plaintiffs' favor, juries have awarded various amounts. During 2002, an Oregon jury awarded the plaintiff approximately $0.17 in actual damages and $150.0 in punitive damages. In another 2002 trial, a Kansas jury awarded a plaintiff $.2 in actual damages and found that plaintiff had presented evidence that entitles him to recover an award for punitive damages. The determination of the punitive damages award will be decided by court at a later date. In 2001, a Florida jury awarded plaintiff $0.17 in actual damages but declined to award punitive damages, while a California jury awarded another plaintiff approximately $5.5 in actual damages and $3,000.0 in punitive damages, although the court subsequently reduced the punitive damages award to $100.0. During 2000, a California jury awarded plaintiffs $21.5 and a Florida jury awarded plaintiff $0.2.~~

~~As a result of pending appeals or post trial motions, plaintiffs have not been able to execute on any of the judgments reflecting these adverse verdicts. The defendant in the 2002 Oregon case has filed a motion for elimination or reduction of the punitive damages award. As of May 1, 2002, the verdict in the Kansas case had not been fully resolved so no challenges to the award have been submitted. In the Florida case that resulted in the award of $0.2, the trial court granted defendant's post-trial motion and entered judgment in favor of the defendant. Plaintiff, however, has noticed an appeal. Defendants have noticed appeals in the three other cases in which juries returned verdicts in favor of the plaintiffs.~~

~~Appeals also are pending in two cases in which adverse verdicts were returned prior to January 1, 2000. Neither Lorillard nor the Company is a defendant in either of these matters. In one of these matters, the California Supreme Court issued a ruling during January of 2002 that~~

~~accepted for review the defendant's appeal from a 1999 judgment by a California court that reflects an award to a California plaintiff of $26.5. The California Court of Appeal, in rulings issued during 2001, affirmed this judgment and subsequently denied the defendant's motion for rehearing. In the second of these matters, the Oregon Court of Appeals, during October of 2001, took under advisement the appeal from the judgment reflecting an award to an Oregon plaintiff of $32.8.~~

~~Some cases against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products are scheduled for trial during 2002 and beyond. These trials include a consolidated trial of the cases brought by approximately 1,250 West Virginia smokers or users of smokeless tobacco products that is scheduled to begin during September of 2002. Lorillard is a defendant in some of the cases set for trial, including the consolidated West Virginia trial. The trial dates are subject to change.~~

~~The California Supreme Court is reviewing decisions by the California Court of Appeals as to whether a California statute bars claims against cigarette manufacturers if the claims accrued between 1988 and 1998. The California Supreme Court is scheduled to hear argument of this appeal during May of 2002, and the court expected to announce its ruling during 2002.~~

~~FLIGHT ATTENDANT CASES - There are approximately 2,825 cases pending in the Circuit Court of Dade County, Florida against Lorillard and three other U.S. cigarette manufacturers in which the plaintiffs are present or former flight attendants, or the estates of deceased flight attendants, who allege injury as a result of exposure to environmental tobacco smoke in aircraft cabins. The Company is not a defendant in any of the flight attendant cases.~~

~~The suits were filed as a result of a settlement agreement on October 10, 1997 by the parties to Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke. The trial court approved the settlement agreement on February 3, 1998. Pursuant to the settlement agreement, among other things, Lorillard and three other U.S. cigarette manufacturers paid approximately $300.0 to create and endow a research institute to study diseases associated with cigarette smoke. In addition, the settlement agreement permitted the plaintiff class members to file individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.~~

~~During October of 2000, the Circuit Court of Dade County, Florida entered an order that may be construed to hold that the flight attendants are not required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. The court further ruled that the trials of these suits are to address whether the plaintiffs' alleged injuries were caused by their exposure to environmental tobacco smoke and, if so, the amount of damages to be awarded. It is not clear how the trial judges will apply this order. The Florida Third District Court of Appeal dismissed as premature defendants' appeal from the October 2000 decision. The Court of Appeals denied defendants' motion for rehearing and for rehearing en banc or, in the alternative, for certification of the October 2001 ruling to the Florida Supreme Court. During January 2002, the defendants, which include Lorillard, filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court in order to seek review of the trial court's~~

~~October 2000 ruling and the orders by the Florida Third District Court of Appeal that affirmed the October 2000 decision.~~

~~Trial has been held in one of the flight attendant cases. On April 5, 2001, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. The court has entered final judgment in favor of the defendants and has denied plaintiff's post-trial motions. Plaintiff has noticed an appeal to the Florida Third District Court of Appeal.~~

~~Additional flight attendant cases are set for trial. As of May 1, 2002, approximately 15 such cases were scheduled for trial between May and November of 2002. It is possible that several of the flight attendant cases will be tried during 2002 and thereafter.~~

~~CLASS ACTION CASES - Certain cases have been filed against cigarette manufacturers, including Lorillard, in which plaintiffs purport to seek class certification on behalf of groups of cigarette smokers. Lorillard is a defendant in approximately 25 of these cases, four of which also name the Company as a defendant. One case that names both the Company and Lorillard as defendants has not been served on any of the parties. As of May 1, 2001, two of the purported class actions were on appeal. The remaining purported class actions are in the pre-trial, discovery stage, except that trial proceedings are under way in the case of Scott v. The American Tobacco Company, et al. In addition, the time for appeal has not expired from the verdict returned in favor of the defendants in Blankenship v. American Tobacco Company, et al. during November of 2001. Most of the suits seek class certification on behalf of residents of the states in which the purported class action cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in all but two of the purported class action cases seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. In one of the two remaining purported class action cases, plaintiffs seek class certification on behalf of individuals who paid insurance premiums. Plaintiffs in the other remaining suit seek class certification on behalf of U.S. residents under the age of 22 who purchased cigarettes as minors and who do not have personal injury claims. Neither Lorillard nor the Company are defendants in approximately 20 additional class action cases pending against other cigarette manufacturers, many of which assert claims on behalf of smokers of "light" cigarettes. Plaintiffs in a few of the reimbursement cases, which are discussed below, also seek certification of such cases as class actions.~~

~~Various courts have ruled on motions for class certification in smoking and health-related cases. In 12 state court cases, which were pending in five states and the District of Columbia, courts have denied plaintiffs' class certification motions. In another 15 cases, cigarette manufacturers have defeated motions for class certification before either federal trial~~

~~courts or courts of appeal from cases pending in 13 states and the Commonwealth of Puerto Rico. The denial of class certification in a New York federal court case, however, was due to the court's interest in preserving judicial resources for a potentially broader class certification ruling in In re Simon (II) Litigation, which is discussed below. In six cases in which Lorillard is a defendant, plaintiffs' motions for class certification have been granted and appeals either have been rejected at the interlocutory stage, or, in one case, plaintiffs' claims were resolved through a settlement agreement. These six cases are Broin~~

~~(which is the matter concluded by a settlement agreement and discussed under "Flight Attendant Cases"), Engle, Blankenship, Scott, Daniels and Brown.~~

~~Theories of liability asserted in the purported class action cases include a broad range of product liability theories, including those based on consumer protection statutes and fraud and misrepresentation. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Plaintiffs in some of the purported class action cases are represented by a well funded and coordinated consortium of law firms from throughout the United States.~~

~~The Engle case: Trial began during July 1998 in the case of Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). The trial court, as amended by the Florida Court of Appeal, granted class certification on behalf of Florida residents and citizens, and survivors of such individuals, who have been injured or have died from medical conditions allegedly caused by their addiction to cigarettes containing nicotine.~~

~~The case is being tried in three phases. The first phase began during July of 1998 and involved consideration of certain issues claimed to be common to the members of the class and their asserted causes of action.~~

~~On July 7, 1999, the jury returned a verdict against defendants, including Lorillard, at the conclusion of the first phase. The jury found, among other things, that cigarette smoking is addictive and causes lung cancer and a variety of other diseases, that the defendants concealed information about the health risks of smoking, and that defendants' conduct rose to a level that would permit a potential award or entitlement to punitive damages. The verdict permitted the trial to proceed to a second phase. The jury was not asked to award damages in the Phase One verdict.~~

~~By order dated July 30, 1999 and supplemented on August 2, 1999, together, the Punitive Damages Order, the trial judge amended the trial plan with respect to the manner of determining punitive damages. The Punitive Damages Order provided that the jury would determine punitive damages, if any, on a lump sum dollar amount basis for the entire qualified class. The Florida Third District Court of Appeal rejected as premature defendants' appeals from the Punitive Damages Order, and the Florida Supreme Court declined to review the Punitive Damages Order at that time.~~

~~The first portion of Phase Two of the trial began on November 1, 1999 before the same jury that returned the verdict in Phase One. In the first part of Phase Two, the jury determined issues of specific causation, reliance, affirmative defenses, and other individual specific issues related to the claims of three named plaintiffs and their entitlement to damages, if any.~~

~~On April 7, 2000, the jury found in favor of the three plaintiffs and awarded them a total of $12.5 in economic damages, pain and suffering damages and damages for loss of consortium. After awarding damages to one of the three plaintiffs, the jury appeared to find that his claims were barred by the statute of limitations. The final judgment entered by the trial court on November 6, 2000 reflected the damages award, and held that~~

~~only a portion of this plaintiff's claims were barred by the statute of limitations.~~

~~The second part of Phase Two of the trial began on May 22, 2000 and was heard by the same jury that heard the trial's prior phases and considered evidence as to the punitive damages to be awarded to the class. On July 14, 2000, the jury awarded approximately $145,000.0 in punitive damages~~

~~against all defendants, including $16,250.0 against Lorillard.~~

~~On November 6, 2000, the Circuit Court of Dade County, Florida, entered a final judgment in favor of the plaintiffs. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. The court's final judgment denied various of defendants' post-trial motions, which included a motion for new trial and a motion seeking reduction of the punitive damages award. Lorillard has noticed an appeal from the final judgment to the Florida Third District Court of Appeal and has posted its appellate bond in the amount of $100.0 pursuant to Florida legislation enacted in May of 2000 limiting the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. While Lorillard believes this legislation is valid and that any challenges to the possible application or constitutionality of this legislation would fail, during May of 2001, Lorillard and two other defendants jointly contributed a total of $709.0 to a fund (held for the benefit of the Engle plaintiffs) that will not be recoverable by them even if challenges to the judgment are resolved in favor of the defendants. As a result, the class has agreed to a stay of execution, referred to as the Engle agreement, on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court. Lorillard contributed a total of $200.0 to this fund, which included the $100.0 that was posted as collateral for its appellate bond. Accordingly, Lorillard recorded a pretax charge of $200.0 in the second quarter of the year ended December 31, 2001.~~

~~In the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Lorillard in the Engle agreement would terminate and the class would be free to challenge the Florida legislation. As of March 31, 2002, Lorillard, Inc. had a balance sheet net worth of approximately $1,341.2.~~

~~In addition, the Engle agreement requires Lorillard to obtain the written consent of class counsel or the court prior to selling any trademark of or formula comprising a cigarette brand having a U.S. market share of 0.5% or more during the preceding calendar year. The Engle agreement also requires Lorillard to obtain the written consent of the Engle class counsel or the court to license to a third party the right to manufacture or sell such a cigarette brand unless the cigarettes to be manufactured under the license will be sold by Lorillard.~~

~~Now that the jury has awarded punitive damages and final judgment has been entered, Lorillard believes that it is unclear how the Punitive Damages Order will be implemented. The Punitive Damages Order provides that the lump sum punitive damages amount, if any, will be allocated equally to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damages amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The Punitive Damages Order does not address whether defendants would be required to pay the punitive damages award, if any, prior to a~~

~~determination of claims of all class members, which is Phase Three of the trial plan, a process that could take years to conclude. The final judgment entered by the court on November 6, 2000 directs that the amounts awarded by the jury are to be paid immediately. Phase Three would address potentially hundreds of thousands of other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual specific issues regarding entitlement to damages, in individual trials before separate juries.~~

~~Lorillard is a defendant in six separate lawsuits that are pending in the Florida courts in which the plaintiffs claim that they are members of the Engle class, that all liability issues associated with their claims were resolved in the earlier phases of the Engle proceedings, and that trials on their claims should proceed immediately. Lorillard is opposing trials of these actions on the grounds that they should be considered during Phase Three of the Engle case and should be stayed while the Engle appeal is proceeding.~~

~~Lorillard remains of the view that the Engle case should not have been certified as a class action. Lorillard believes that class certification in the Engle case is inconsistent with the majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged the class certification, as well as numerous other legal errors that it believes occurred during the trial. Lorillard believes that an appeal of these issues on the merits should prevail.~~

~~Other Class Action Cases - On November 14, 2001, a jury in the Circuit Court of Ohio County, West Virginia returned a verdict in favor of the defendants, including Lorillard, in the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997). The court has denied plaintiffs' motion for new trial. As of May 1, 2002, the deadline for plaintiffs to notice an appeal had not expired. During 2000, the court granted plaintiffs' motion for class certification. The court ruled that the class consisted of West Virginia residents who were cigarette smokers on or after January 31, 1995; who had a minimum of a five pack-year smoking history as of December 4, 2000; who had not been diagnosed with certain medical conditions; and who had not received health care funded by the State of West Virginia. The West Virginia Supreme Court of Appeals declined to review defendants' petition for a writ of prohibition against the class certification ruling. Plaintiffs sought the creation of a fund, the purpose of which would be to pay for class members to receive medical monitoring for chronic obstructive pulmonary disease, emphysema and lung cancer. Lorillard was a defendant in the case.~~

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), the trial court certified a class comprised of residents of the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages. Jury selection began during June of 2001. A twelve member jury and ten alternate jurors were selected, but the Louisiana Court of Appeals and the Louisiana Supreme Court, in response to writ applications initiated by the defendants, excused a total of 14 jurors or alternate jurors. In their writ applications, defendants contended that several selected jurors had family members who were potential members of the class certified by the trial court, and that the~~

~~selected jury was biased against the defendants. The Louisiana Supreme Court has directed the trial court to re-open the jury selection process in order to select additional jurors. The Louisiana Supreme Court, however, has denied defendants' motion to declare a mistrial due to issues related to the jury selection process. The trial court has not announced when the jury as finally constituted would begin hearing evidence in the trial. Lorillard is a defendant in the case.~~

~~During December of 2000, the Superior Court of San Diego County, California issued an order in the case of Daniels v. Philip Morris, Incorporated, et al. that granted plaintiffs' motion for class certification on behalf of California residents who, while minors, smoked at least one cigarette between April 1994 and December 31, 1999. Trial in this matter is scheduled to begin during July of 2002. Lorillard is a defendant in the case.~~

~~During April of 2001, the Superior Court of San Diego County, California in the case of Brown v. The American Tobacco Company, Inc., et al., granted in part plaintiff's motion for class certification and certified a class comprised of adult residents of California who smoked at least one of defendants' cigarettes during the applicable time period and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California Business and Professions Code sections 17200 and 17500. The court subsequently defined the applicable class period for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. Trial is scheduled to begin during October of 2002. Lorillard is a defendant in the case.~~

~~REIMBURSEMENT CASES - In addition to the cases settled by the State Settlement Agreements described above, approximately 45 other suits are pending, comprised of cases brought by the U.S. federal government, county governments, city governments, unions, American Indian tribes, hospitals or hospital districts, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds allegedly expended by them to provide health care to individuals with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims, including injunctive relief, indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in some of these actions seek certification as class actions. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in some of the cases seek medical monitoring. Lorillard is named as a~~

defendant in all of the reimbursement cases except for a few of those filed in U.S. courts by foreign governments. The Company is named as a defendant in approximately 30 of the pending reimbursement cases, although it has not received service of four of these matters.

U.S. Federal Government Action - The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action. Plaintiff asserted claims under the Medical Care Recovery Act, the Medicare as Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act. The government alleges in the complaint that it has incurred costs of more than $20,000.0 annually in providing health care

costs under several federal programs, including Medicare, military and veterans' benefits programs, and the Federal Employee Health Benefits Program. The federal government seeks to recover an unspecified amount of health care costs, and various types of other relief, including disgorgement of profits, injunctive relief and declaratory relief that defendants are liable for the government's future costs of providing health care resulting from the defendants' alleged wrongful conduct.

During September of 2000, the court granted in part and denied in part defendants' motion to dismiss the complaint. The court dismissed plaintiff's claims asserted under the Medical Care Recovery Act as well as those under the Medicare as Secondary Payer provisions of the Social Security Act. The court denied the motion as to plaintiff's claims under the Racketeering Influenced and Corrupt Organizations Act. Plaintiff sought modification of the trial court's order as it related to the dismissal of the Medical Care Recovery Act claim. In an amended complaint filed during February of 2001, plaintiff attempted to replead the Medicare as Secondary Payer claim. In a July 2001 decision, the court reaffirmed its dismissal of the Medical Care Recovery Act claims. The court also dismissed plaintiff's reasserted claims under the Medicare as Secondary Payer Act. The court has denied a motion for intervention and a proposed complaint in intervention filed by the Cherokee Nation Tribe on behalf of a purported nationwide class of American Indian tribes. Trial in this matter is schedule to begin during July of 2003.

In June of 2001, the government invited defendants in the lawsuit, including Lorillard, to meet to discuss the possibility of a settlement of the government's case. Lorillard participated in one such meeting and no further meetings are scheduled.

Reimbursement Cases filed by Foreign Governments in U.S. Courts - Cases have been brought in U.S. courts by 13 nations, 11 Brazilian states, 11 Brazilian cities and one Canadian province. Both the Company and Lorillard are named as defendants in most of the cases. The Company has not received service of process of the cases filed by two of the nations and by one of the Brazilian states. Four of the cases have been voluntarily dismissed. During 2001, a federal court of appeal affirmed orders dismissing three of the cases, and the U.S. Supreme Court denied plaintiffs' petitions for writ of certiorari. During 2001, a Florida court dismissed two of the suits, and the plaintiff in one of the two actions has noticed an appeal. In addition, Lorillard and the Company were dismissed from three suits that remain pending against other defendants.

In 1977, Lorillard sold substantially all of its trademarks outside of the United States and the international business associated with those brands. Performance by Lorillard of obligations under the 1977 agreement reflecting the sale was guaranteed by the Company. Lorillard and the Company have received notice from Brown & Williamson Tobacco Corporation, which claims to be a successor to the purchaser, that indemnity will be sought under certain indemnification provisions of the 1977 agreement with respect to suits brought by various of the foregoing foreign jurisdictions, and in certain cases brought in foreign countries by individuals concerning periods prior to June 1977 and during portions of 1978.

Reimbursement Cases by American Indian Tribes - American Indian tribes are the plaintiffs in four pending reimbursement suits. Three of the four cases have been filed in tribal courts. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the

pending tribal cases. One of the four cases is pending before a federal court of appeals following plaintiffs' appeal from an order that granted

~~defendants' motion to dismiss the complaint. The remaining three cases are in the pre trial discovery stage.~~

~~Reimbursement Cases by Private Companies and Health Plans or Hospitals and Hospital Districts - Two cases are pending against cigarette manufacturers in which the plaintiffs are not-for-profit insurance companies. Lorillard is a defendant in both pending cases. The Company is not a defendant in either matter. In addition, two cases are pending in which plaintiffs are hospitals or hospital districts. Lorillard is named as a defendant in both such cases. The Company is not named as a defendant in either of the cases filed by hospitals or hospital districts. In one additional suit, a city governmental entity and several hospitals or hospital districts are plaintiffs. The Company is a defendant in this case.~~

~~On June 4, 2001, the jury in the U.S. District Court for the Eastern District of New York in the case of Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., returned a verdict awarding damages against the defendants, including Lorillard. In this trial, the jury heard evidence as to the claims of only one of the plan plaintiffs, Empire Blue Cross and Blue Shield, referred to as "Empire." In its June 4, 2001 verdict, the jury found in favor of the defendants on some of Empire's claims. One of the jury's findings precluded it from considering Empire's claims for punitive damages. The jury found in favor of Empire on certain other of plaintiff's claims. As a result of these findings, Empire is entitled to an award of approximately $17.8 in total actual damages, including approximately $1.5 attributable to Lorillard. The court denied plaintiff's post verdict application for trebling of the damages awarded by the jury. On November 1, 2001, the court entered a final judgment that reflects the jury's verdict. In the final judgment, Empire was awarded approximately $1.5 in actual damages and approximately fifty five thousand dollars in pre judgment interest for a total award against Lorillard of approximately $1.6. The court has awarded plaintiff's counsel approximately $38.0 in attorneys' fees. The defendants, including Lorillard, have noticed an appeal to the U.S. Court of Appeals for the Second Circuit from the final judgment and from the order awarding plaintiff's counsel attorneys' fees.~~

~~Reimbursement Cases by Labor Unions - Three reimbursement cases are pending in which the plaintiffs are labor unions, their trustees or their trust funds. Lorillard is a defendant in each of these suits. The Company is a defendant in two of the pending suits. Approximately 75 union cases have been dismissed in recent years. Some of these cases were dismissed voluntarily, while others were dismissed as a result of defendants' motions. Appeals were sought from some of these dismissal rulings and defendants have prevailed in each of these appeals. The Second, Third, Fifth, Seventh, Eighth, Ninth and Eleventh Circuit Courts of Appeal have found in favor of the defendants in each of the appeals from dismissal orders entered by the federal trial courts that were submitted to them, and the U.S. Supreme Court has denied petitions for writ of certiorari that sought review of some of these decisions. In addition, the Circuit Court of Appeals for the District of Columbia entered a ruling in 2001 that found in favor of the defendants on an appeal they filed from a ruling by a trial court that refused to dismiss four union cases. During 2001, an intermediate California court of appeal affirmed the final judgment entered in favor of the defendants in a union case, and the California Supreme Court has accepted plaintiffs' appeal. Several cases pending in state courts also have been dismissed.~~

~~EASTERN DISTRICT OF NEW YORK LITIGATION - On April 18, 2000, a federal judge in the Eastern District of New York issued an order that consolidates, for settlement purposes only, ten pending cases involving Lorillard as well as other industry defendants. These cases include three contribution cases (Falise v. The American Tobacco Company, et al., H.K. Porter Company, Inc. v. The American Tobacco Company, Inc., et al. and Raymark Industries, Inc. v. The American Tobacco Company, Inc., et al.), two union cases (Bergeron, et al. v. Philip Morris, Inc., et al. and The National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al.), one private company case (Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris Incorporated, et al.), two smoking and health class actions that have been served on defendants (Decie v. The American Tobacco Company, Inc., et al. and Simon v. Philip Morris Incorporated, et al.), one smoking and health class action in which none of the defendants has received service of process (Ebert v. Philip Morris Incorporated, et al.) and one case that contains elements of both a smoking and health class action and a private citizen reimbursement case (Mason v. The American Tobacco Company, Inc., et al.). The Falise and H.K. Porter cases have been voluntarily dismissed. The judge's order invited the federal government to join in the settlement discussions. On July 31, 2000, the federal judge orally proposed the formation of a national~~

~~punitive damages class action for the purposes of settlement. Pursuant to the judge's proposal, Lorillard entered into discussions with a committee of counsel representing a broad based group of plaintiffs in an effort to arrive at a comprehensive settlement of all exemplary and punitive damage claims, including claims involved in the Engle class action in Florida described above. The parties were unable to reach an understanding and the negotiations were suspended in late 2000.~~

~~The federal judge directed that a combined suit be filed encompassing all of the claims pending before him that name cigarette manufacturers as defendants. This matter is styled In re Simon (II) Litigation (U.S. District Court, Eastern District, New York, filed September 6, 2000). The Company and Lorillard are defendants in this proceeding. In a November 2000 ruling, the court stated that Simon II should be triable without appreciable delay should it be certified. During March of 2001, the court heard argument of plaintiffs' motion for class certification, plaintiffs' motion for appointment of class counsel, and defendants' motion to dismiss the complaint. During December of 2001, the plaintiffs proposed to the court that a test case comprising the claims of 15 individual plaintiffs be tried. On January 31, 2002, a complaint on behalf of 13 individual smokers, or the estates of deceased smokers, was filed. Lorillard is named as a defendant in this suit. The Company is not named as a defendant. A trial date of this case has not been scheduled.~~

~~Trial was held in two of the matters during 2001. During January of 2001, the court declared a mistrial in the case of Falise v. The American Tobacco Company, et al. The plaintiffs, who were the trustees of the Johns Manville Trust, voluntarily dismissed the case during 2001 and relinquished their right to seek a re-trial. During June of 2001, a verdict was returned in the case of Blue Cross and Blue Shield of New Jersey (trial was limited to the claims of only one plan plaintiff), a reimbursement case described above. Following conclusion of the Blue Cross trial, the U.S. District Judge stayed the claims asserted in the suit by the other plan plaintiffs pending resolution of defendants' appeal. The U.S. District Judge also stayed several of the cases involving cigarette manufacturers pending before the judge.~~

~~CONTRIBUTION CLAIMS - In addition to the foregoing cases, approximately 15 cases are pending in which private companies seek recovery of funds expended by them to individuals whose asbestos disease or illness was alleged to have been caused in whole or in part by smoking-related illnesses. Lorillard is named as a defendant in each action, although it has not received service of process in one of the cases. The Company is named as a defendant in four of the cases but has not received service of process in two of them.~~

~~FILTER CASES - A number of cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than 40 years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 30 filter cases are pending in federal and state courts against Lorillard. The Company is not a defendant in any of the pending filter cases. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs in most of these cases seek unspecified amounts in compensatory and punitive damages. Trials have been held in 15 such cases, including three since January 1, 2000. Juries have returned verdicts in favor of Lorillard in 11 of the 15 trials. Four verdicts have been returned in plaintiffs' favor. In a 1995 trial, a California jury awarded plaintiffs approximately $1.2 in actual damages and approximately $0.7 in punitive damages. In a 1996 trial, another California jury awarded plaintiff approximately $0.1 in actual damages. In a 1999 trial, a Maryland jury awarded plaintiff approximately $2.2 in actual damages. In a 2000 trial, a California jury awarded plaintiffs $1.1 in actual damages and the case was settled prior to a determination of punitive damages.~~

~~TOBACCO RELATED ANTITRUST CASES - Wholesalers and Direct Purchaser Suits - Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege that defendants conspired to fix the price of cigarettes to wholesalers since 1993 in violation of the Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre-trial purposes in the U.S. District Court for the Northern District of Georgia. The Court has granted class certification for a four-year class~~

~~(beginning in 1996 and ending in 2000) of domestic direct purchasers. Lorillard and the other defendants' motions for summary judgment seeking to dismiss the actions in their entirety are pending before the Court awaiting resolution. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases.~~

~~Indirect Purchaser Suits - Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in all but one of these indirect purchaser cases. One indirect purchaser suit, in New York, has been dismissed in its entirety. The Arizona indirect purchaser suit was dismissed by the trial court, but the dismissal was reversed on appeal in May 2002. While one court has granted plaintiffs motion to certify a class of consumers in one of these cases, another court has refused to do so, and other motions seeking class certification have been deferred by other courts pending~~

~~resolution of the federal case discussed above. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.~~

~~Tobacco Growers Suit - DeLoach v. Philip Morris Inc., et al. (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies are also presently named as defendants, and the plaintiffs have now added the major leaf buyers as defendants. This case was originally filed in U.S. District Court, District of Columbia, and transferred to a North Carolina federal court upon motion by the defendants. The plaintiffs' claims relate to the conduct of the companies in the purchase of tobacco through the auction system under the federal program. The suit seeks an unspecified amount of actual damages, trebled under the antitrust laws, and injunctive relief. On April 3, 2002 the court certified a class consisting of all persons holding a quota (the licenses that a farmer must either own or rent to sell the crop) to grow, and all domestic producers who sold, flue cured or burley tobacco at anytime from February 1996 to present. Defendants, including Lorillard, have filed a petition pursuant to Rule 23(f) of the Federal Rules of Procedure with the United States Court of Appeals for the Fourth Circuit seeking to appeal the District Court's decision on class certification.~~

~~* * * *~~

~~OTHER LITIGATION - The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will, in the opinion of management, materially affect the Company's results of operations or equity.~~

~~13. In the opinion of Management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2002 and December 31, 2001 and the statements of income and changes in cash flows for the three months ended March 31, 2002 and 2001.~~

~~Results of operations for the first three months of each of the years is not necessarily indicative of results of operations for that entire year.~~

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

~~OVERVIEW~~

~~The Company reported consolidated net income (including both the Loews Group and Carolina Group) for the 2002 first quarter of $252.9 million, compared to $472.3 million in the 2001 first quarter. Net income in the first quarter of 2002 includes net investment gains of $15.5 million compared to $228.9 million in the comparable period of the prior year. Net income in the first quarter of 2002 also includes a loss for discontinued operations at CNA of $31.0 million, compared to income of $0.2 million in the 2001 first quarter. The first quarter of 2001 included a charge for accounting changes of $53.3 million related to accounting for derivative instruments at CNA.~~

~~Consolidated net operating income, which excludes net investment gains, discontinued operations and accounting changes, for the quarter ended March~~

~~31, 2002 was $268.1 million, compared to $296.5 million in the 2001 first quarter.~~

~~Net operating income is calculated by deducting net investment gains or losses, discontinued operations and the cumulative effect of a change in accounting principle (after deduction of related income taxes and minority interests), from net income. Analysts following our stock have advised us that such information is meaningful in assisting them in measuring the performance of our insurance subsidiaries. In addition, it is used in management's discussion of the results of operations for the insurance related segments due to the significance of the amount of net investment gains or losses. Net operating income is also a common measure throughout the insurance industry. Net realized investment gains are excluded from this operating measure because investment gains or losses related to CNA's available-for-sale investment portfolio are largely discretionary, are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not an indication of trends in operations.~~

~~The Company has two classes of common stock, Loews Common Stock and Carolina Group Stock, issued in February 2002. Earnings per share data are presented for the Company's two classes of common stock for the periods they were outstanding.~~

~~Net income attributable to Loews Common Stock for the 2002 first quarter amounted to $234.9 million or $1.23 per share, compared to $472.3 million or $2.40 per share in the 2001 first quarter. Net income in the first quarter of 2002 includes net investment gains attributable to Loews Common Stock of $15.5 million or $.08 per share, compared to gains of $228.9 million or $1.16 per share in the comparable period of the prior year. Net income attributable to Loews Common Stock in the first quarter of 2002 also included a loss for discontinued operations at CNA of $31.0 million or $.16 per share, compared to income of $0.2 million in the 2001 first quarter. The first quarter of 2001 also included a charge for accounting changes of $53.3 million or $.27 per share, related to accounting for derivative instruments at CNA.~~

~~Net operating income attributable to Loews Common Stock, which excludes net investment gains, discontinued operations and accounting changes, for the quarter ended March 31, 2002, was $250.4 million or $1.31 per share, compared to $296.5 million or $1.50 per share in the 2001 first quarter.~~

~~Net income attributable to Carolina Group stock for the 2002 first quarter amounted to $18.0 million or $.45 per share. The Company is issuing a separate press release reporting the actual and pro forma results of the Carolina Group for the quarters ended March 31, 2002 and 2001. The Carolina Group's reported results for the quarter ended March 31, 2001 do not reflect the issuance in February 2002 of Carolina Group stock.~~

~~Consolidated gross revenues amounted to $4.8 billion in the first quarter of 2002, compared to $4.9 billion in the comparable period of the prior year. Revenues for the quarter ended 2001 have been restated for comparative purposes to reflect the adoption of new accounting principles related to the classification of promotional expenses by Lorillard.~~

~~In February 2002, the Company created a second class of common stock, called Carolina Group Stock, a tracking stock intended to reflect the economic performance of a group of the Company's assets and liabilities, called the Carolina Group, principally consisting of the Company's subsidiary Lorillard, Inc., and in an initial public offering the Company issued shares of Carolina Group Stock representing 23.17% of the economic performance of the Carolina~~

~~Group. Loews Common Stock will continue to represent the economic performance of the Company's remaining assets, including the 76.83% interest in the Carolina Group not represented by Carolina Group Stock.~~

~~At March 31, 2002, the Company had a book value of $57.29 per share of Loews Common Stock compared to a book value of $50.39 per share at December 31, 2001. The increase in Loews Common Stock book value per share is primarily due to proceeds from issuance of the Carolina Group common stock and the Loews Group's net economic interest in the notional intergroup debt receivable.~~

~~As of March 31, 2002, there were 189,405,800 shares of Loews Common Stock outstanding. During the quarter ended March 31, 2002, the Company purchased 2,099,200 shares of Loews Common Stock at an aggregate cost of $122.9 million. Depending on market conditions, the Company from time to time purchases shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.~~

~~Classes of Common Stock~~

~~The issuance of Carolina Group Stock has resulted in a two class common stock structure for Loews Corporation. Carolina Group Stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are (a) the Company's 100% stock ownership interest in Lorillard, Inc.; (b) $2.5 billion of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and (c) any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco-related businesses.~~

~~The outstanding Carolina Group Stock represents a 23.17% economic interest in the economic performance of the Carolina Group. The Loews Group, reflecting the earnings attributable to Loews Common Stock, consists of all the Company's assets and liabilities other than the 23.17% economic interest represented by the outstanding Carolina Group Stock, and includes as an asset the notional, intergroup debt of the Carolina Group.~~

~~The existence of separate classes of common stock could give rise to occasions where the interests of the holders of Loews Common Stock and Carolina Group Stock diverge or conflict or appear to diverge or conflict. Subject to its fiduciary duties, the Company's board of directors could, in its sole discretion, from time to time, make determinations or implement policies that affect disproportionately the groups or the different classes of stock. For example, Loews's board of directors may decide to reallocate assets, liabilities, revenue, expenses and cash flows between groups, without the consent of shareholders. The board of directors would not be required to select the option that would result in the highest value for holders of Carolina Group stock.~~

~~As a result of the flexibility provided to Loews's board of directors, it might be difficult for investors to assess the future prospects of the Carolina Group based on the Carolina Group's past performance.~~

~~The creation of the Carolina Group and the issuance of Carolina Group stock does not change the Company's ownership of Lorillard, Inc. or Lorillard, Inc.'s status as a separate legal entity. The Carolina Group and the Loews Group are notional groups that are intended to reflect the performance of the defined sets of assets and liabilities of each such group as described above.~~

~~The Carolina Group and the Loews Group are not separate legal entities and the attribution of assets and liabilities to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities.~~

~~Holders of the Company's common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in Loews Corporation.~~

~~RESULTS OF OPERATIONS BY BUSINESS SEGMENT~~

~~CNA Financial~~

~~Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is an 89% owned subsidiary of the Company.~~

~~CNA conducts its operations through five operating groups: Standard Lines, Specialty Lines and CNA Re (these groups comprise the Company's Property-Casualty segment); Group Operations and Life Operations. In addition to these five operating segments, certain other activities are reported in the Other Insurance segment. These segments reflect the way CNA manages its operations and makes business decisions. Segment disclosures of prior periods have been modified to conform with the current period presentation.~~

~~Reinsurance~~

~~CNA assumes and cedes reinsurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. Reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Generally, property risks are reinsured on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk. CNA's life reinsurance includes coinsurance, yearly renewable term and facultative programs.~~

~~CNA's overall reinsurance program includes certain property-casualty~~

~~contracts, such as the corporate aggregate treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under the funds withheld basis, CNA records a liability for substantially all of the premiums that are ceded under a reinsurance contract. CNA is required to increase the funds withheld balance at stated interest crediting rates. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, interest crediting will cease and additional claim payments are recoverable from the reinsurer. The funds withheld liability is recorded in reinsurance balances payable in the Consolidated Condensed Balance Sheets.~~

~~Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, included in other net investment income, was $58.0 and $36.0 million for the first quarter of 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,877.0 and $2,724.0 million at March 31, 2002 and December 31, 2001.~~

~~The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss~~

~~payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.~~

~~For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of CNA's property casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the level of subject premium, but there is a maximum aggregate limit of $1,125.0 million. Maximum ceded premium under the contract is $683.0, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0%, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $3.0 million was recorded for the 2002 Cover for the three months ended March 31, 2002.~~

~~The aggregate reinsurance protection from the 2002 Cover attaches at a defined accident year loss and allocated loss adjustment expense (collectively, losses) ratio. Under the contract, CNA has the right to elect to cede losses to the 2002 Cover when its recorded accident year losses exceeds the attachment point. This election period expires March 31, 2004. If no losses are ceded by this date, the contract is deemed to be commuted. If CNA elects to cede any losses to the 2002 Cover, it must continue to cede all losses subject to the terms of the contract.~~

~~In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss and allocated loss adjustment expense (collectively, losses) ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 million of ceded losses with an aggregate limit of $1.0 billion of ceded losses for the three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 million of limit the ceded premium is $230.0 million. The second section of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 million of ceded losses for a maximum ceded premium of $310.0 million. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum.~~

~~The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the September 11, 2001 World Trade Center Disaster and related events ("WTC event"), the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded during 2001, the $500.0 million limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 million of limit on accident years 2000 and 2001 under the first section. The impact of the Aggregate Cover on pretax operating results was as follows:~~

~~Three Months Ended~~

	March 31, 2002	March 31, 2001
	(In millions)	
Ceded earned premiums		$ (42.0)
Ceded claim and claim adjustment expense		39.0
Interest charges	$(13.0)	(6.0)
Pretax impact on operating results	$(13.0)	$ (9.0)

In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 million of ceded losses. The ceded premiums are a percentage of ceded losses and for the $760.0 million of limit, the ceded premium is $456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $563.0 million have been ceded under the CCC Cover through March 31, 2002.

The impact of the CCC Cover on pretax operating results was as follows:

	Three Months Ended March 31, 2002	2001
	(In millions)	
Ceded earned premiums	$(61.0)	$ (1.0)
Ceded claim and claim adjustment expense	93.0	
Interest charges	(10.0)	
Pretax impact on operating results	$ 22.0	$ (1.0)

The impact by operating segment of the 2002 Cover, Aggregate Cover and the CCC Cover on pretax operating results was as follows:

	Three Months Ended March 31, 2002	2001
	(In millions)	
Standard Lines	$(14.0)	$ (5.0)
Specialty Lines	(2.0)	(2.0)
CNA Re	22.0	
Corporate and Other		(3.0)
Pretax impact on operating results	$ 6.0	$ (10.0)

2001 Restructuring

In 2001, CNA finalized and approved two separate restructuring plans. The first plan related to CNA's Information Technology operations (the "IT Plan"). The second plan related to restructuring the property-casualty segments and Life Operations, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise wide system initiatives. The IT Plan had two main components, which included the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that includes common architecture and platform standards that directly support CNA's strategies.

In the first quarter of 2001, CNA incurred $6.0 million pretax of restructuring and other related charges for the IT Plan related to employee severance charges.

No restructuring and other related charges have been incurred for the IT Plan in 2002; however, payments were made in the first quarter of 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at March 31, 2002 and the activity in that accrual during the first quarter of 2002. Approximately $5.0 million of the remaining accrual is expected to be paid out during the remainder of 2002.

	Employee Termination and Related Benefit Costs	Other Costs	Total
	(In millions)		
Accrued costs at December 31, 2001	$10.0	$1.0	$11.0
Payments charged against liability	(1.0)		(1.0)
Accrued costs at March 31, 2002	$ 9.0	$1.0	$10.0

The IT Plan is not expected to result in decreased operating expense in the foreseeable future because savings from the workforce reduction will be used to fund new technology-related initiatives. Employee termination and related benefit payments will continue through 2004 due to employment contract obligations.

2001 Plan

The overall goal of the 2001 Plan is to create a simplified and leaner organization for customers and business partners. The major components of the plan include a reduction in the number of strategic business units ("SBUs") in the property-casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property-casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations include a decision to discontinue writing variable life and annuity business.

No restructuring and other related charges related to the 2001 Plan were incurred in 2002; however, payments were made in the first quarter of 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of March 31, 2002 and the activity in that accrual during the first quarter of 2002. Approximately $29.0 million of the remaining accrual is expected to be paid out during the remainder of 2002.

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Total
		(In millions)		
Accrued costs at December 31, 2001 . . .	$ 66.0	$56.0	$30.0	$152.0
Costs that did not require cash			(25.0)	(25.0)
Payments charged against liability . . .	(34.0)	(6.0)		(40.0)
Accrued costs at March 31, 2002	$ 32.0	$50.0	$ 5.0	$ 87.0

Terrorism Exposure

CNA and the insurance industry incurred substantial losses related to the tragic events of September 11, 2001. For the most part, CNA believes the industry was able to absorb the loss of capital from these losses, but the capacity to withstand the effect of any additional terrorism events was significantly diminished. The public debate following September 11 centered on the role, if any, the U.S. federal government should play in providing a "terrorism backstop" for the industry. Several legislative proposals were introduced, but as yet, Congress has not enacted any of the proposed solutions.

Without any federal backstop in place, CNA's businesses are exposed to losses arising from terrorism events. CNA is attempting to mitigate this exposure through its underwriting practices, policy terms and conditions, and use of reinsurance.

While the unexpired portion of CNA's current reinsurance program placed prior to September 11, 2001 generally provides coverage for terrorism events, CNA expects that future property casualty and certain group life and accident reinsurance renewals will either exclude coverage or be significantly limited with respect to terrorism events. CNA does not expect any terrorism exclusion to be included in future individual life reinsurance renewals.

CNA is generally including a terrorism exclusion or sub limit in its primary and reinsurance assumed policy forms and contracts for large property risks in selected geographic areas. General liability and commercial auto policies for large commercial customers also generally exclude terrorism where permissible by law. The primary property and casualty policy forms applicable to new and renewal policies for small and middle market commercial customers will generally include a terrorism exclusion; however, these policy forms have not yet been approved in all states. Notwithstanding the policy exclusions described in this paragraph, CNA has decided to effectively remove the terrorism exclusion for both property and casualty coverage on policies for small and middle market commercial customers and is currently sending out notices accordingly. CNA expects that the exclusion will be removed as to all such policies until at least September of 2002. CNA is generally prohibited from excluding terrorism exposure from its primary workers' compensation, individual life and group life and health policies.

Property and Casualty

CNA conducts its property-casualty operations through the following operating segments: Standard Lines, Specialty Lines, and CNA Re. The following table summarizes key components of the Property-Casualty segment operating results for the three months ended March 31, 2002 and 2001.

	Three Months Ended March 31, 2002	2001
	(In millions)	
Net earned premiums	$1,661.0	$1,475.0
Net investment income	197.0	302.0
Underwriting loss	(104.0)	(135.0)
Net operating income	75.5	109.4
Ratios:		
Loss and loss adjustment expense	72.4%	72.1%
Expense	32.8	35.4
Dividend	1.0	1.6
Combined	106.2%	109.1%

Net operating income for the Property-Casualty segment decreased $33.9 million for the first quarter of 2002 as compared with the same period in 2001. This decrease is due primarily to a $60.4 million decrease in net investment income, including a $21.3 million decrease in limited partnership income. These decreases were partially offset by improved underwriting results and a non-recurring currency translation gain on U.S. dollar denominated investments held by an Argentinean subsidiary that is consolidated on a one quarter lag. The Argentine government changed its local currency and required conversion of all U.S. denominated investments to Argentine Pesos. This conversion resulted in a translation gain of $16.0 million, which was partially offset by the write off of the goodwill of that entity in the amount of $8.9 million.

The combined ratio for the Property Casualty segment decreased 2.9 points for the first quarter of 2002 as compared with the same period in 2001 and underwriting results improved by $31.0 million. This change is due to decreases in the expense and dividend ratios, partially offset by an increase in the loss ratio. The expense ratio decreased 2.6 points primarily as a result of lower underwriting expenses resulting from decreased staff levels due to the 2001 Plan and other expense reduction initiatives and an increased net earned premiums base. The dividend ratio decreased 0.6 points primarily as a result of unfavorable development in dividend reserves in 2001. The loss ratio increased 0.3 points primarily as a result of a reduced benefit from the use of reinsurance in 2002 and adverse prior year loss development in the marine line of business, partially offset by a $32.0 million net underwriting benefit related to the CCC Cover and improvement in gross current accident year loss experience in Standard Lines.

Net earned premiums for the Property Casualty segment increased $186.0 million for the first quarter of 2002 as compared with the same period in 2001. This increase was comprised of increases in Standard Lines of $152.0 million and Specialty Lines of $56.0 million, partially offset by a decrease in CNA Re of $22.0.

Net earned premiums for Standard Lines increased primarily as a result of rate increases, a higher level of new business and lower ceded premiums.

Net earned premiums for Specialty Lines increased primarily as a result of rate increases and increased production, particularly in the architects and engineers, long term care, and marine lines of business.

Net earned premiums for CNA Re decreased primarily as a result of the decision made in the third quarter of 2001 to cease new business writings in CNA Re's U.K. subsidiary.

During the first quarter of 2002, CNA Re revised its estimate of premiums and losses related to the WTC event. In estimating CNA Re's WTC event losses, CNA performed a treaty-by-treaty analysis of exposure. CNA's loss estimate was based on a number of assumptions including the loss to the industry, the loss to individual lines of business and the market share of CNA Re's cedants. Information now available has caused CNA Re to increase its estimate of WTC event related premiums and losses on its property facultative and property catastrophe business. The impact of increasing the estimate of gross WTC event losses by $144.0 million was offset on a net of reinsurance basis (before the impact of the CCC Cover) by higher restatement premiums and a reduction of return premiums.

The increase in WTC related losses in accident year 2001 increased the level of losses ceded to the CCC Cover. Accordingly, CNA Re recognized a benefit of $16.0 million, after tax and minority interest, in the first quarter of 2002 related to the additional cessions to the CCC Cover.

Standard Lines achieved an average rate increase of 31.0% in the first quarter of 2002 for the contracts that renewed during the period and had a retention rate of 66.0% for those contracts that were up for renewal. The non-medical and medical professional liability and financial products lines of business achieved an average rate increase of 21.0% with a retention rate of 76.0% for the first quarter of 2002 for those contracts that were up for renewal. CNA Global achieved an average rate increase of 18.0% across its businesses during the first quarter of 2002 with a retention rate of 73.0%. Retention rates above apply to Specialty Lines excluding the CNA Guaranty and Credit, Surety and Warranty businesses.

Group

Net operating income increased $2.6 million for the first quarter of 2002 as compared with the same period in 2001. This increase is primarily attributable to lower expenses in Group Benefits and diminished adverse effects from the occupational accident and Group Reinsurance discontinued lines of business.

Net earned premiums increased $120.0 million for the first quarter of 2002 as compared with the same period in 2001. This growth is due primarily to higher premiums in the Federal Markets mail handlers benefit program resulting from increased claim and cost containment fees. In addition there was growth

~~in the disability, life and accident and long term care lines of business and in the Group Reinsurance business.~~

~~On April 16, 2002, the National Postal Mail Union informed CNA it had signed a contract with First Health Corporation to become the new underwriter and administrator of its health benefit plan effective January 1, 2003. CNA received $2.2 billion of revenue and recorded $8.7 million of net operating income from this contract in 2001. The loss of this contract is not anticipated to have an adverse material impact on 2002 net operating income.~~

~~Life~~

~~Net operating income decreased $5.0 million for the first quarter of 2002 as compared with the same period in 2001. This decrease is due primarily to lower operating results for the Index 500 product in Retirement Services because results in the first quarter of 2001 were unusually favorable. In addition, unfavorable claims experience in Individual Life and in the viatical line of business in 2002 was partially offset by improved net investment income.~~

~~Sales volume decreased $33.0 million for the first quarter of 2002 as compared with the same period in 2001. Reduced sales in the variable products business, which CNA decided to exit in the fourth quarter of 2001, were partially offset by increased sales in the Long Term Care and Individual Life businesses. Net earned premiums increased $25.0 million for the first quarter of 2002 as compared with the same period in 2001 attributable primarily to growth in the Long Term Care and Individual Life businesses.~~

~~Other Insurance~~

~~Net operating results improved $31.9 million for the first quarter of 2002 as compared with the same period in 2001. This improvement is due to $13.9 million of adverse development related to APMT claims in the first quarter of 2001 compared to no development in the first quarter of 2002, reduced underwriting expenses for e-Business initiatives, lower interest expense on corporate debt, and the absence of $3.5 million of restructuring and other related charges that occurred in the first quarter of 2001.~~

~~Total operating revenues decreased $4.0 million for the first quarter 2002 as compared with the same period in 2001, primarily as a result of decreased revenues for CNA UniSource.~~

~~In the second quarter of 2001, CNA planned the disposition of CNA UniSource, a payroll processor and professional employer organization ("PEO"). After exploring possible transactions to dispose of its PEO business, CNA UniSource exited the PEO business, as of March 31, 2002. As of that date, substantially all existing PEO client contracts were terminated. All obligations related to the PEO operation are being run off in an orderly manner and the associated costs are included in continuing operations. CNA anticipates additional operating losses from the PEO run off for the remainder of 2002. CNA UniSource's payroll processing business, which has annual revenues of approximately $16.0 million, remains designated as held for sale.~~

~~Environmental Pollution and Other Mass Tort and Asbestos Reserves ("APMT")~~

~~CNA's property casualty insurance subsidiaries have potential exposures related to APMT claims.~~

~~Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies. The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfunds") govern the cleanup and restoration of toxic waste sites and formalize the concept of legal liability for cleanup and restoration by "Potentially Responsible Parties" ("PRPs"). Superfund and the mini-Superfunds establish~~

~~mechanisms to pay for cleanup of waste sites if PRPs fail to do so, and to assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent upon a variety of factors. Further, the number of waste sites subject to cleanup is unknown. To date, approximately 1,500 cleanup sites have been identified by the Environmental Protection Agency ("EPA") and included on its National Priorities List ("NPL"). State authorities have designated many cleanup sites as well.~~

~~Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. These claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form, which includes what is referred to in the industry as an "absolute pollution exclusion." CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.~~

~~A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2001 or the first three months of 2002, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the effect upon CNA's results of operations and/or financial position.~~

~~Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to cleanup, and the standards for cleanup and liability, the ultimate liability of CNA for environmental pollution claims may vary substantially from the amount currently recorded.~~

~~As of March 31, 2002 and December 31, 2001, CNA carried approximately $584.0 and $617.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. There was no environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the three months ended March 31, 2002. Unfavorable environmental pollution and other mass tort development for the three months ended March 31, 2001 amounted to $3.0 million.~~

~~CNA's property-casualty insurance subsidiaries also have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be~~

~~targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of March 31, 2002 and December 31, 2001, CNA carried approximately $1,224.0 and $1,204.0 million of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. There was no unfavorable asbestos net claim and claim adjustment expense reserve development for the three months ended March 31, 2002. Unfavorable asbestos net claim and claim adjustment expense reserve development for the three months ended March 31, 2001 amounted to $21.0 million. CNA has attempted to manage its asbestos related exposures by aggressively resolving older claims.~~

~~In addition, some asbestos related defendants have asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA currently 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 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.~~

~~Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-~~

impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos related claims may vary substantially from the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos related claims will be medical inflation trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of defendants, the mix of asbestos related diseases presented and the possibility of legislative reform. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on CNA's results of operations and/or financial condition.

The results of operations and financial condition of CNA in future years may continue to be adversely affected by environmental pollution and other mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including the potential for further reserve strengthening, as warranted.

Lorillard

Lorillard, Inc. and subsidiaries ("Lorillard"). Lorillard, Inc. is a wholly owned subsidiary of the Company.

During the first quarter of 2002, Lorillard adopted Emerging Issues Task Force ("EITF") No. 00-25 and No. 00-14 relating to the classification of vendor consideration and certain sales incentives. As a result, promotional expenses historically included in other operating expenses were reclassified to cost of manufactured products sold, or as reductions of revenues from manufactured products. Prior period amounts were reclassified for comparative purposes. Adoption of the EITF issues had no impact on the results of operations and cash flows of Lorillard.

Revenues and net income increased by $50.4 and $2.3 million, or 5.4% and 1.4%, respectively, for the three months ended March 31, 2002, as compared to the corresponding period of the prior year.

Revenues increased due to higher net sales, partially offset by lower investment income. Net sales increased by $67.8 million due to higher average unit prices which resulted in an aggregate increase of approximately $39.2 million, or 4.3%, including $22.5 million from the increase in federal excise taxes. Increased unit sales volume of approximately $28.6 million, or 3.2%, for the three months ended March 31, 2002, as compared to 2001, also contributed to the higher net sales. During 2002, Lorillard increased its net wholesale price of cigarettes by an average of $7.13 per thousand cigarettes ($.14 per pack of 20 cigarettes), or 6.2%. Federal excise taxes are included in the price of cigarettes and on January 1, 2002, the federal excise tax on cigarettes increased by $2.50 per thousand cigarettes ($0.05 per pack of 20 cigarettes) to $19.50 per thousand cigarettes. All of the states also levy excise taxes on cigarettes. Various states have proposed, and certain states have recently passed, increases in their state tobacco excise taxes. Such actions may adversely affect Lorillard's volume, net sales and net income.

Lorillard's overall unit sales volume increased 1.8% for the three months ended March 31, 2002, as compared to 2001. Newport's unit sales volume increased by 7.0% for the three months ended March 31, 2002, primarily as a result of the introduction of additional offerings from Newport's Medium line extension, strengthened promotional support and inventory replenishment significantly above average purchases by some wholesale customers. Overall unit sales volume reflects lower unit sales of its Maverick and Old Gold brands in the discount market segment due primarily to increased competition in the discount segment and continued limitations imposed by Philip Morris's merchandising arrangements and general competitive conditions. Overall, industry unit sales volume increased by 2.7% for the three months ended March 31, 2002.

Lorillard's share of wholesale cigarette shipments was 9.5% for the three months ended March 31, 2002, as compared to 9.6% for 2001. Newport, a premium brand, accounted for approximately 88.0% of Lorillard's unit sales for the three months ended March 31, 2002, compared to 85.0% for the year ended December 31, 2001. Newport's market share of the premium segment was 11.2% for the three months ended March 31, 2002, compared to 10.9% for the year ended December 31, 2001.

Lorillard recorded pretax charges of $295.8 and $279.2 million ($180.7 and $170.0 million after taxes), for the three months ended March 31, 2002 and 2001, respectively, to accrue its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of

~~ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. Funds required for the industry payment obligations have been provided by Lorillard's operating activities. See Note 12 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

~~The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and places significant restrictions on their ability to market and sell cigarettes. The Company believes that the implementation of the State Settlement Agreements will materially adversely affect its consolidated results of operations and cash flows in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in~~

~~U.S. cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to all of the payments of the State Settlement Agreements.~~

~~Loews Hotels~~

~~Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews Hotels Holding Corporation is a wholly owned subsidiary of the Company.~~

~~Revenues decreased by $7.6 million, or 9.0%, and net income increased by $0.5 million, or 9.1%, for the three months ended March 31, 2002, as compared to the corresponding period of the prior year.~~

~~Revenue per available room declined to $120.10 for the quarter ended March 31, 2002, compared to $133.70 for the same period in 2001, primarily due to lower average room rates. Net income increased due primarily to improved results at the Universal Orlando properties and lower interest expense, partially offset by the reduced revenues.~~

~~Diamond Offshore~~

~~Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 53% owned subsidiary of the Company.~~

~~Revenues and net income decreased by $20.3 and $6.0 million, or 9.0% and 40.8%, respectively, for the three months ended March 31, 2002, as compared to the corresponding period of the prior year.~~

~~Revenues from high specification floaters and other semisubmersible rigs increased by $5.1 million, or 2.3%, for the three months ended March 31, 2002 as compared to the corresponding period of the prior year. The increase reflects higher dayrates ($5.2 million) and revenues generated by the Ocean Baroness which completed a conversion to a high specification semisubmersible drilling unit ($2.4 million), partially offset by lower utilization ($2.5 million) for the three months ended March 31, 2002 as compared to the corresponding period of the prior year.~~

~~Revenues from jack up rigs decreased by $14.0 million, or 6.2%, due primarily to decreased dayrates ($8.4 million) and lower utilization ($5.6 million) for the three months ended March 31, 2002.~~

~~Net income decreased due primarily to the decreased revenues discussed above, partially offset by lower interest expenses.~~

~~On April 22, 2002, the Ocean Baroness experienced a parting of its marine riser during operations offshore Malaysia in 5,700 feet of water. No injuries were sustained in this incident and the well was secured without incident and successfully plugged. The drilling unit was undamaged and known damage was limited to subsurface elements of the riser. Damage to the blow out preventer was not evident; however, a detailed inspection will be required following recovery operations to determine the extent of the damage, if any, to the blow out preventer or any other equipment.~~

~~Diamond Offshore is in consultation with the riser manufacturer, its customer and several contractors in order to develop a recovery and repair plan. While recovery and remediation are ongoing, Diamond Offshore cannot~~

~~estimate the financial impact of this event or the duration to its recovery and remediation efforts. The drilling rig is currently idle and will not earn dayrate revenue until recovery and remediation efforts are complete. However, Diamond Offshore believes successful recovery and repair of the subsea~~

equipment can be conducted.

Bulova

Bulova Corporation and subsidiaries ("Bulova"). Bulova Corporation is a 97% owned subsidiary of the Company.

Revenues and net income decreased by $0.5 and $0.8 million, or 1.5% and 33.3%, respectively, for the three months ended March 31, 2002, as compared to the corresponding period of the prior year. Revenues and net income decreased due primarily to lower unit sales volume, partially offset by higher watch unit prices.

Corporate

Corporate operations consist primarily of investment income, including investment gains (losses) from non insurance subsidiaries, as well as equity earnings from a shipping joint venture, corporate interest expenses and other corporate administrative costs.

The components of investment gains (losses) included in Corporate operations are as follows:

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
	(In millions)	
Revenues:		
Derivative instruments	$ 10.0	$ 8.2
Fixed maturities	(3.9)	7.3
Equity securities, including short positions	9.1	15.2
Short term investments, primarily U.S. government securities	7.3	6.0
	22.5	36.7
Income tax expense	(7.9)	(12.8)
Minority interest	(1.0)	(1.9)
Net income (loss)	$ 13.6	$ 22.0

Exclusive of investment gains (losses), revenues decreased $29.4 million and net loss increased $20.0 million for the three months ended March 31, 2002, compared to the prior year, due primarily to lower revenues from a shipping joint venture reflecting reduced demand and charter rates in the crude oil tanker markets, and lower investment income.

Liquidity and Capital Resources:

CNA Financial

The principal operating cash flow sources of CNA's property casualty and life insurance subsidiaries are premiums and investment income. The primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the three months ended March 31, 2002 net cash used in operating activities was $78.0 million as compared with $180.0 million for the same period in 2001. The improvement related primarily to increased premium receipts.

Cash flows from investing activities include purchases and sales of financial instruments, as well as the purchase and sale of land, buildings, equipment and other assets not generally held for resale.

For the three months ended March 31, 2002, net cash inflows from investing activities was $35.0 million as compared with $331.0 million for the same period in 2001. Cash inflows from investing activities for the three months

~~ended March 31, 2001 included net sale proceeds of $264.0 million related to the sale of the 180 Maiden Lane, New York, facility.~~

~~Cash flows from financing activities include proceeds from the issuance of debt or equity securities, outflows for dividends or repayment of debt and outlays to reacquire equity instruments. For the three months ended March 31, 2002, net cash used in financing activities was $5.0 million as compared with $172.0 million for the same period in 2001. Cash used in financing activities for the three months ended March 31, 2001 included $149.0 million of principal payments on debt.~~

~~CNA is closely managing the cash flows related to claims and reinsurance recoverables from the WTC event. It is anticipated that significant claim payments will be made prior to receipt of the corresponding reinsurance recoverables. CNA does not anticipate any liquidity problems resulting from these payments. Approximately 41.0%, 39.0% and 17.0% of the reinsurance recoverables on the estimated losses related to the WTC event are from companies with S&P ratings of AAA, AA or A. As of May 3, 2002, CNA has paid $294.0 million in claims and recovered $135.0 million from reinsurers.~~

~~In April 2002, CNA exercised its option to convert a $250.0 million 364 day revolving credit facility to a one year term loan which matures on April 29, 2003.~~

~~The terms of CNA's credit facility requires it to maintain certain financial ratios and combined property casualty company statutory surplus levels. At March 31, 2002 and 2001, CNA was in compliance with all restrictive debt covenants.~~

~~In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At March 31, 2002 there were approximately $270.0 million of outstanding letters of credit.~~

~~CNA has committed approximately $181.0 million to future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.~~

~~CNA has a commitment to purchase a $100.0 million floating rate note issued by the California Earthquake Authority in the event California earthquake-related insurance losses exceed $4.9 billion prior to December 31, 2002.~~

~~CNA is obligated to future payments totaling $516.0 million for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $81.0 million in 2002; $94.0 million in 2003; $74.0 million in 2004; $64.0 million in 2005; and $203.0 million in 2006 and beyond. CNA has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication services, amounting to approximately $44.0 million. Estimated future minimum purchases under these contracts are as follows: $16.0 million in 2002; $15.0 million in 2003; $10.0 million in 2004; and $3.0 million in 2005.~~

~~On March 26, 2002, Fitch assigned an "A" stable insurer financial strength rating for the Continental Insurance Company ("CIC") Pool, and a "BBB" rating for The Continental Corporation senior debt. Prior to this date both the CIC Pool and the Continental debt were not rated by Fitch.~~

~~CCC has entered into an agreement, effective January 24, 2002, to guarantee the policyholder obligations of CNA Insurance Company Limited, CNA Insurance Company ("Europe") Limited ("CIE") and Maritime Insurance Company Limited ("Maritime") in order to preserve their S&P rating of "A ". This agreement remains in force until the earlier of December 2007, or such time as the companies are informed in writing by S&P that the guarantee is no longer required to maintain the rating for CIE and Maritime consistent with the rating of CCC. This agreement received the approval of the Illinois Department of Insurance (the "Department") in April 2002. Upon receiving the Department approval, S&P reaffirmed the above mentioned companies' rating of "A " and assigned a stable outlook.~~

~~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 of the respective state insurance departments.~~

~~Dividends from the CCC Pool 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 Department, may be paid only from earned surplus, which is calculated by removing unrealized gains (which under statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus. As of March 31, 2002, CCC is in a negative earned surplus position. In February 2002, the Department approved an extraordinary dividend in the amount of $117.0 million to be used to fund CNA's 2002 debt service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Department.~~

~~In addition, by agreement with the New Hampshire Insurance Department, as well as certain other state insurance departments, dividend payments for the CIC Pool are restricted to internal and external debt service requirements~~

~~through September 2003 up to a maximum of $85.0 million annually, without the prior approval of the New Hampshire Insurance Department.~~

~~Lorillard~~

~~Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation and regulatory issues. Approximately 4,650 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,250 cases are pending in a West Virginia court, and approximately 2,825 cases are brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits served to date and is a defendant in most of the cases pending in West Virginia.~~

~~On July 14, 2000, the jury in Engle v. R.J. Reynolds Tobacco Co., et al. awarded a total of $145.0 billion in punitive damages against all defendants, including $16.3 billion against Lorillard. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. Lorillard remains of the view that the Engle case should not have been certified as a class action. That certification is inconsistent with the majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged class certification, as well as other numerous legal errors that it believes occurred during the trial. The Company and Lorillard believe that an appeal of these issues on the merits should prevail.~~

~~The terms of the State Settlement Agreements (see Note 17 of the Notes to Consolidated Financial Statements in the 2001 Annual Report to Shareholders) require significant payments to be made to the Settling States which began in 1998 and continue in perpetuity. Lorillard expects the cash payment to be made under the State Settlement Agreements in 2002 to be approximately $1.1 billion. See Note 17 of the Notes to Consolidated Financial Statements in the 2001 Annual Report to Shareholders for additional information regarding this settlement and other litigation matters.~~

~~The principal source of liquidity for Lorillard's business and operating needs is internally generated funds from its operations. Lorillard's operating activities resulted in a net cash outflow of approximately $84.2 million for the three months ended March 31, 2002, compared to net cash provided of $36.8 million for the prior year. The reduced cash flow in 2002 is primarily due to increased cash payments for tobacco settlements. Lorillard believes that cash flows from operating activities will be sufficient for the foreseeable future to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict its cash requirements related to any future settlements or judgments, including cash required to bond any appeals, if necessary, and can make no assurance that it will be able to meet all of those requirements.~~

~~Loews Hotels~~

~~In 2002, Loews Hotels, with its partners, will open a third hotel at Universal Orlando in Florida. Capital expenditures in relation to this hotel project are being funded by a combination of equity from Loews Hotels and its partners, and mortgages.~~

~~Funds from operations continue to exceed operating requirements. Funds for other capital expenditures and working capital requirements are expected to be provided from existing cash balances and operations.~~

~~Diamond Offshore~~

~~At March 31, 2002, cash and marketable securities totaled $965.6 million, down from $1,147.4 million at December 31, 2001. Cash provided by operating activities for the three months ended March 31, 2002 increased by $39.1 million to $117.0 million, as compared to $77.9 million in 2001. The increase in cash flow was primarily due to the timing of rig inventory purchases and collection of accounts receivable in 2002.~~

~~During the three months ended March 31, 2002, Diamond Offshore purchased 500,000 shares of its common stock at an aggregate cost of $20.0 million, upon the exercise of put options sold in February 2001. Depending on market conditions Diamond Offshore may, from time to time, purchase shares of its common stock in the open market.~~

~~During the three months ended March 31, 2002, Diamond Offshore's capital expenditures amounted to $57.2 million. These expenditures were primarily for the deepwater upgrades of the Ocean Baroness ($27.2 million) and the Ocean Rover ($13.0 million). Diamond Offshore expects to spend approximately $275.0 million for rig upgrade capital expenditures during 2002, which are primarily costs associated with upgrades of its Ocean Rover semisubmersible rig and six jack up rigs.~~

~~Diamond Offshore took delivery of the Ocean Baroness in January 2002. On March 17, 2002 the rig began mobilizing to a location offshore Southeast Asia to begin its current contract. The approximate cost of the upgrade was $170.0 million. In January 2002, the Ocean Rover arrived at a shipyard in Singapore for a major upgrade to water depths and specifications similar to the enhanced Ocean Baroness. The estimated cost of this upgrade is approximately $200.0 million with approximately $135.0 million to be spent in 2002. The upgrade is expected to take approximately 19 months to complete with delivery estimated to occur in the third quarter of 2003.~~

~~Diamond Offshore also plans to spend approximately $100.0 million over the next two years to upgrade six of its jack up rigs. Diamond Offshore expects to finance these upgrades through the use of existing cash balances or internally generated funds.~~

~~During the three months ended March 31, 2002, Diamond Offshore expended $10.8 million for its continuing rig enhancement program and other corporate requirements. Diamond Offshore has budgeted $100.0 million for 2002 capital expenditures associated with these items.~~

~~Cash required to meet Diamond Offshore's capital commitments is determined by evaluating rig upgrades to meet specific customer requirements and by evaluating Diamond Offshore's continuing rig enhancement program, including water depth and drilling capability upgrades. It is management's opinion that operating cash flows and Diamond Offshore's cash reserves will be sufficient to meet these capital commitments; however, periodic assessments will be made based on industry conditions. In addition, Diamond Offshore may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses, or for general corporate purposes. Diamond Offshore's ability to effect any such issuance~~

~~will be dependent on its results of operations, its current financial and market conditions, and other factors beyond its control.~~

~~Bulova~~

~~For the three months ended March 31, 2002, net cash provided from operating activities was $18.5 million as compared with net cash used of $13.2 million in the first quarter of 2001. Bulova's cash and cash equivalents, and investments amounted to $37.4 million at March 31, 2002, compared to $18.9 million at December 31, 2001. The increase in net cash flow is primarily the result of a decrease in inventory purchases and a higher collection of accounts receivables as compared to the prior year, partially offset by a change in the timing of accounts payable and accrued expenses. Funds for capital expenditures and working capital requirements are expected to be provided from operations and existing cash balances.~~

~~Majestic Shipping~~

~~As previously reported in the Company's 2001 Annual Report on Form 10-K, a subsidiary of the Company entered into agreements for newbuilding of four supertankers, the total cost of the four ships is estimated to amount to approximately $360.0 million. In March 2002, the contracts for the four supertankers were sold at the Company's carrying value to Hellespont Shipping~~

Corporation, an affiliated entity.

Parent Company

As of March 31, 2002, there were 189,405,800 shares of Loews Common Stock outstanding. During the three months ended March 31, 2002, the Company purchased 2,099,200 shares of Loews Common Stock at an aggregate cost of $122.9 million. Depending on market conditions, the Company from time to time purchases shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock referred to as Carolina Group stock for net proceeds of $1.1 billion. Proceeds from this sale have been allocated to the Loews Group and will be used for general corporate purposes.

The Company continues 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. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the income statement.

The Company enters into short sales and invests in certain derivative instruments for a number of purposes, including; (i) asset and liability

management activities, (ii) income enhancements for its portfolio management strategy, and (iii) 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 the Company's portfolio strategy.

The credit exposure associated with these instruments is generally limited to the positive market value of the instruments and will vary based on changes in market prices. The Company enters into these transactions with large financial institutions and considers the risk of nonperformance to be remote.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain imbedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" for additional information with respect to derivative instruments, including recognized gains and losses on these instruments. See also Note 4 of the Notes to Consolidated Financial Statements in the 2001 Annual Report on Form 10-K.

Insurance

The components of CNA's net investment income for the three months ended March 31, 2002 and 2001 are presented in the following table.

	Three Months Ended March 31,	
	2002	2001
	(In millions)	
Fixed maturity securities:		
Bonds:		
Taxable	$ 414.0	$ 409.0
Tax exempt	33.0	34.0
Limited Partnerships	7.0	36.0

Short term investments	16.0	42.0
Other, including interest on funds withheld and other deposits	(30.0)	2.0
Gross investment income	440.0	523.0
Investment expense	(14.0)	(16.0)
Net investment income	$ 426.0	$ 507.0

CNA experienced lower net investment income for the three months ended March 31, 2002 as compared with the same period in 2001. The decrease was due primarily to adverse results from a limited partnership, lower portfolio

yields and increased interest costs on funds withheld and other deposits, which are described in the Reinsurance section under Results of Operations. The yield on the bond segment of the investment portfolio was 6.0% in the first three months of 2002 as compared with 6.6% during the same period in 2001.

The components of CNA's net investment gains (losses) for the three months ended March 31, 2002 and 2001 are presented in the following table:

	Three Months Ended March 31,	
	2002	2001
	(In millions)	
Investment gains (losses):		
Fixed maturity securities:		
U.S. Government bonds	$ 5.0	$ 128.0
Corporate and other taxable bonds	9.0	(8.0)
Tax exempt bonds	2.0	53.0
Asset backed bonds	9.0	51.0
Redeemable Preferred Stock	(14.0)	
Total fixed maturity securities	11.0	224.0
Equity securities	7.0	72.0
Derivative securities	(21.0)	(5.0)
Other invested assets	4.0	80.0
Total realized investment gains	1.0	371.0
Income tax benefit (expense)	1.0	(134.0)
Minority interest		(30.0)
Net investment gains	$ 2.0	$ 207.0

Net realized investment gains decreased $205.0 million for the first quarter of 2002 compared with the same period in 2001. This change is due primarily to decreased gains on the sales of fixed maturity securities and the absence of a $50.5 million gain on the sale of the 180 Maiden Lane, New York, facility that occurred in the first quarter of 2001.

A primary objective in the management of the fixed maturity portfolio is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities or credit considerations. This activity will produce realized gains and losses depending on market conditions including interest rates.

Substantially all invested assets are marketable securities classified as available-for-sale in the accompanying financial statements. Accordingly,

changes in fair value for these securities are reported in other comprehensive income.

A summary of CNA's general account investments portfolios, at carrying value, are as follows:

	March 31, 2002	December 31, 2001	Change in Unrealized Gains (Losses)
	(In millions)		
Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies .	$ 5,084.0	$ 5,081.0	$ (32.0)
Asset backed securities	8,227.0	7,723.0	(124.0)
Tax exempt securities	3,088.0	2,720.0	1.0
Taxable securities	12,555.0	13,403.0	(266.0)
Redeemable preferred stock	52.0	48.0	(3.0)
Options embedded in convertible debt securities	158.0	189.0	
Total fixed maturity securities .	29,164.0	29,164.0	(424.0)
Equity securities	1,250.0	1,338.0	7.0
Short term and other investments . . .	4,800.0	5,324.0	(29.0)
Total	$35,214.0	$35,826.0	$(446.0)

	March 31, 2002	December 31, 2001
	(In millions)	
Short term and other investments:		
Commercial paper	$ 1,716.0	$ 1,194.0
Money market funds	695.0	1,641.0
U.S. Treasury securities		175.0
Others	773.0	730.0
Other investments	1,616.0	1,584.0
Total short-term and other investments	$ 4,800.0	$ 5,324.0

CNA's general and separate account investment portfolio consists primarily of publicly traded government bonds, asset backed securities, mortgage backed securities, municipal bonds and corporate bonds.

Total net unrealized loss of the general account investments was $101.0 million at March 31, 2002 compared with a net unrealized gain of $345.0 million at December 31, 2001. The unrealized position at March 31, 2002 was composed of a net unrealized loss of $230.0 million for fixed maturities, a net unrealized loss of $48.0 million for short term investments and a net unrealized gain of $177.0 million for equity securities.

CNA's investment policies for both the general and separate accounts 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.

The general account portfolio consists primarily of high quality (rated BBB or higher) bonds, 92.0% of which are rated as investment grade at both March 31, 2002 and December 31, 2001.

At March 31, 2002 and December 31, 2001, approximately 98.0% of the general account portfolio were U.S. Government agencies or were rated by Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's"). The remaining bonds were rated by other rating agencies, outside brokers or CNA management.

Below investment grade bonds are high yield securities rated below BBB by

~~bond rating agencies, as well as other unrated securities that, in the opinion of management, 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.~~

~~Included in CNA's general account fixed maturity securities at March 31, 2002 are $8,227.0 million of asset-backed securities, at fair value, consisting of approximately 67.0% in collateralized mortgage obligations ("CMOs"), 11.0% in U.S. Government agency issued pass-through certificates, 13.0% in corporate asset-backed obligations and 9.0% in corporate mortgage-backed pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker-dealers.~~

~~CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk). CNA considers the derivatives in its general account to be held for purposes other than trading. Derivative securities are recorded at fair value at the reporting date.~~

~~Most derivatives in separate accounts are held for trading purposes. CNA uses these derivatives to mitigate market risk by purchasing S&P 500 index futures in a notional amount equal to the contract liability relating to Life Operations' Index 500 guaranteed investment contract product.~~

~~Accounting Standards~~

~~In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption~~

~~of these provisions will not have a material impact on the financial position or results of operations of the Company.~~

~~Forward-Looking Statements~~

~~Certain statements made or incorporated by reference by the Company in this Report are "forward-looking" statements within the meaning of the federal securities laws. 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", "estimate", "believe", "will be", "will continue", "will likely result", and similar expressions. Statements in this report that contain forward looking statements include, but are not limited to, statements regarding CNA's insurance business relating to asbestos, pollution and mass tort claims, expected cost savings and other results from restructuring activities; statements regarding insurance reserves and statements regarding planned disposition of certain businesses; statements regarding litigation and developments affecting Lorillard's tobacco business including, among other things statements regarding claims, litigation and settlement, and statements regarding regulation of the industry; statements regarding Diamond Offshore's business including, without limitation, statements with respect to expenditures for rig conversion and upgrade, oil and gas price levels, exploration and production activity, and statements concerning actual or potential damage, periods of inactivity and recovery and remediation efforts with respect to the Ocean Baroness.~~

~~Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated or projected. Such risks and uncertainties include, among others, the impact of competitive products, policies and pricing; product and policy availability and demand and market responses, including the effect of the absence of applicable terrorism legislation on coverages; development of claims and the effect on loss reserves; exposure to liabilities due to claims made by insured and others relating to asbestos remediation and health-based asbestos impairments, and exposure to liabilities for environmental pollution and other mass tort claims; the sufficiency of CNA's loss reserves and the possibility of future increases in reserves; the performance of reinsurance companies under reinsurance contracts; the effects of the Enron bankruptcy on energy and capital markets, and on the markets for directors & officers and errors & omissions coverages; limitations upon CNA's ability to receive~~

dividends from its insurance subsidiaries imposed by state regulatory agencies; regulatory limitations and restrictions upon CNA and its insurance subsidiaries generally; judicial decisions and rulings; the possibility of downgrades in CNA's ratings by ratings agencies and changes in rating agency policies and practices, and the results of financing efforts.

The tobacco industry continues to be subject to health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke, legislation, including actual and potential excise tax increases, increasing marketing and regulatory restrictions, governmental regulation, privately imposed smoking restrictions, litigation, including risks associated with adverse jury and judicial determinations, courts reaching conclusions at variance with the general understandings of applicable law, bonding requirements and the absence of adequate appellate remedies to get timely relief from any of the foregoing, and the effects of price increases related to concluded tobacco litigation settlements and excise tax increases on consumption rates.

In addition to the factors noted above, all aspects of the operations of the Company and its subsidiaries are affected by the impact of general economic and business conditions, changes in financial markets (interest rate, credit, currency, commodities and equities) or in the value of specific investments; changes in domestic and foreign political, social and economic conditions, the economic effects of the September 11, 2001 terrorist attacks, the impact of judicial rulings and jury verdicts, regulatory initiatives and compliance with governmental regulations and various other matters, many of which are beyond the control of the Company and its subsidiaries.

Developments in any of these areas, which are more fully described elsewhere in this Report could cause the Company's results to differ materially from results that have been or may be anticipated or projected by or on behalf of the Company and its subsidiaries. These forward looking statements speak only as of the date of this Report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is a large diversified financial services company. As such, it and its subsidiaries have significant amounts of financial instruments that involve market risk. The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Changes in the trading portfolio would be recognized as investment gains (losses) in the Consolidated Condensed Statements of Income. Market risk exposure is presented for each class of financial instrument held by the Company at March 31, 2002 and December 31, 2001, assuming immediate adverse market movements of the magnitude described below. The Company believes 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 the Company's investment portfolio is subject to change based on its 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.

Equity Price Risk - The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at March 31, 2002 and December 31, 2001, with all other variables held constant.

Interest Rate Risk - The Company has exposure to interest rate risk, arising from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. The Company monitors its sensitivity to interest rate risk by evaluating the change in the value of its financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates

~~of varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of the Company's investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.~~

~~The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on March 31, 2002 and December 31, 2001 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 the Company's earnings or shareholders' equity. Further, the computations do not contemplate any actions the Company could undertake in response to changes in interest rates.~~

~~The Company's long term debt, including interest rates swap agreements, as of March 31, 2002 and December 31, 2001 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, 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 $384.0 and $395.0 million at March 31, 2002 and December 31, 2001, respectively. A 100 basis point decrease would result in an increase in market value of $452.3 and $464.6 million at March 31, 2002 and December 31, 2001, respectively.~~

~~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. The Company has foreign exchange rate exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds, and the European Monetary Unit. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at March 31, 2002 and December 31, 2001, with all other variables held constant.~~

~~Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in gold options. 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 change of 20% from their levels at March 31, 2002 and December 31, 2001.~~

~~The following tables present the Company's 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	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
(Amounts in millions)				
Equity markets (1):				
Equity securities	$ 364.8	$ 290.1	$(91.0)	$(73.0)
Options - purchased	12.5	17.5	(3.0)	6.0
- written	(8.7)	(7.8)	5.0	(3.0)
Index futures - long			(2.0)	(2.0)
Short sales	(196.1)	(193.4)	49.0	48.0
Separate Accounts - Equity securities (a)	19.3	11.7	(5.0)	(2.0)
- Other invested assets	351.6	342.1	(6.0)	(6.0)
Interest rate (2):				
Options on government securities - short	(2.6)	(2.5)	3.0	(2.0)

Separate Accounts - Fixed maturity securities	261.1	308.4	(3.0)	(5.0)
Commodities:				
Gold (3):				
Options - purchased	0.4	2.6		(3.0)
- written	(.3)	(.4)		

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% at March 31, 2002 and December 31, 2001, (2) an increase in interest rates of 100 basis points at March 31, 2002 and December 31, 2001 and (3) an increase in gold prices of 20%. 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) In addition, the Separate Accounts carry positions in equity index futures. A decrease in equity prices of 25% would result in market risk amounting to $(218.0) and $(217.0) at March 31, 2002 and December 31, 2001, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

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

Other than trading portfolio:

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	March 31, 2002	December 31, 2001	March 31, 2002	December 31, 2001
(Amounts in millions)				
Equity markets (1):				
Equity securities:				
General accounts (a)	$ 1,349.8	$ 1,338.4	$ (331.0)	$ (322.0)
Separate accounts	146.0	148.6	(37.0)	(37.0)
Other invested assets	1,367.1	1,306.9	(140.0)	(134.0)
Separate accounts - Other invested assets	538.0	533.0	(134.0)	(133.0)
Interest rate (2):				
Fixed maturities (a) (b)	31,137.3	31,191.0	(1,683.0)	(1,560.0)
Short term investments (a)	6,767.6	6,734.8	(2.0)	(1.0)
Other derivative securities	0.8	16.3	(4.0)	(19.0)
Separate accounts (a):				
Fixed maturities	1,939.7	2,038.8	(113.0)	(120.0)
Short term investments	105.2	98.0		
Long term debt	(5,521.0)	(5,399.0)		

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.

(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 $(126.0) and $(114.0) at March 31, 2002 and December 31, 2001, 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 $(117.0) and $(50.0) at March 31, 2002 and December 31, 2001, respectively.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits including environmental pollution claims. Information involving such lawsuits is incorporated by reference to

~~Note 9 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

~~2. As noted in Item 3 Legal Proceedings of the Company's Report on Form 10-K for the year ended December 31, 2001, Lorillard is defendant in various lawsuits seeking damages for cancer and health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to such Item 3 Legal Proceedings. The Company is a defendant in some of these cases. Material developments in relation to the foregoing are described below and incorporated by reference to Note 12 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

~~CLASS ACTIONS -~~

~~In the case of Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997), the U.S. Court of Appeals for the Ninth Circuit has denied plaintiffs' motion for leave to appeal the 2001 ruling by the trial court that denied plaintiffs' motion for class certification.~~

~~In the case of Christensen v. Philip Morris Companies, Inc., et al. (U.S. District Court, Nevada, filed April 3, 1998), the U.S. Court of Appeals for the Ninth Circuit has denied plaintiffs' motion for leave to appeal the 2001 ruling by the trial court that denied plaintiffs' motion for class certification.~~

~~In the case of Cole v. The Tobacco Institute, et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997), plaintiffs did not file a petition for writ of certiorari with the U.S. Supreme Court and no further appellate options are available to the plaintiffs.~~

~~In the case of Connor v. The American Tobacco Company, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996), the court has entered the parties' stipulation of dismissal with prejudice, concluding the case.~~

~~In the case of Johnson v. Newport Lorillard, et al. (U.S. District Court, Southern District, New York, filed October 31, 2001), the court has entered an order to show cause why the case should not be dismissed.~~

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), jury selection is proceeding. These matters are discussed under "Legal Proceedings and Contingent Liabilities - Non-Insurance, Tobacco Related - Class Actions."~~

~~REIMBURSEMENT CASES -~~

~~U.S. Local Governmental Reimbursement Cases -~~

~~In the case of County of Wayne v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, Michigan, filed December 6, 1999), the court has entered the parties' stipulation of dismissal with prejudice.~~

~~Reimbursement Cases Filed by Labor Unions -~~

~~In the case of Central Laborers Welfare Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Madison County, Illinois, filed on June 9, 1997), plaintiffs voluntarily dismissed the case during April of 2002.~~

~~In the case of Service Employees International Union Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed March 19, 1998), an order dismissing the case has been entered.~~

~~In the case of S.E.I.U. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed June 22, 1998), an order dismissing the case has been entered.~~

~~In the case of Holland, et al., Trustees of United Mine Workers v. Philip Morris Incorporated, et al. (U.S. District Court, District of Columbia, filed July 9, 1998), an order dismissing the case has been entered.~~

~~In the case of Sheet Metal Workers Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed August 31, 1999), an order dismissing the case has been entered.~~

~~CONTRIBUTION CASES -~~

~~In the case of Gasket Holdings, Inc., et al. v. RJR Nabisco, Inc., et al. (Chancery Court, Claiborne County, Mississippi, filed April 18, 2001),~~

~~plaintiffs have voluntarily dismissed the case without prejudice.~~

~~INDIRECT PURCHASER SUITS~~

~~In the case of Gray v. Philip Morris Companies, Inc., et al. (Superior Court, Pima County, Arizona, filed February 11, 2000), the court dismissed the case in its entirety as to all defendants. On appeal, the appellate court reversed the dismissal and reinstated the case.~~

~~Item 4. Submission of Matters to a Vote of Security Holders.~~

~~Information relating to the 2002 Special Meeting of Shareholders of the Company, held on January 4, 2002, is contained in Item 4 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 and such information is incorporated herein by reference.~~

~~Item 6. Exhibits and Reports on Form 8-K.~~

~~(a) Exhibits~~

~~(3) Restated Certificate of Incorporation of the Registrant, dated April 16, 2002.~~

~~(10) First Amendment to Supplemental Retirement Agreement dated June 30, 2001 between Registrant and Peter Keegan.~~

~~(b) Current reports on Form 8-K~~

~~On January 4, 2002, Registrant filed a report on Form 8-K regarding the approval by its shareholders to create a tracking stock and an employee stock option plan based on the tracking stock.~~

~~On January 25, 2002, Registrant filed a report on Form 8-K regarding its 89% owned subsidiary, CNA Financial Corporation, announcing its preliminary 2001 fourth quarter and year end results.~~

~~On February 19, 2002, Registrant filed a report on Form 8-K regarding calculation of the Company's book value per share.~~

~~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, thereunto duly authorized.~~

~~LOEWS CORPORATION~~
~~(Registrant)~~

~~Dated: May 10, 2002~~ ~~By /s/ Peter W. Keegan~~

~~PETER W. KEEGAN~~
~~Senior Vice President and~~
~~Chief Financial Officer~~
~~(Duly authorized officer~~
~~and principal financial~~
~~officer)~~

~~RESTATED CERTIFICATE OF INCORPORATION~~

~~OF~~

~~LOEWS CORPORATION~~

~~It is hereby certified that:~~

~~1. (a) The present name of the corporation (hereinafter called the "Corporation") is Loews Corporation.~~

~~(b) The name under which the Corporation was originally incorporated is Loew's Corporation; and the date of filing the original certificate of incorporation of the Corporation with the Secretary of State of the State of Delaware is November 12, 1969.~~

~~2. The provisions of the certificate of incorporation of the Corporation, as heretofore amended and/or supplemented, are hereby restated and integrated into the single instrument which is hereinafter set forth, and which is entitled Restated Certificate of Incorporation of Loews Corporation, without further amendment and without any discrepancy between the provisions of the Certificate of Incorporation as heretofore amended and supplemented and the provisions of the said single instrument hereinafter set forth.~~

~~3. The Board of Directors of the Corporation has duly adopted this Restated Certificate of Incorporation pursuant to the provisions of Section 245 of the General Corporation Law of the State of Delaware in the form hereinafter set forth:~~

~~RESTATED CERTIFICATE OF INCORPORATION~~

~~OF~~

~~LOEWS CORPORATION~~

~~FIRST: Name. The name of the corporation (the "Corporation") is: LOEWS CORPORATION.~~

~~SECOND: Registered Office and Agent. The registered office of the Corporation is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, State of Delaware. The name of its registered agent at such address is UNITED STATES CORPORATION COMPANY.~~

~~THIRD: The nature of the business or purposes of the Corporation are as follows:~~

~~(1) to buy, manufacture, sell and otherwise deal in tobacco and tobacco products in any and all forms.~~

~~(2) to carry on the business of theatre proprietors, managers and directors, and in particular, to provide for the production, presentation and performance of motion pictures, operas, stage plays, musical comedies, sporting events, radio and television programs of all types and description, and other forms of amusement including amusement parks, carnivals and circuses, and in connection therewith, to own, operate, control, buy, rent, sell, lease, sublease, mortgage, or otherwise acquire or dispose of theatres and other places of entertainment and any and all rights and privileges therein, and real property for the purpose of erecting and operating theatres and other places of entertainment, and to own, control, buy, sell, rent, lease, sublease, mortgage or otherwise acquire or dispose of all forms of personal property necessary or incidental to the operation and control of theatres and other places of entertainment.~~

~~(3) to purchase and otherwise acquire, own, build, lease (either as lessor or lessee), erect, construct, alter, repair, improve, furnish, equip, hold, occupy, maintain, manage, operate, sell, or dispose of hotels, motels, apartment hotels, inns, taverns, lodging houses, hostelries, boardinghouses, apartment houses, restaurants, cafes, bars, cafeterias, garages, and the furniture, furnishings, fixtures and equipment thereof; to engage in and carry on the business of hotel keepers, innkeepers, apartment housekeepers, hostelers, restauranteurs, cafe keepers, cafeteria keepers, garagemen, and also the business of tobacconists, confectioners, dealers in provisions, barbers, hairdressers, manicurists, druggists, florists, stationers, news agents and news, magazine and book dealers; to buy, sell, rent and let for hire automobiles and other means of transportation; the buying and selling of wines, liquors and all other beverages of alcoholic and nonalcoholic contents; to provide and conduct apartments, accommodations, eating places,~~

~~newspaper rooms, reading and writing rooms, rest rooms, dressing rooms, baths, swimming pools, telephone and other conveniences for the use of the public, and to do every act and thing necessary, convenient or desirable for the furnishing of guests, lodgers, tenants, travelers, and all others who may be received by the corporation, with food, drink, lodging, entertainment and such other services as are commonly rendered as a part of or in connection with, or as incidental to, any of the businesses hereinbefore mentioned; to procure all necessary permits or licenses from municipal or other authorities for the erection and operation of any of the foregoing businesses and to maintain all conveniences necessary thereto, including, but without limitation, elevators, heating, lighting and air conditioning and other refrigerating apparatus; and to give or grant to others the right, privilege or license to engage in any kind of business on premises owned, leased or managed by it.~~

~~-1-~~

~~(4) to manufacture, process, purchase, sell and generally to trade and deal in and with goods, wares and merchandise of every kind, nature and description, and to engage and participate in any mercantile, industrial or trading business of any kind or character whatsoever.~~

~~(5) to purchase, acquire, own, hold, use, lease (either as lessor or lessee), grant, sell, exchange, sub-divide, mortgage, convey in trust, manage, improve, construct, operate and generally deal in any and all real estate, improved and unimproved, stores, office buildings, dwelling houses, apartment houses, hotels, theatres, manufacturing plants and other buildings, and any and all other property of every kind or description, real, personal and mixed, and wheresoever situated, either in California, other states of the United States, the District of Columbia, territories and colonies of the United States, or foreign countries.~~

~~(6) to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.~~

~~FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 1,300,000,000 shares, consisting of 100,000,000 shares of Preferred Stock, par value $.10 per share ("Preferred Stock") and 1,200,000,000 common shares, of which 600,000,000 shall be Loews common stock having a par value of $1.00 per share ("Loews common stock") and 600,000,000 shall be Carolina Group stock having a par value of $0.01 per share ("Carolina Group stock").~~

~~PART A: Preferred Stock~~

~~The Board of Directors is hereby authorized to issue the Preferred Stock, from time to time, in one or more series, on such terms and conditions as it may deem advisable and to fix by resolution the designation of each series and the powers, preferences, and relative, participating, optional or other special rights of the shares of each series, and the qualifications, limitations or restrictions thereof, to the full extent now or hereafter permitted by law. The authority of the Board of Directors with respect to each such series shall include, but not be limited to, determination of the following:~~

~~(a) the designation and number of shares comprising such series;~~

~~(b) the dividends, if any, which shall be payable on the shares of such series and any preferences and other terms and conditions applicable thereto;~~

~~(c) any rights and preferences of the holders of the shares of such series upon the liquidation, dissolution, or winding up of the affairs of, or upon any distribution of the assets of, the Corporation;~~

~~(d) the full, limited or special voting rights, if any, of the shares of such series, in addition to voting rights provided by law, and the terms and conditions applicable thereto;~~

~~(e) any provision with respect to the conversion of the shares of such series into, or the exchange of such shares for, shares of any other class or classes, or of any other series of any class, of the capital stock of the Corporation and/or any other property or cash, and the terms and conditions applicable to any such conversion or exchange;~~

~~(f) any provision with respect to the redemption, purchase, or retirement of such shares and the terms and conditions applicable thereto;~~

~~(g) any provision with respect to the issuance of additional shares of such series or of any other class or series on a parity with or superior to the shares of such series; and~~

~~(h) any other relative, participating, optional or special powers, preferences, or rights of, and any other qualifications, limitations, or restrictions with respect to, the shares of such series as the Board of Directors may deem advisable.~~

~~PART B: Loews common stock and Carolina Group stock~~

~~1. Voting Rights.~~

~~(a) Subject to paragraph 1(c) of this Part B of this Article Fourth, holders of Loews common stock shall be entitled to one vote for each share of such stock held and holders of Carolina Group stock shall be entitled to 1/10 of a vote for each share of such stock held on all matters presented to such shareholders.~~

~~(b) Except as may otherwise be required by the laws of the State of Delaware or, with respect to additional or special voting rights (which may include, without limitation, rights of any holders of any class or series to elect one or more directors voting separately as a class) of any class or series of Preferred Stock or any other class of common shares in this Certificate of Incorporation as the same may be amended from time to time, the holders of shares of Loews common stock, the holders of shares of Carolina Group stock, the holders of shares of each other class of common shares, if any, entitled to vote thereon, and the holders of shares of each class or series of Preferred Stock, if any, entitled to vote thereon, shall vote as one class with respect to all matters to be voted on by shareholders of the Corporation, and no separate vote or consent of the holders of shares of Loews common stock, the holders of shares of Carolina Group stock or the holders of shares of any such class of common shares or any such class or series of Preferred Stock shall be required for the approval of any such matter.~~

~~(c) If the Corporation shall in any manner subdivide (by stock split or otherwise) or combine (by reverse stock split or otherwise) the outstanding shares of Loews common stock or Carolina Group stock, or pay a stock dividend in shares of any class to holders of that class, the per share voting rights of Carolina Group stock specified in paragraph 1(a) of Part B of this Article Fourth shall be appropriately adjusted so as to avoid any dilution in the aggregate voting rights of any one class relative to the other class.~~

~~2. Dividends.~~

~~(a) Dividends on Loews common stock. Dividends on Loews common stock may be declared and paid only to the extent of (i) the assets of the Corporation legally available therefor minus (ii) the Carolina Group Available Dividend Amount (such amount available for the payment of dividends on Loews common stock is referred to in this Part B of this Article Fourth as the "Loews Group Available Dividend Amount").~~

~~(b) Dividends on Carolina Group stock. Dividends on Carolina Group stock may be declared and paid only out of the lesser of (i) the assets of the Corporation legally available therefor, and (ii) the Carolina Group Available Dividend Amount. Concurrently with the payment of any dividend on shares of Carolina Group stock, at the election of the Board of Directors, either (x) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of cash and/or property that is the subject of such dividend, which payment shall be equal to the excess, if any, of (i) the quotient obtained by dividing (A) the aggregate amount of such dividend, as determined by the Board of Directors, by (B) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such dividend, as so determined, or (y) the Carolina Group Allocation Fraction will be adjusted as described in paragraph 8 of this Part B of this Article Fourth. The payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.~~

~~(c) Discrimination between or among classes of common shares. The Board of Directors, subject to the provisions of paragraphs 2(a) and 2(b) of this Part B of this Article Fourth, shall have the sole authority and discretion to declare and pay dividends (or to refrain from declaring or paying the same) exclusively to the holders of Loews common stock, exclusively to the holders of Carolina Group stock, exclusively to the holders of any other class of common shares or to the holders of any two or more of such classes in equal or unequal amounts, notwithstanding the relationship between the Loews Group Available Dividend Amount and the Carolina Group Available Dividend Amount, the respective amounts of prior dividends declared on, or the liquidation rights of, Loews common stock or Carolina Group stock, or any other factor.~~

~~3. Share Distributions.~~

~~Subject to the provisions of paragraph 4 of Part B of this Article Fourth, the Corporation may declare and pay a distribution consisting of shares of Loews common stock, Carolina Group stock or any other securities of the Corporation or any other Person (hereinafter sometimes called a "share distribution") to holders of Loews common stock or Carolina Group stock only in accordance with this paragraph 3 of this Part B of this Article Fourth.~~

~~(a) Distributions on Loews common stock or Carolina Group stock. The Corporation may declare and pay a share distribution to holders of Loews common stock, Carolina Group stock or any other class of common shares consisting of any securities of the Corporation, any Subsidiary of the Corporation, or any other Person, including, without limitation, a share distribution consisting of shares of any class or series of Preferred Stock or shares of Loews common stock, Carolina Group stock or any other class of common shares (or Convertible Securities convertible into or exercisable or exchangeable for shares of any class or series of Preferred Stock or shares of Loews common stock, Carolina Group stock or any other class of common shares). However, securities of a group may be distributed to holders of another group only for consideration.~~

~~Concurrently with the making of any share distribution with respect to Carolina Group stock, at the election of the Board of Directors, either (x) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of property that is the subject of such distribution, which payment shall be equal to the excess, if any, of (i) the quotient obtained by dividing (A) the aggregate amount of such distribution, as determined by the Board of Directors, by (B) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such distribution, as so determined, or (y) the Carolina Group Allocation Fraction shall be adjusted as described in paragraph 8 of this Part B of this Article Fourth. Any payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.~~

~~(b) Discrimination between or among classes of common shares. The Board of Directors, subject to the foregoing provisions of this paragraph 3 of this Part B of this Article Fourth, shall have the sole authority and discretion to declare and pay (or to refrain from declaring or paying) share distributions exclusively to holders of Loews common stock, exclusively to holders of Carolina Group stock, exclusively to the holders of any other class of common shares or to holders of any two or more of such classes in equal or unequal amounts, notwithstanding the relationship between the Loews Group Available Dividend Amount, the Carolina Group Available Dividend Amount, the respective amounts of prior share distributions declared on, or the liquidation rights of, Loews common stock or Carolina Group stock, or any other factor.~~

~~4. Exchange of Carolina Group stock.~~

~~(a) Exchange at option of Board of Directors following the occurrence of Tax Events. At any time following the occurrence of a Tax Event, the Board of Directors, in its sole discretion, may effect a Board Required Exchange by declaring that all of the outstanding shares of Carolina Group stock shall be exchanged for (i) fully paid and nonassessable shares of Loews common stock in accordance with the Tax Event Equity Exchange Rate or (ii) cash, in accordance with the Tax Event Cash Exchange Rate.~~

~~(b) Exchange at option of Board of Directors following the second anniversary of the Initial Issuance Date. Following the second anniversary of the Initial Issuance Date until the 90th day following the occurrence of a Significant Transaction, the Board of Directors, in its sole discretion, may effect a Board Required Exchange by declaring that all of the outstanding shares of Carolina Group stock shall be exchanged for (i) fully paid and nonassessable shares of Loews common stock in accordance with the Regular Equity Exchange Rate or (ii) cash in accordance with the Regular Cash Exchange Rate.~~

~~(c) Exchange for stock of Qualifying Subsidiaries at option of Board of Directors. At any time following the Initial Issuance Date, so long as all of the assets and liabilities included in the Carolina Group are held, directly or indirectly, by one or more Qualifying Subsidiaries of the Corporation that hold no other material assets or liabilities (the "Carolina Group Subsidiaries"), the Board of Directors may, in its sole discretion, subject to the availability of assets of the Corporation legally available therefor, effect a Board Required Exchange by exchanging, on a pro rata basis, all of~~

~~the outstanding shares of Carolina Group stock in exchange for an aggregate number of outstanding fully paid and nonassessable shares of common stock of such Carolina Group Subsidiary or Subsidiaries~~

~~as set forth in Section 4(h) of this Part B of this Article Fourth, provided that no such exchange may occur unless the exchange is tax free to the holders of Carolina Group stock (except with respect to any cash received by such holders in lieu of fractional shares).~~

~~(d) Exchange, redemption and/or dividend in connection with certain Significant Transactions. In the event of a Disposition, other than a Carolina Group Related Business Transaction, in a transaction or series of related transactions of all or substantially all of the assets (as defined below) of the Carolina Group to any Person(s) or group(s) of which the Corporation is not a majority owner (whether by merger, consolidation, sale of assets or stock, liquidation, dissolution, winding up or otherwise) (a "Significant Transaction"), effective upon the consummation of such Disposition, the Corporation may take one of the actions set forth in clauses (i) through (iii) below (each such action, a "Significant Transaction Exchange") on or prior to the 90th day following the consummation of the Significant Transaction; provided, however, that if the Corporation has received any Net Proceeds from the Disposition, and the Corporation has determined not to retain all such amounts as Loews Tobacco Contingency Reserves, the Corporation must effect one of the actions set forth in clauses (i) through (iii) below on or prior to the 90th calendar day following the consummation of the Significant Transaction, which action will be selected in the sole discretion of the Board of Directors:~~

~~(i) exchange all outstanding shares of Carolina Group stock, at the sole discretion of the Board of Directors, for fully paid and nonassessable shares of Loews common stock at the Regular Equity Exchange Rate;~~

~~(ii) (x) subject to the limitations described in paragraph 2(b) of this Part B of this Article Fourth and to the other provisions described in this paragraph 4(d) of this Part B of this Article Fourth, declare and pay a dividend in cash and/or in securities (other than Loews common stock) or other property (determined as provided below) to holders of the outstanding shares of Carolina Group stock equally on a share-for-share basis in an aggregate amount equal to the Carolina Group Aggregate Distributable Amount of such Significant Transaction; or (y) provided that there are assets of the Corporation legally available therefor and to the extent the Carolina Group Available Dividend Amount would have been sufficient to pay a dividend in lieu thereof as described in clause (x) of this paragraph 4(d) of this Part B of this Article Fourth, then (A) if such Significant Transaction involves the Disposition of all (not merely substantially all) of the assets of the Carolina Group, redeem all outstanding shares of Carolina Group stock in exchange for cash and/or securities (other than Loews common stock) or other property (determined as provided below) in an aggregate amount equal to the Carolina Group Net Proceeds; or (B) if such Significant Transaction involves the Disposition of substantially all (but not all) of the assets of the Carolina Group, apply an aggregate amount of cash and/or securities (other than Loews common stock) or other property (determined as provided below) equal to the Carolina Group Net Proceeds to the redemption of outstanding shares of Carolina Group stock, the number of shares to be redeemed to equal the lesser of (1) the whole number nearest the number determined by dividing the aggregate amount so allocated to the redemption of Carolina Group stock by the average Market Value of one share of Carolina Group stock during the 20 Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition, and (2) the number of shares of Carolina Group stock outstanding; or~~

~~(iii) subject to the limitations described in paragraph 2(b) of this Part B of this Article Fourth and to the other provisions described in this paragraph 4(d) of this Part B of this Article Fourth, combine the issuance of shares of Loews common stock in exchange for shares of Carolina Group stock with the payment of a dividend on or the redemption of shares of Carolina Group stock for cash and/or other securities (other than Loews common stock) or other property as described below.~~

~~In the event that the Board of Directors elects the option described in clause (iii) of the preceding paragraph, the outstanding shares of Carolina Group stock exchanged for fully paid and nonassessable shares of Loews common stock shall be exchanged at the Regular Equity Exchange Rate and a dividend shall be paid on all the remaining shares of Carolina Group stock equally on a share-for-share basis, or some or all of the remaining outstanding shares of Carolina Group stock shall be redeemed for cash and/or other securities (other than Loews common stock) or other property, as follows: the aggregate amount of such dividend, in the case of a dividend, shall equal (A) an amount equal~~

~~to the total Carolina Group Aggregate Distributable Amount multiplied by (B) one minus a fraction,~~

~~the numerator of which shall be the number of shares of Carolina Group stock exchanged for shares of Loews common stock and the denominator of which shall be the total number of outstanding shares of Carolina Group stock prior to such exchange; the portion of the Carolina Group Net Proceeds to be applied to such a redemption, in the case of a redemption, shall equal (A) an amount equal to the total Carolina Group Net Proceeds multiplied by (B) one minus a fraction, the numerator of which shall be the number of shares of Carolina Group stock exchanged for shares of Loews common stock and the denominator of which shall be the total number of outstanding shares of Carolina Group stock prior to such exchange. In the event of a redemption, if the Significant Transaction involves the Disposition of all (not merely substantially all) of the assets of the Carolina Group, then all remaining outstanding shares of Carolina Group stock will be redeemed in exchange for cash and/or securities (other than Loews common stock) or other property in an aggregate amount equal to the portion of the Carolina Group Net Proceeds to be applied to the redemption. In the event of a redemption, if the Significant Transaction involves the Disposition of substantially all (but not all) of the assets of the Carolina Group, then the portion of the Carolina Group Net Proceeds to be applied to the exchange will be used to redeem a number of shares equal to the lesser of (1) the whole number nearest the number determined by dividing the aggregate amount so allocated to the redemption of Carolina Group stock by the average Market Value of one share of Carolina Group stock during the 20 Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition, and (2) the number of shares of Carolina Group stock outstanding.~~

~~Notwithstanding the foregoing, the Corporation shall be under no obligation to effect any of the actions described in clauses (i) through (iii) above that it might otherwise be required to effect (x) if the underlying Significant Transaction is conditioned upon the affirmative vote of a majority of the holders of Carolina Group stock, voting as a separate class, (y) in connection with a spin off or similar disposition of the Carolina Group to the holders of Carolina Group stock and to the Loews Group in respect of its intergroup interest in the Carolina Group, if any, including any such disposition that is made in connection with a Board Required Exchange, or (z) in connection with the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.~~

~~(e) Incremental dividend/final redemption in connection with certain Significant Transactions. In the event of a Significant Transaction, if, on the 91st day following consummation of the Significant Transaction, the Corporation has not redeemed all of the outstanding shares of Carolina Group stock and either (x) Lorillard, Inc. has not distributed to the Corporation 100% of the Net Proceeds, or (y) the Corporation has received from Lorillard, Inc. some or all of the Net Proceeds but has determined to retain some or all of such Net Proceeds as Loews Tobacco Contingency Reserves (the "Trigger Event"), the following principles will govern: Each time, following the Trigger Event, that the Corporation receives any distributions from Lorillard, Inc. (each such distribution, a "Lorillard Dividend"), the Corporation shall be required to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a share for share basis in an aggregate amount equal to the Carolina Group Incremental Dividend (less any increase in Carolina Group Tobacco Contingency Reserves made in connection with any new Lorillard Dividend). If, and when, the Corporation determines that it can release some or all of the Loews Tobacco Contingency Reserves (such released amounts, "Released Reserves"), the Corporation is required promptly to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a share for share basis in an aggregate amount equal to the Carolina Group Released Reserves. In no event will the Corporation be required to make dividend payments pursuant to this paragraph 4(e) of this Part B of this Article Fourth more frequently than once per fiscal quarter. Any unpaid amounts in any fiscal quarter will be accumulated for payment in the next fiscal quarter. Notwithstanding the foregoing, and whether or not the conditions set forth in clause (x) or (y) of the first sentence of this paragraph 4(e) of this Part B of this Article Fourth are satisfied, at any time after (i) the Corporation has received 100% of the Net Proceeds from the Disposition giving rise to the Significant Transaction Exchange, (ii) there are no remaining Loews Tobacco Contingency Reserves, and (iii) the remaining assets of the Carolina Group consist solely of cash and/or cash equivalents, such amount, the "Final Cash Amount," Loews may redeem all of the outstanding shares of Carolina Group stock for the greater of (x) the Carolina Group Allocated Portion of the Final Cash Amount, divided equally among the outstanding shares of Carolina Group stock, and (y) $.001 per share of~~

~~Carolina Group stock.~~

~~(f) Consummation; convertible securities. For purposes of this paragraph 4 of this Part B of this Article Fourth, in the case of a Significant Transaction involving a Disposition of assets in a series of related transactions, such Disposition shall not be deemed to have been consummated until the consummation of the last of such~~

~~transactions. Any exchange described in this paragraph 4 of this Part B of this Article Fourth shall be effected in accordance with the applicable provisions set forth in paragraph 5 of this Part B of this Article Fourth. In the event that, at the time of any Significant Transaction, there are outstanding any Convertible Securities convertible into or exercisable for shares of Carolina Group stock that would give the holders rights to receive any dividend or exchange consideration related to the Significant Transaction upon exercise, conversion or otherwise, or would adjust as a result of such dividend or exchange to give the holder equivalent economic rights, then the shares of Carolina Group stock underlying such Convertible Securities will be taken into account for purposes of determining the terms of any dividend payment or exchange effected in lieu of a Significant Transaction Exchange.~~

~~(g) Payment to Loews Group. Concurrently with the payment of any dividend to holders of Carolina Group stock referred to in paragraph 4(d) or 4(e) of this Part B of this Article Fourth, at the election of the Board of Directors, either (A) the Loews Group shall receive from the Carolina Group an aggregate payment of the same kind of property that is the subject of such dividend, which payment shall be equal to the excess of (i) the quotient obtained by dividing (x) the aggregate amount of such dividend, as determined by the Board of Directors, by (y) the Carolina Group Allocation Fraction, over (ii) the aggregate amount of such dividend, as so determined, or (B) the Carolina Group Allocation Fraction will be adjusted as described in paragraph 8 of this Part B of this Article Fourth. Any payment to be made to the Loews Group pursuant to the preceding sentence may, at the discretion of the Board of Directors, be reflected by an allocation or by a direct transfer of cash or other property.~~

~~(h) Exchange rates. For purposes of this paragraph 4 of this Part B of this Article Fourth:~~

~~The term "Tax Event Equity Exchange Rate" shall mean the number of Exchange Shares for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: Each share of Carolina Group stock shall be exchangeable for such number of shares of Loews common stock (calculated to the nearest 1/10,000), subject to paragraph 5 below, equal to 100% of the ratio of the Average Market Price Per Share of such Carolina Group stock to the Average Market Price Per Share of Loews common stock. For purposes of computing the Tax Event Equity Exchange Rate, the "Average Market Price Per Share" of Loews common stock or Carolina Group stock, as the case may be, shall mean the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.~~

~~The term "Tax Event Cash Exchange Rate" shall mean such amount of cash for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: Each share of Carolina Group stock shall be exchangeable for such amount of cash (calculated to the nearest $.01), subject to paragraph 5 below, equal to 105% of the Average Market Price Per Share of such Carolina Group stock. For purposes of computing the Tax Event Cash Exchange Rate, the "Average Market Price Per Share" of Carolina Group stock, as the case may be, shall mean the average of the daily Market Value per share for such Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.~~

~~The term "Regular Equity Exchange Rate" shall mean the number of Exchange Shares for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange or a Significant Transaction Exchange, determined as follows: If the shares of Carolina Group stock are to be exchanged for shares of Loews common stock, each share of Carolina Group stock shall be exchangeable for such number of shares of Loews common stock (calculated to the nearest 1/10,000), subject to paragraph 5 below, equal to 115% of the ratio of the Average Market Price Per Share of such Carolina Group stock to the Average Market Price Per Share of Loews common stock. For purposes of computing the Regular Equity Exchange Rate, the "Average Market Price Per Share" of Loews common stock or Carolina Group stock, as the case may be, shall mean (i) in the case of a Board Required Exchange, the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed, or (ii) in the case of a~~

~~Significant Transaction Exchange, the average of the daily Market Value per share for such Loews common stock or Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for the Disposition giving rise to the Significant Transaction Exchange.~~

~~The term "Regular Cash Exchange Rate" shall mean such amount of cash for which each share of Carolina Group stock shall be exchangeable pursuant to a Board Required Exchange, determined as follows: If the shares of Carolina Group stock are to be exchanged for cash, each share of Carolina Group stock shall be exchangeable for such amount of cash (calculated to the nearest $.01), subject to paragraph 5 below, equal to 120% of the Average Market Price Per Share of such Carolina Group stock. For purposes of computing the Regular Cash Exchange Rate, the "Average Market Price Per Share" of Carolina Group stock, as the case may be, shall mean the average of the daily Market Value per share for such Carolina Group stock for the 20 consecutive Trading Days ending on the 5th Trading Day prior to the date an Exchange Notice is mailed.~~

~~If the shares of Carolina Group stock are to be exchanged for shares of one or more Carolina Group Subsidiaries, such shares of Carolina Group stock shall be exchanged, on a pro rata basis, for an aggregate number of outstanding fully paid and nonassessable shares of common stock of each such Carolina Group Subsidiary equal to the number of outstanding shares of common stock of such Subsidiary held by the Corporation multiplied by the Carolina Group Allocation Fraction and, if the Board of Directors so determines, the remaining shares of such Subsidiary shall be distributed on a pro rata basis to the holders of shares of Loews common stock (or shares of Loews common stock shall be exchanged for such remaining shares of such Subsidiary); provided that no such distribution (or mandatory exchange) may occur unless the distribution (or mandatory exchange) is tax free to the holders of Loews common stock (except with respect to any cash received by such holders in lieu of fractional shares). If at the time of such an exchange for shares of one or more Carolina Group Subsidiaries, there are outstanding any Convertible Securities convertible into or exercisable for shares of Carolina Group stock that would become exercisable or convertible for shares of one or more Carolina Group Subsidiaries as a result of such exchange, and the obligation to issue such shares under such options, warrants, convertible securities or similar rights is not assumed or otherwise provided for by one or more Carolina Group Subsidiaries, then the shares of Carolina Group stock underlying such Convertible Securities will be taken into account for purposes of determining the Carolina Group Allocation Fraction for such exchange.~~

~~The phrase "substantially all of the assets" of the Carolina Group as of any date shall mean a portion of such assets that represents at least 80% of the Fair Value of the assets attributed to the Carolina Group as of such date.~~

~~The term "Exchange Shares" shall mean the shares of Loews common stock or shares of one or more Carolina Group Subsidiaries, as the case may be, into which shares of Carolina Group stock may be exchanged pursuant to a Board Required Exchange or a Significant Transaction Exchange.~~

~~5. Certain Procedures Relating to Exchanges.~~

~~(a) The Board of Directors may, in its sole discretion, elect to issue fractional Exchange Shares in connection with an exchange or to make a cash payment in lieu of fractional shares, as described below. If the Board of Directors elects not to issue fractional Exchange Shares, then no such fractional shares shall be issued in connection with the exchange of shares of Carolina Group stock into Exchange Shares, and, in lieu thereof, each holder of Carolina Group stock who would otherwise be entitled to a fractional interest of an Exchange Share shall, upon surrender of such holder's certificate or certificates representing shares of Carolina Group stock, receive a cash payment (without interest) (the "Fractional Payment") equal to (i) in the case of an exchange for shares of Loews common stock, the product resulting from multiplying (A) the fraction of a share of Loews common stock to which such holder would otherwise have been entitled by (B) the Average Market Price Per Share of Loews common stock on the Exchange Date, or (ii) in the case of an exchange for shares of one or more Carolina Group Subsidiaries, such value as is determined by the Board of Directors.~~

~~(b) No adjustments in respect of dividends shall be made upon the exchange of any shares of Carolina Group stock; provided, however, that, if the Exchange Date with respect to Carolina Group stock shall be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto but prior to the payment or distribution thereof, the registered holders of such shares at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such shares on the date set for payment of such dividend or other~~

~~distribution, notwithstanding the exchange of such shares or the Corporation's default in payment of the dividend or distribution due on such date.~~

~~(c) At such time or times as the Corporation exercises its right to cause a Board Required Exchange, and at the time of any Significant Transaction Exchange, the Corporation shall give notice of such exchange to the holders of Carolina Group stock whose shares are to be exchanged, by mailing by first-class mail a notice of such exchange (an "Exchange Notice"), in the case of an exchange at the discretion of the Board of Directors, not less than 30 nor more than 60 days prior to the date fixed for such exchange (the "Exchange Date"), and, in the case of any other required exchange, as soon as practicable before or after the Exchange Date, in either case, to their last addresses as they appear upon the Corporation's books. Each such Exchange Notice shall specify the Exchange Date and the exchange rate applicable to such exchange, and may be conditioned on or otherwise subject to such terms as the Board of Directors may determine.~~

~~(d) In the case of certificated shares, before any holder of shares of Carolina Group stock shall be entitled to receive certificates representing such Exchange Shares, such holder must surrender, at such office as the Corporation shall specify, certificates for such shares of Carolina Group stock duly endorsed to the Corporation or in blank or accompanied by proper instruments of transfer to the Corporation or in blank, unless the Corporation shall waive such requirement. The Corporation shall, as soon as practicable after such surrender of certificates representing such shares of Carolina Group stock, issue and deliver, at the office of the transfer agent for the Exchange Shares, to the holder for whose account such shares of Carolina Group stock were so surrendered, or to such holder's nominee or nominees, certificates representing the number of Exchange Shares to which such holder shall be entitled, together with the Fractional Payment, if any.~~

~~(e) From and after any Exchange Date, all rights of a holder of shares of Carolina Group stock shall cease except for the right, upon surrender of the certificates representing such shares of Carolina Group stock, to receive certificates representing Exchange Shares together with a Fractional Payment, if any, as described in paragraphs 5(a) and 5(d) of this Part B of this Article Fourth and rights to dividends as described in paragraph 5(b) of this Part B of this Article Fourth. No holder of a certificate that immediately prior to the applicable Exchange Date represented shares of Carolina Group stock shall be entitled to receive any dividend or other distribution with respect to Exchange Shares until surrender of such holder's certificate for a certificate or certificates representing Exchange Shares. Upon surrender, the holder shall receive the amount of any dividends or other distributions (without interest) that were payable with respect to a record date after the Exchange Date, but that were not paid by reason of the foregoing with respect to the number of Exchange Shares represented by the certificate or certificates issued upon such surrender. From and after an Exchange Date applicable to Carolina Group stock, the Corporation shall, however, be entitled to treat certificates for Carolina Group stock that have not yet been surrendered for exchange as evidencing the ownership of the number of Exchange Shares for which the shares of Carolina Group stock represented by such certificates have been exchanged, notwithstanding the failure to surrender such certificates.~~

~~(f) If any certificate for Exchange Shares is to be issued in a name other than that in which the certificate representing shares of Carolina Group stock surrendered in exchange therefor is registered, it shall be a condition of such issuance that the person requesting the issuance pays any transfer or other taxes required by reason of the issuance of certificates for such Exchange Shares in a name other than that of the record holder of the certificate surrendered, or establishes, to the satisfaction of the Corporation or its agent, that such tax has been paid or is not applicable. Under no circumstances shall the Corporation be liable to a holder of shares of Carolina Group stock for any Exchange Shares or dividends or distributions thereon delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.~~

~~(g) At the time an Exchange Notice is delivered with respect to any shares of Carolina Group stock, or at the time of the Exchange Date, if earlier, the Corporation shall have reserved and kept available, solely for the purpose of issuance upon exchange of the outstanding shares of Carolina Group stock, such number of Exchange Shares as shall be issuable upon the exchange of the number of shares of Carolina Group stock specified or to be specified in the applicable Exchange Notice, provided that the Corporation shall not under any circumstances be precluded from satisfying its obligation in respect of the exchange of the outstanding shares of Carolina Group stock by delivery of purchased Exchange Shares that are held in the treasury of the Corporation.~~

~~(h) The Board of Directors may adjust the foregoing procedures as may be~~

~~appropriate to reflect any ownership of shares through book entry accounts or otherwise in non certificated form.~~

~~(i) The Corporation will effect any dividend, exchange or redemption on a pro rata basis with respect to each holder of record of Carolina Group stock.~~

~~6. Liquidation.~~

~~In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and other liabilities of the Corporation and subject to the prior payment in full of the preferential amounts to which any class or series of Preferred Stock is entitled, (a) the holders of the shares of Loews common stock shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of X/Z for the 20 Trading Day period ending on the fifth Trading Day immediately prior to the date of the public announcement of such liquidation, dissolution or winding up of the Corporation, (b) the holders of the shares of Carolina Group stock shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of W/Z for such 20 Trading Day period, and (c) if applicable, the holders of the shares of any other class of common shares of the Corporation (other than Loews common stock or Carolina Group stock), on the basis that may be set forth in this Certificate of Incorporation with respect to any such shares, shall share in the aggregate in a percentage of the funds of the Corporation remaining for distribution to its common shareholders equal to 100% multiplied by the average daily ratio (expressed as a decimal) of V/Z for such 20 Trading Day period, where X is the aggregate Market Capitalization of the Loews common stock, W is the aggregate Market Capitalization of the Carolina Group stock, V is the aggregate Market Capitalization, if applicable, of any other class of common shares (other than Loews common stock and Carolina Group stock), and Z is the aggregate Market Capitalization of (i) the Loews common stock, (ii) the Carolina Group stock and (iii) any other class of common shares of the Corporation (other than Loews common stock and Carolina Group stock). Neither the consolidation or merger of the Corporation with or into any other corporation or corporations nor the sale, transfer or lease of all or substantially all of the assets of the Corporation shall itself be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this paragraph 6 of this Part B of this Article Fourth. Notwithstanding the foregoing, any transaction or series of related transactions that results in all of the assets and liabilities included in the Carolina Group being held by one or more Carolina Group Subsidiaries, and the distribution of some or all of the shares of such Carolina Group Subsidiaries (and no other material assets or liabilities) to the holders of the outstanding Carolina Group stock shall not constitute a voluntary or involuntary liquidation, dissolution or winding up of the Corporation for purposes of this paragraph 6 of this Part B of this Article Fourth, but shall be subject to paragraph 4 of this Part B of this Article Fourth.~~

~~7. Determinations by the Board of Directors.~~

~~Any determinations made by the Board of Directors under any provision of this Part B of this Article Fourth shall be final and binding on all shareholders of the Corporation, except as may otherwise be required by law. The Corporation shall prepare a statement of any determination by the Board of Directors, respecting the fair market value of any properties, assets or securities, and shall file such statement with the Secretary of the Corporation.~~

~~8. Adjustment of the Carolina Group Allocation Fraction.~~

~~(a) The denominator of the Carolina Group Allocation Fraction shall be adjusted from time to time as deemed appropriate by the Board of Directors (i) to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of Carolina Group stock and stock dividends payable in shares of Carolina Group stock, (ii) to reflect the fair market value of contributions or allocations by the Corporation of cash or property or other assets or liabilities from the Loews Group to the Carolina Group (or vice versa), or of cash or property or other assets or liabilities of the Loews Group to, or for the benefit of, employees of businesses attributed to the Carolina Group in connection with employee benefit plans or arrangements of the Corporation or any of its subsidiaries (or vice versa), (iii) to reflect the number of shares of capital stock of the Corporation contributed to, or for the benefit of, employees of businesses attributed to the Carolina~~

~~Group in connection with benefit plans or arrangements of the Corporation or any of its Subsidiaries, (iv) to reflect repurchases by the Corporation of shares of Carolina Group stock for the account of the Loews Group or the Carolina Group, (v) to reflect issuances of Carolina Group stock for the account of the Carolina Group or the Loews Group, (vi) to reflect dividends or other distributions to holders of the Carolina Group stock to the extent a pro rata payment is not made to the Loews Group, and (vii) under such~~

~~other circumstances as the Board of Directors determines appropriate to reflect the economic substance of any other event or circumstance, provided that, in each case, the adjustment shall be made in a manner that the Board of Directors determines is fair and equitable to holders of Loews common stock and Carolina Group stock (and intended to reflect the relative deemed economic ownership interest, if any, of the Loews Group in the Carolina Group). Any adjustment made by the Board of Directors pursuant to the preceding sentence shall, subject to the foregoing, be at the sole discretion of the Board of Directors, and all such determinations shall be final and binding on all shareholders of the Corporation. For purposes of this paragraph 8 of this Part B of this Article Fourth, the consideration paid by the Loews Group to acquire any assets or other property contributed or allocated to the Carolina Group shall be presumed to be the "fair market value" as of its acquisition.~~

~~(b) Without duplication of any adjustment pursuant to paragraph 8(a) of this Part B of this Article Fourth, in the event that the Corporation shall issue shares of Carolina Group stock for the account of the Carolina Group, then the denominator of the Carolina Group Allocation Fraction shall be increased by the number of shares of Carolina Group stock so issued.~~

~~(c) Without duplication of any adjustment pursuant to paragraph 8(a) of this Part B of this Article Fourth, if, in connection with any share issuance described in paragraph 8(b) of this Part B of this Article Fourth, or otherwise, the Corporation contributes or allocates cash or other property or assets from the Loews Group to the Carolina Group, the denominator of the Carolina Group Allocation Fraction shall be increased (or further increased) by an amount obtained by dividing (i) the fair market value of such cash, property or assets (as determined by the Board of Directors) by (ii) the net per share offering price of the Carolina Group stock.~~

~~9. Certain Definitions.~~

~~Unless the context otherwise requires, the terms defined in this paragraph 9 of this Part B of this Article Fourth shall have, for all purposes of this Part B of this Article Fourth, the meanings herein specified:~~

~~"Board Required Exchange" shall mean any exchange effected pursuant to paragraph 4(a), 4(b) or 4(c) of this Part B of this Article Fourth.~~

~~"Carolina Group" shall mean, as of any date that any shares of Carolina Group stock have been issued and continue to be outstanding, without duplication, the direct or indirect interest of the Corporation (either itself or through direct or indirect subsidiaries, affiliates, joint ventures or other investments, or any of their predecessors or successors) in, and the direct or indirect liability of the Corporation (or any such subsidiary, affiliate, joint venture or other investment) for:~~

~~(a) Lorillard, Inc.,~~

~~(b) any dividend or distribution paid by Lorillard, Inc. following the Initial Issuance Date,~~

~~(c) all assets, liabilities and businesses acquired by a member of the Carolina Group or acquired by the Corporation or any of its Subsidiaries for the account of, or contributed, allocated or otherwise transferred to, the Carolina Group (including the net proceeds of any new issuance for the account of the Carolina Group of any new shares of Carolina Group stock or Convertible Securities), in each case, after the Initial Issuance Date and as determined by the Board of Directors in accordance with the provisions of this Part B of this Article Fourth,~~

~~(d) all net income or net losses arising after the Initial Issuance Date from the assets and liabilities that are reflected in the Carolina Group and the proceeds of any Disposition of any such assets following the Initial Issuance Date,~~

~~(e) notional, intergroup debt owed from the Carolina Group to the Loews Group, in an amount and with terms to be determined by the Board of Directors prior to the Initial Issuance Date, and~~

~~(f) any and all liabilities, costs and expenses of the Corporation and Lorillard, Inc. and the subsidiaries and predecessors of Lorillard, Inc., arising out of or related to tobacco or otherwise arising out of the past, present or future business of Lorillard, Inc. or its subsidiaries or predecessors, or claims arising out of or related to the sale of any businesses previously sold by Lorillard, Inc. or its subsidiaries or predecessors, in each case, whether grounded in tort, contract, statute or otherwise, whether pending or asserted in the future.~~

~~Notwithstanding the foregoing, the Carolina Group shall not include (1) any assets, liabilities or businesses disposed of after the Initial Issuance Date or (2) any assets, liabilities or businesses allocated to the Loews Group or otherwise distributed, paid or transferred from the Carolina Group, whether to the Loews Group, to holders of shares of Carolina Group stock or otherwise, in each case after the Initial Issuance Date and as determined by the Board of Directors in accordance with the provisions of this Part B of this Article Fourth. Accordingly, the assets of the Carolina Group shall be reduced by, among other things, (x) payments of dividends or distributions to holders of Carolina Group stock or to the Loews Group in respect of its interest in the Carolina Group in connection with any such dividend or distribution, (y) payments of interest or principal on the notional, intergroup debt owed to the Loews Group, and (z) payments in respect of any costs, expenses or other liabilities allocated to the Carolina Group.~~

~~"Carolina Group Aggregate Distributable Amount" shall mean the Carolina Group Allocated Portion of the excess of (1) the Net Proceeds received by the Corporation over (2) the Loews Tobacco Contingency Reserves.~~

~~"Carolina Group Allocated Portion" shall mean, with respect to the Carolina Group as a whole, or any dividend, distribution, payment, consideration or other amount or allocation requiring apportionment between the holders of Carolina Group stock (other than the Corporation and its Subsidiaries), on the one hand, and the Loews Group, on the other hand, the following: (a) in the case of the Carolina Group as a whole, the proportion of such Group represented by the Carolina Group Allocation Fraction, and (b) in the case of any other amount or allocation, the product of (i) such amount or allocation and (ii) the Carolina Group Allocation Fraction.~~

~~"Carolina Group Allocation Fraction" shall mean, as of any date of determination, a fraction, the numerator of which shall be the number of shares of Carolina Group stock outstanding on such date and the denominator of which shall be a number initially determined by the Board of Directors, in its sole discretion, prior to the Initial Issuance Date, subject to adjustment from time to time as described in this Part B of this Article Fourth, provided that such fraction shall in no event be greater than one. If the holders of any securities of the Corporation or any other Person that are convertible into or exercisable or exchangeable for shares of Carolina Group stock are entitled to participate in any dividend or other distribution with respect to the Carolina Group stock, such shares so issuable upon such conversion, exercise or exchange shall be taken into account in calculating the Carolina Group Allocation Fraction and any amount payable to the Loews Group in such manner as the Board of Directors determines to be appropriate.~~

~~"Carolina Group Available Dividend Amount" shall mean, as of any date, the Carolina Group Allocated Portion of (1) the excess of (a) the amount by which the total assets of the Carolina Group exceed the total liabilities of the Carolina Group as of such date over (b) the sum of (i) the par value of all issued shares of Carolina Group stock and each class or series of Preferred Stock attributed to the Carolina Group, (ii) the amount of the consideration received for any shares of Preferred Stock attributed to the Carolina Group without par value that have been issued, except such part of the consideration therefor as may have been allocated to surplus in a manner permitted by law, and (iii) any amount not included in subclauses (i) and (ii) above that the Corporation (by appropriate action of the Board of Directors) has transferred to stated capital specifically in respect of Carolina Group stock, minus (c) all reductions from such sums set forth in clauses (i), (ii) and (iii) above as have been effected in a manner permitted by law, or (2) in case there shall be no excess under clause (1), the net profits of the Carolina Group for the fiscal year in which the dividend is declared and/or the preceding fiscal year; provided, however, that, in the event that the law governing the Corporation changes from that governing the Corporation on the date the adoption of the Amendment to this Certificate of Incorporation pursuant to which the Carolina Group stock was authorized (whether because of amendment of the applicable law or because of a change in the jurisdiction of incorporation of the Corporation through merger or otherwise), the Carolina Group Available Dividend Amount shall mean the amount of dividends, as determined by the Board of Directors, that could be paid by a Corporation (governed under such applicable law) having the assets and liabilities of the Carolina Group, an amount of outstanding common stock (and having an aggregate par value) equal~~

~~to the amount (and aggregate par value) of the outstanding Carolina Group stock and of each class or series of Preferred Stock attributed to the Carolina Group and having an amount of earnings or loss or other relevant corporate attributes as reasonably determined by the Board of Directors in light of all factors deemed relevant by the Board of Directors.~~

~~"Carolina Group Incremental Dividend" shall mean, as of any date, with respect to any Lorillard Dividend, an amount equal to the Carolina Group Allocated Portion of the Lorillard Dividend.~~

~~"Carolina Group Net Proceeds" shall mean, as of any date, with respect to any Disposition of any of the assets of the Carolina Group, an amount, if any, equal to the Carolina Group Allocated Portion of the Net Proceeds.~~

~~"Carolina Group Related Business Transaction" shall mean any Disposition of all or substantially all the assets attributed to the Carolina Group in a transaction or series of related transactions that results in the Corporation or one or more of its Subsidiaries receiving in consideration of such assets primarily equity securities (including, without limitation, capital stock, debt securities convertible into or exchangeable for equity securities or interests in a general or limited partnership or limited liability company, without regard to the voting power or other management or governance rights associated therewith) of any entity that (a) acquires such properties or assets or succeeds (by merger, formation of a joint venture or otherwise) to the business conducted with such properties or assets or controls such acquiror or successor, and (b) which the Board of Directors determines is primarily engaged or proposes to engage primarily in one or more businesses similar or complementary to the businesses conducted by the Carolina Group prior to such Disposition.~~

~~"Carolina Group Released Reserves" shall mean, as of any date, with respect to any Released Reserves, an amount equal to the Carolina Group Allocated Portion of the Released Reserves.~~

~~"Carolina Group Tobacco Contingency Reserves" shall mean, as of any date, with respect to any Loews Tobacco Contingency Reserves, an amount equal to the Carolina Group Allocated Portion of the Loews Tobacco Contingency Reserves.~~

~~"Convertible Securities" shall mean any securities of the Corporation or any Subsidiary of the Corporation that are convertible into, exchangeable for or evidence the right to purchase any shares of Loews common stock or Carolina Group stock, whether upon conversion, exercise or exchange, or pursuant to anti-dilution provisions of such securities or otherwise.~~

~~"Disposition" shall mean the sale, transfer, assignment or other disposition (whether by merger, consolidation, sale or contribution of assets or stock, or otherwise) by the Corporation or Lorillard, Inc. (or their respective successors) of any of its respective Subsidiaries or properties or assets. Disposition shall not include a merger, consolidation, exchange of shares or other business combination transaction involving the Corporation or Lorillard, Inc. or Lorillard Tobacco Company in which the Corporation or Lorillard, Inc. or Lorillard Tobacco Company (or their respective successors) continues, immediately following such transaction, to hold the same, direct and indirect, interest in the business, assets and liabilities comprising the Carolina Group that it held immediately prior to such transaction (other than as a result of any action by any Person included in the Carolina Group).~~

~~"Fair Value" shall mean, in the case of equity securities or debt securities of a class that has previously been publicly traded for a period of at least three months, the Market Value thereof (if such Market Value, as so defined, can be determined) or, in the case of an equity security or debt security that has not been publicly traded for at least such period, means the fair value per share of stock or per other unit of such other security, on a fully distributed basis, as determined by an independent investment banking firm experienced in the valuation of securities selected in good faith by the Board of Directors; provided, however, that, in the case of property other than securities, the "Fair Value" thereof shall be determined in good faith by the Board of Directors based upon such appraisals or valuation reports of such independent experts as the Board of Directors shall in good faith determine to be appropriate in accordance with good business practice. Any such determination of Fair Value shall be described in a statement filed with the records of the actions of the Board of Directors.~~

~~"Fixed Tobacco-Related Liabilities" shall mean noncontingent tobacco-related costs or liabilities in fixed and determinable amounts directly arising from (a) a final and nonappealable award or order of a court of competent jurisdiction or (b) a contractual obligation.~~

~~"Group" shall mean the Loews Group or the Carolina Group.~~

~~"Initial Issuance Date" shall mean the date of first issuance of any shares of Carolina Group stock.~~

~~"Loews Group" shall mean, as of any date, the interest of the Corporation in all of the businesses in which the Corporation is or has been engaged, directly or indirectly (either itself or through direct or indirect subsidiaries, affiliates, joint ventures or other investments or any of their predecessors or successors), and the respective assets and liabilities of the Corporation therein, other than the Carolina Group Allocated Portion of the Carolina Group.~~

~~"Loews Tobacco Contingency Reserves" shall mean an amount retained by the Corporation, which the Board of Directors from time to time determines in good faith should be retained for tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise), whether or not any such contingency, cost or liability would be deductible as a cost or expense or would qualify for treatment as a reserve under generally accepted accounting principles, in each case, other than any Fixed Tobacco Related Liabilities.~~

~~"Market Capitalization" of any class or series of capital stock of the Corporation on any Trading Day shall mean the product of (a) the Market Value of one share of such class or series on such Trading Day and (b) the number of shares of such class or series outstanding on such Trading Day.~~

~~"Market Value" of any class or series of capital stock of the Corporation on any day shall mean the average of the daily closing price of a share of such class or series on such day (if such day is a Trading Day, and, if such day is not a Trading Day, on the Trading Day immediately preceding such day) on the New York Stock Exchange or, if the shares of such class or series are not quoted on the New York Stock Exchange on such Trading Day, on the Nasdaq National Market, or, if the shares of such class or series are not quoted on the Nasdaq National Market on such Trading Day, the average of the closing bid and asked prices of a share of such class or series in the over the counter market on such Trading Day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation, or, if such closing bid and asked prices are not made available by any such New York Stock Exchange member firm on such Trading Day (including, without limitation, because such securities are not publicly held), the market value of a share of such class or series as determined by the Board of Directors; provided that, for purposes of determining the ratios set forth in paragraph 6 of this Part B of this Article Fourth, (a) the "Market Value" of any share of Loews common stock or Carolina Group stock on any day prior to the "ex" date or any similar date for any dividend or distribution paid or to be paid with respect to Loews common stock or Carolina Group stock, as applicable, shall be reduced by the fair market value of the per share amount of such dividend or distribution as determined by the Board of Directors, and (b) the "Market Value" of any share of Loews common stock or any share of Carolina Group stock on any day prior to (i) the effective date of any subdivision (by stock split or otherwise) or combination (by reverse stock split or otherwise) of outstanding shares of Loews common stock or Carolina Group stock, as applicable, or (ii) the "ex" date or any similar date for any dividend or distribution with respect to the Loews common stock or Carolina Group stock in shares of Loews common stock or Carolina Group stock, as applicable, shall be appropriately adjusted to reflect such subdivision, combination, dividend or distribution.~~

~~"Net Proceeds" shall mean, as of any date, with respect to any Disposition of any of the assets of the Carolina Group, an amount, if any, equal to the gross proceeds of such Disposition after any payment of, or reasonable provision for, (without duplication) (a) any taxes payable by the Corporation or any other member of the Loews Group in respect of such Disposition or in respect of any mandatory dividend or redemption resulting from such Disposition (or that would have been payable but for the utilization of tax benefits attributable to the Loews Group), (b) any transaction costs borne by the Loews Group in connection with such Disposition, including, without limitation, any legal, investment banking and accounting fees and expenses borne by the Loews Group in connection with such Disposition, (c) any Fixed Tobacco Related Liabilities, (d) any liabilities and other obligations (contingent or otherwise) of the Carolina Group (other than tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise) which are not Fixed Tobacco Related Liabilities, whether or not any such contingency, cost or liability would be deductible as a cost or expense or would qualify for treatment as a reserve under generally accepted accounting principles), including, without limitation, any indemnity or guarantee obligations incurred by the Loews Group in connection with the Disposition or any liabilities assumed by the Loews Group for future purchase price adjustments, (e) any preferential amounts, accumulated and unpaid dividends and other obligations~~

~~in respect of Preferred Stock attributed to the Carolina Group and (f) repayment of any notional, intergroup debt owed by the Carolina Group to the Loews Group. To the extent the proceeds of any Disposition include any securities (other than Loews common stock) or other property other than cash, the Board of Directors shall determine the value of such securities or property; provided that the~~

~~value of any marketable securities included in such proceeds shall be the average of the daily Market Value of such securities for the 20-Trading Day period ending on the 5th Trading Day immediately preceding the date of a public announcement that a definitive agreement has been signed for such Disposition.~~

~~"Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.~~

~~"Qualifying Subsidiary" of a Person shall mean a Subsidiary of such Person in which such Person's ownership and voting interest is sufficient to satisfy the ownership and voting requirements of the Internal Revenue Code of 1986, as amended, and the regulations thereunder, for a distribution of such Person's interest in such Subsidiary to the holders of Carolina Group stock and, in the event that the Carolina Group Allocation Fraction is less than one, the holders of Loews common stock (or any such securities into which the Carolina Group stock or the Loews common stock may have been converted, reclassified or changed or for which they may have been exchanged), as the case may be, to be tax free to such holders.~~

~~"Subsidiary" shall mean, with respect to any Person, any corporation, limited liability company or partnership 50% or more of whose outstanding voting securities or membership or partnership interests, as the case may be, are, directly or indirectly, owned by such Person.~~

~~"Tax Event" shall mean receipt by the Corporation of an opinion of tax counsel of the Corporation's choice, to the effect that, as a result of any amendment to, clarification of, or change (including a prospective change) in, the laws (or any interpretation or application of the laws) of the United States or any political subdivision or taxing authority thereof or therein (including enactment of any legislation and the publication of any judicial or regulatory decision, determination or pronouncement), which amendment, clarification or change is effective, announced, released, promulgated or issued on or after the date of initial issuance of the Carolina Group stock, regardless of whether such amendment, clarification or change is issued to or in connection with a proceeding involving the Corporation, the Loews Group or the Carolina Group and whether or not subject to appeal, there is more than an insubstantial risk that:~~

~~(i) for tax purposes, any issuance of Carolina Group stock would be treated as a sale or other taxable disposition by the Corporation or any of its Subsidiaries of any of the assets, operations or relevant subsidiaries to which the Carolina Group stock relates,~~

~~(ii) the existence of the Carolina Group stock would subject the Corporation, its Subsidiaries or affiliates, or any of their respective successors or shareholders to the imposition of tax or to other adverse tax consequences, or~~

~~(iii) for tax purposes, either Loews common stock or Carolina Group stock is not or, at any time in the future, would not be treated solely as common stock of the Corporation.~~

~~"Trading Day" shall mean each weekday other than any day on which any relevant class or series of capital stock of the Corporation is not available for trading on the New York Stock Exchange or the Nasdaq National Market or in the over the counter market.~~

~~FIFTH: Any director or any officer of the Corporation elected or appointed by the stockholders of the Corporation or by the Board of Directors may be removed at any time in such manner as shall be provided in the By-laws of the Corporation.~~

~~SIXTH: In furtherance of and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:~~

~~To make, alter or repeal the By-laws of the Corporation.~~

~~By resolution passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more directors of the Corporation, which, to the extent provided in the resolution or in the By-laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the By-laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.~~

~~SEVENTH: The principal office of the Corporation shall be located at such place, whether within or without the State of Delaware, as may be provided in the By-laws.~~

~~EIGHTH: Unless contrary to statute, the books of the Corporation may be kept outside of the State of Delaware at such place or places as may from time to time be designated by the Board of Directors or in the By-laws of the Corporation.~~

~~NINTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.~~

~~TENTH: No director shall be personally liable to the Corporation or its stockholders for monetary damages for any breach of fiduciary duty by such director as a director, except (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.~~

~~Any repeal or modification of this Article Tenth shall not increase the personal liability of any director for any occurrence taking place prior to such repeal or modification, or otherwise adversely affect any right or benefit of a director existing at the time of such repeal or modification.~~

~~The provisions of this Article Tenth shall not be deemed to limit or preclude indemnification of a director by the Corporation for any liability which has not been limited by the provisions of this Article Tenth.~~

~~IN WITNESS WHEREOF, Loews Corporation has caused this Restated Certificate of Incorporation to be signed by Barry Hirsch, its Senior Vice President, General Counsel and Secretary, this 16th day of April, 2002.~~

~~LOEWS CORPORATION~~

~~By: Barry Hirsch~~

~~Name: Barry Hirsch~~
~~Title: Senior Vice President,~~
~~General Counsel and Secretary~~

FIRST AMENDMENT TO SUPPLEMENTAL RETIREMENT AGREEMENT

This shall constitute the First Amendment, made as of June 30, 2001, to that Supplemental Retirement Agreement made on March 24, 2000, (the "Agreement") between Loews Corporation (the "Company") and Peter Keegan (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive employee of the Company, and the Company and the Executive desire that the Executive's retirement benefits be supplemented on the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree as follows:

Paragraph 1 of the Agreement is hereby amended by adding the following new clause (e):

"(e) Effective as of March 31, 2001 the Account shall be credited in an additional amount of $50,000. It is intended that the Account shall receive three quarters of a year Interest Credit for 2001 calendar year for such $50,000 amount. Interest Credits shall also be made continue each year under paragraph 1(c) for all amounts in the Account. No duplication is hereby intended."

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as of the day and year first above written.

LOEWS CORPORATION

By: James S. Tisch

James S. Tisch
President

Accepted and Agreed to:

Peter Keegan

The Executive

SUPPLEMENTAL RETIREMENT AGREEMENT

AGREEMENT made on March 24, 2000 between LOEWS CORPORATION (the "Company") and Peter Keegan (the "Executive").

W I T N E S S E T H:

WHEREAS, the Executive is currently serving as an executive employee of the Company, and the Company and the Executive desire that the Executive's retirement benefits be supplemented on the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. In connection with his employment by the Company, the Executive shall be entitled to the following, in addition to his compensation and benefits:

(a) An account (the "Account") shall be established for the Executive (which shall not be funded) which may be credited each year

~~commencing in 1999. The Executive shall become eligible and vested in the Account as of January 1, 1999.~~

~~(b) The Account shall be credited with an initial balance in the amount of $200,000 as of June 30, 1999.~~

~~(c) The Account shall be credited on the last day of each calendar year with the Interest Credit which would have been credited under Section 3.3 of the Loews Corporation Cash Balance Plan (the "Plan"). It is intended that the Account shall receive one half year's Interest Credit on the day of calendar year 1999 for the initial balance of $200,000 for the calendar year 1999.~~

~~(d) The Account shall be accumulated until the Executive's termination of employment. At such time, the amount in the Account shall be converted into an actuarially equivalent annuity, payable at the Executive's election in the form of a single life annuity, a joint and survivor annuity, or a 10 year certain annuity, payable monthly. For purposes of this Agreement, the term "actuarial equivalent" shall have the meaning ascribed to it in Section 1.3 of the Plan.~~

~~2. In lieu of the benefits due under the preceding paragraphs, the Executive may request (at least one year prior to retirement) to receive the accumulated balance in the Account as a lump sum upon retirement, provided that such request is approved by the Chief Executive Officer of the Company.~~

~~3. If the Executive should die before payments have commenced under the preceding paragraphs, and in lieu of the benefits due under the preceding paragraphs, the accumulated balance in the Account shall be paid as soon as practicable after the Executive's death to his wife, Jane L. Carpenter. The Executive may revoke such beneficiary designation and designate a new beneficiary or beneficiaries by giving written notice as provided in Paragraph 4 below. Such alternative beneficiary designation must be received prior to the Executive's death.~~

~~4. All notices, requests, designations and other communications provided for by this Agreement shall be in writing and shall be personally delivered or mailed by registered or certified mail to the address of the party to whom intended as specified below or notice sent in accordance with this Paragraph.~~

~~If to the Company, at:~~

~~667 Madison Avenue~~
~~New York, NY 10021~~
~~Attention: Corporate Secretary~~

~~If to the Executive, at:~~

~~1192 Park Avenue~~
~~New York, NY 10012~~

~~Any such writings shall be effective upon receipt.~~

~~5. This Agreement sets forth the entire understanding between the parties with respect to the subject matter hereof and supersedes all prior understandings and agreements. No change, termination or waiver of any of the provisions hereof shall be binding unless in writing and signed by the party against whom the same is sought to be enforced. The Agreement shall be governed by and construed in accordance with the laws of the State of New York.~~

~~IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed as of the day and year first above written.~~

~~LOEWS CORPORATION~~

~~By: James S. Tisch~~

~~Accepted and Agreed to:~~

~~Peter Keegan~~

~~The Executive~~