UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the Transition Period From ____________ to ____________

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-2646102
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

667 Madison Avenue, New York, N.Y. 10065-8087
(Address of principal executive offices) (Zip Code)

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

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

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

Yes ___X___ No ______

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ___X___ Accelerated filer ______ Non-accelerated filer ______

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

Yes ______ No ___X___

Class	Outstanding at July 20, 2007
Common stock, $0.01 par value	535,189,548 shares
Carolina Group stock, $0.01 par value	108,443,641 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2007	December 31, 2006
(In millions)		
Assets:		
Investments:		
Fixed maturities, amortized cost of $36,019.2 and $36,852.6	$ 36,217.8	$ 37,569.7
Equity securities, cost of $1,092.1 and $967.0	1,430.3	1,308.8
Limited partnership investments	2,352.3	2,160.5
Other investments	66.2	27.4
Short-term investments	14,248.2	12,822.4
Total investments	54,314.8	53,888.8
Cash	137.1	133.8
Receivables	14,527.4	13,027.3
Property, plant and equipment	5,989.1	5,501.3
Deferred income taxes	798.8	620.9
Goodwill and other intangible assets	297.4	298.9
Other assets	1,792.2	1,716.5
Deferred acquisition costs of insurance subsidiaries	1,197.2	1,190.4
Separate account business	483.5	503.0
Total assets	$ 79,537.5	$ 76,880.9
Liabilities and Shareholders' Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 29,183.9	$ 29,636.0
Future policy benefits	6,870.7	6,644.7
Unearned premiums	3,882.0	3,783.8
Policyholders' funds	999.6	1,015.4
Total insurance reserves	40,936.2	41,079.9
Payable for securities purchased	3,786.7	1,046.7
Collateral on loaned securities and derivatives	3,098.8	3,601.5
Short-term debt	164.1	4.6
Long-term debt	4,957.4	5,567.8
Reinsurance balances payable	528.1	539.1
Other liabilities	4,909.3	5,140.2
Separate account business	483.5	503.0
Total liabilities	58,864.1	57,482.8
Minority interest	3,533.9	2,896.3
Preferred stock, $0.10 par value,		
Authorized – 100,000,000 shares		
Common stock:		
Loews common stock, $0.01 par value:		
Authorized – 1,800,000,000 shares		
Issued – 544,337,653 and 544,203,457 shares	5.4	5.4
Carolina Group stock, $0.01 par value:		
Authorized – 600,000,000 shares		
Issued –108,783,641 and 108,665,806 shares	1.1	1.1
Additional paid-in capital	4,064.7	4,017.6
Earnings retained in the business	13,349.0	12,098.7
Accumulated other comprehensive income	111.2	386.7
	17,531.4	16,509.5
Less treasury stock, at cost (8,698,549 shares of Loews common stock as of June 30, 2007 and 340,000 shares of Carolina Group stock as of June 30, 2007 and December 31, 2006)	391.9	7.7
Total shareholders' equity	17,139.5	16,501.8
Total liabilities and shareholders' equity	$ 79,537.5	$ 76,880.9

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions, except per share data)				
Revenues:				
Insurance premiums	**$ 1,871.7**	$ 1,892.0	**$ 3,734.0**	$ 3,760.6
Net investment income	**840.1**	640.9	**1,605.5**	1,345.0
Investment losses	**(138.9)**	(93.3)	**(160.2)**	(91.3)
Gain on issuance of subsidiary stock	**3.2**		**138.5**	
Manufactured products (including excise taxes of $180.0, $176.7, $341.7 and $340.6)	**1,095.4**	1,020.7	**2,054.6**	1,919.1
Other	**965.8**	817.0	**1,924.6**	1,588.4
Total	**4,637.3**	4,277.3	**9,297.0**	8,521.8
Expenses:				
Insurance claims and policyholders' benefits	**1,473.4**	1,432.2	**2,921.3**	2,924.2
Amortization of deferred acquisition costs	**371.7**	371.8	**752.6**	742.0
Cost of manufactured products sold	**633.3**	574.7	**1,200.8**	1,108.0
Other operating expenses	**855.4**	818.0	**1,652.9**	1,607.8
Restructuring and other related charges		(12.9)		(12.9)
Interest	**73.1**	70.7	**151.7**	145.3
Total	**3,406.9**	3,254.5	**6,679.3**	6,514.4
	1,230.4	1,022.8	**2,617.7**	2,007.4
Income tax expense	**398.5**	337.2	**853.8**	671.4
Minority interest	**169.6**	114.5	**335.5**	218.9
Total	**568.1**	451.7	**1,189.3**	890.3
Income from continuing operations	**662.3**	571.1	**1,428.4**	1,117.1
Discontinued operations, net	**(8.9)**	(2.4)	**(6.7)**	(7.4)
Net income	**$ 653.4**	$ 568.7	**$ 1,421.7**	$ 1,109.7
Net income attributable to:				
Loews common stock:				
Income from continuing operations	**$ 520.6**	$ 477.3	**$ 1,169.1**	$ 955.7
Discontinued operations, net	**(8.9)**	(2.4)	**(6.7)**	(7.4)
Loews common stock	**511.7**	474.9	**1,162.4**	948.3
Carolina Group stock	**141.7**	93.8	**259.3**	161.4
Total	**$ 653.4**	$ 568.7	**$ 1,421.7**	$ 1,109.7

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions, except per share data)				
Basic net income per Loews common share:				
Income from continuing operations	**$ 0.97**	$ 0.86	**$ 2.17**	$ 1.71
Discontinued operations, net	**(0.02)**		**(0.01)**	(0.01)
Net income	**$ 0.95**	$ 0.86	**$ 2.16**	$ 1.70
Basic net income per Carolina Group share	**$ 1.31**	$ 1.09	**$ 2.39**	$ 1.96
Diluted net income per Loews common share:				
Income from continuing operations	**$ 0.97**	$ 0.85	**$ 2.16**	$ 1.71
Discontinued operations, net	**(0.02)**		**(0.01)**	(0.01)
Net income	**$ 0.95**	$ 0.85	**$ 2.15**	$ 1.70
Diluted net income per Carolina Group share	**$ 1.30**	$ 1.09	**$ 2.39**	$ 1.96
Basic weighted average number of shares outstanding:				
Loews common stock	**536.30**	555.37	**538.90**	556.41
Carolina Group stock	**108.44**	86.03	**108.41**	82.15
Diluted weighted average number of shares outstanding:				
Loews common stock	**537.50**	556.16	**540.01**	557.21
Carolina Group stock	**108.56**	86.11	**108.54**	82.24

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(In millions, except per share data)	Comprehensive Income (Loss)	Loews Common Stock	Carolina Group Stock	Additional Paid-in Capital	Earnings Retained in the Business	Accumulated Other Comprehensive Income	Common Stock Held in Treasury
Balance, January 1, 2006		$ 5.6	$ 0.8	$ 2,417.9	$ 10,364.4	$ 311.1	$ (7.7)
Comprehensive income:							
Net income	$ 1,109.7				1,109.7		
Other comprehensive losses	(443.0)					(443.0)	
Comprehensive income	$ 666.7						
Dividends paid:							
Loews common stock, $0.113 per share					(62.6)		
Carolina Group stock, $0.91 per share					(78.1)		
Purchase of Loews treasury stock							(244.5)
Retirement of treasury stock				(7.3)	(48.4)		55.7
Issuance of Loews common stock				9.1			
Issuance of Carolina Group stock			0.1	753.7			
Stock-based compensation				7.1			
Other				0.2			
Balance, June 30, 2006		$ 5.6	$ 0.9	$ 3,180.7	$ 11,285.0	$ (131.9)	$ (196.5)
Balance, January 1, 2007		**$ 5.4**	**$ 1.1**	**$ 4,017.6**	**$ 12,098.7**	**$ 386.7**	**$ (7.7)**
Adjustment to initially apply:							
FIN No. 48 (Note 1)					**(36.6)**		
FSP FTB 85-4-1 (Note 1)					**33.7**		
Balance, January 1, 2007, as adjusted		**5.4**	**1.1**	**4,017.6**	**12,095.8**	**386.7**	**(7.7)**
Comprehensive income:							
Net income	**$ 1,421.7**				**1,421.7**		
Other comprehensive income	**(275.5)**					**(275.5)**	
Comprehensive income	**$ 1,146.2**						
Dividends paid:							
Loews common stock, $0.125 per share					**(67.4)**		
Carolina Group stock, $0.91 per share					**(98.7)**		
Purchase of Loews treasury stock							**(384.2)**
Issuance of Loews common stock				**2.5**			
Issuance of Carolina Group stock				**3.1**			
Stock-based compensation				**13.5**			
Other				**1.6**	**(2.4)**		
Deferred tax benefit related to interest expense imputed on Diamond Offshore's 1.5% debentures (Note 7)				**26.4**			
Balance, June 30, 2007		**$ 5.4**	**$ 1.1**	**$ 4,064.7**	**$ 13,349.0**	**$ 111.2**	**$ (391.9)**

See accompanying Notes to Consolidated Condensed Financial Statements.

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

Six Months Ended June 30	**2007**	2006
(In millions)		
Operating Activities:		
Net income	**$ 1,421.7**	$ 1,109.7
Adjustments to reconcile net income to net cash		
provided (used) by operating activities, net	**324.4**	360.6
Changes in operating assets and liabilities, net:		
Reinsurance receivables	**555.5**	454.7
Other receivables	**(65.0)**	(279.8)
Federal income tax	**227.4**	207.7
Prepaid reinsurance premiums	**(21.7)**	(48.7)
Deferred acquisition costs	**(6.8)**	(13.4)
Insurance reserves and claims	**(87.5)**	(370.4)
Reinsurance balances payable	**(11.1)**	20.5
Other liabilities	**(418.6)**	(202.9)
Trading securities	**586.5**	261.2
Other, net	**(154.8)**	95.8
Net cash flow operating activities - continuing operations	**2,350.0**	1,595.0
Net cash flow operating activities - discontinued operations	**(25.2)**	(4.4)
Net cash flow operating activities - total	**2,324.8**	1,590.6
Investing Activities:		
Purchases of fixed maturities	**(33,937.6)**	(35,395.5)
Proceeds from sales of fixed maturities	**31,598.0**	31,898.3
Proceeds from maturities of fixed maturities	**2,836.3**	4,102.8
Purchases of equity securities	**(99.8)**	(262.6)
Proceeds from sales of equity securities	**109.1**	119.9
Purchases of property and equipment	**(745.0)**	(395.6)
Proceeds from sales of property and equipment	**13.2**	1.5
Change in collateral on loaned securities	**(502.7)**	573.3
Change in short-term investments	**(1,067.3)**	(1,902.2)
Change in other investments	**(85.1)**	(172.8)
Other, net	**54.5**	
Net cash flow investing activities - continuing operations	**(1,826.4)**	(1,432.9)
Net cash flow investing activities - discontinued operations, including proceeds		
from disposition	**49.6**	23.5
Net cash flow investing activities - total	**(1,776.8)**	(1,409.4)

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

Six Months Ended June 30		**2007**		2006
(In millions)				
Financing Activities:				
Dividends paid	**$**	**(166.1)**	$	(140.7)
Dividends paid to minority interest		**(314.9)**		(111.3)
Purchases of treasury shares		**(379.1)**		(244.5)
Issuance of common stock		**5.6**		760.8
Proceeds from subsidiaries' equity issuances		**312.3**		
Principal payments on debt		**(1.8)**		(67.5)
Issuance of debt				11.9
Receipts of investment contract account balances		**1.4**		1.2
Return of investment contract account balances		**(56.8)**		(406.6)
Excess tax benefits from share-based payment arrangements		**6.7**		2.8
Other		**9.5**		4.0
Net cash flow financing activities - continuing operations		**(583.2)**		(189.9)
Net change in cash		**(35.2)**		(8.7)
Net cash transactions from:				
Continuing operations to discontinued operations		**62.8**		14.5
Discontinued operations to continuing operations		**(62.8)**		(14.5)
Cash, beginning of period		**174.0**		182.0
Cash, end of period	**$**	**138.8**	$	173.3
Cash, end of period:				
Continuing operations	**$**	**137.1**	$	139.9
Discontinued operations		**1.7**		33.4
Total	**$**	**138.8**	$	173.3

See accompanying Notes to Consolidated Condensed Financial Statements.

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation ("CNA"), an 89% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc. ("Lorillard"), a wholly owned subsidiary); the operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP ("Boardwalk Pipeline"), a 75% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 51% owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary) and the distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a wholly owned subsidiary). Unless the context otherwise requires, the terms "Company," "Loews" and "Registrant" as used herein mean Loews Corporation excluding its subsidiaries.

In 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 June 30, 2007 and December 31, 2006 and the results of operations for the three and six months ended June 30, 2007 and 2006 and changes in cash flows for the six months ended June 30, 2007 and 2006.

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

Reference is made to the Notes to Consolidated Financial Statements in the 2006 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

Accounting changes - In March of 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors." A life settlement contract for purposes of FSP FTB 85-4-1 is a contract between the owner of a life insurance policy (the "policy owner") and a third-party investor ("investor"). The previous accounting guidance, FASB Technical Bulletin ("FTB") No. 85-4, "Accounting for Purchases of Life Insurance," required the purchaser of life insurance contracts to account for the life insurance contract at its cash surrender value. Because life insurance contracts are purchased in the secondary market at amounts in excess of the policies' cash surrender values, the application of guidance in FTB No. 85-4 created a loss upon acquisition of policies. FSP FTB 85-4-1 provides initial and subsequent measurement guidance and financial statement presentation and disclosure guidance for investments by third-party investors in life settlement contracts. FSP FTB 85-4-1 allows an investor to elect to account for its investments in life settlement contracts using either the investment method or the fair value method. The election shall be made on an instrument-by-instrument basis and is irrevocable. The Company adopted FSP FTB 85-4-1 on January 1, 2007.

Prior to 2002, CNA purchased investments in life settlement contracts. Under a life settlement contract, CNA obtained the ownership and beneficiary rights of an underlying life insurance policy. CNA has elected to account for its investment in life settlement contracts using the fair value method and the initial impact upon adoption of FSP FTB 85-4-1 under the fair value method was an increase to retained earnings of $33.7 million, net of tax and minority interest.

Under the fair value method, each life settlement contract is carried at its fair value at the end of each reporting period. The change in fair value, life insurance proceeds received and periodic maintenance costs, such as premiums, necessary to keep the underlying policy in force, are recorded in Other revenues on the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2007. Amounts presented related to the prior year were accounted for under the previous accounting guidance, FTB No. 85-4, where the carrying value of life settlement contracts was the cash surrender value, and revenue was recognized and included in Other revenues on the Consolidated Condensed Statement of Income when the life insurance policy underlying the life settlement contract matured. Under the previous accounting guidance, maintenance expenses were expensed as incurred and included in Other operating expenses on the Consolidated Condensed Statement of Income. CNA's investment in life settlement contracts of $108.0 million at June 30, 2007 is included in Other assets on the Consolidated Condensed Balance Sheet. The cash receipts and payments related to life settlement contracts are included in Cash flows from operating activities on the Consolidated Condensed Statements of Cash Flows for both periods presented.

The fair value of each life insurance policy is determined as the present value of the anticipated death benefits less anticipated premium payments for that policy. These anticipated values are determined using mortality rates and policy terms that are distinct for each insured. The discount rate used reflects current risk-free rates at applicable durations and the risks associated with assessing the current medical condition of the insured, the potential volatility of mortality experience for the portfolio and longevity risk. CNA used its own experience to determine the fair value of its portfolio of life settlement contracts. The mortality experience of this portfolio of life insurance policies may vary by quarter due to its relatively small size.

The following table details the values of life settlement contracts as of June 30, 2007.

As of June 30, 2007	Number of Life Settlement Contracts	Fair Value of Life Settlement Contracts	Face Amount of Life Insurance Policies
(In millions of dollars)			
Estimated maturity during:			
2007	**40**	**$ 4.0**	**$ 25.0**
2008	**80**	**9.0**	**51.0**
2009	**80**	**9.0**	**50.0**
2010	**80**	**9.0**	**50.0**
2011	**80**	**9.0**	**50.0**
Thereafter	**1,086**	**68.0**	**541.0**
Total	**1,446**	**$ 108.0**	**$ 767.0**

The unrealized gain (change in fair value) recognized for the three and six months ended June 30, 2007 on contracts still being held on June 30, 2007 is $2.0 million and $3.0 million. The gain recognized during the three and six months ended June 30, 2007 on contracts that matured is $7.0 million and $21.0 million.

In June of 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109." FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN No. 48 states that a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The Company adopted FIN No. 48 on January 1, 2007 and recorded a decrease to retained earnings of approximately $36.6 million, net of minority interest.

In September of 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting SFAS No. 157 will have on its results of operations and equity.

In February of 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS No. 159 helps to mitigate volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that adopting SFAS No. 159 will have on its results of operations and equity.

2. Investments

(In millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net investment income consisted of:				
Fixed maturity securities	**$ 525.2**	$ 488.5	**$ 1,021.6**	$ 909.8
Short-term investments	**103.7**	88.4	**199.9**	183.7
Limited partnerships	**79.1**	57.1	**142.1**	137.2
Equity securities	**6.0**	11.4	**11.1**	19.3
Income from trading portfolio	**128.5**	13.5	**219.9**	126.4
Interest expense on funds withheld and other deposits	**(0.3)**	(29.8)	**(0.8)**	(54.6)
Other	**20.7**	25.6	**42.4**	49.1
Total investment income	**862.9**	654.7	**1,636.2**	1,370.9
Investment expenses	**(22.8)**	(13.8)	**(30.7)**	(25.9)
Net investment income	**$ 840.1**	$ 640.9	**$ 1,605.5**	$ 1,345.0
Investment gains (losses) are as follows:				
Fixed maturities	**$ (265.3)**	$ (93.2)	**$ (282.7)**	$ (103.3)
Equity securities, including short positions	**10.5**	4.4	**14.0**	11.4
Derivative instruments	**114.7**	(1.4)	**107.0**	5.5
Short-term investments	**0.3**	(2.3)	**0.2**	(4.8)
Other, including guaranteed separate account business	**0.9**	(0.8)	**1.3**	(0.1)
Investment gains (losses)	**(138.9)**	**(93.3)**	**(160.2)**	(91.3)
Gain on issuance of subsidiary stock (Note 7)	**3.2**		**138.5**	
	(135.7)	(93.3)	**(21.7)**	(91.3)
Income tax benefit	**47.1**	32.8	**6.5**	26.9
Minority interest	**10.0**	5.5	**11.6**	5.6
Investment losses, net	**$ (78.6)**	$ (55.0)	**$ (3.6)**	$ (58.8)

Realized investment losses for the three months ended June 30, 2007 included other-than-temporary impairment (“OTTI”) losses of $176.0 million recorded primarily in the corporate and other taxable bonds, asset-backed bonds and U.S. Government bonds sectors. This compared to OTTI losses for the three months ended June 30, 2006 of $31.0 million recorded primarily in the corporate and other taxable bonds sector.

Realized investment losses for the six months ended June 30, 2007 included OTTI losses of $263.0 million recorded primarily in the corporate and other taxable bonds, asset-backed bonds and U.S. Government bonds sectors. This compared to OTTI losses for the six months ended June 30, 2006 of $41.0 million recorded primarily in the corporate and other taxable bonds sector.

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

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

June 30, 2007	Amortized Cost	Unrealized Gains	Gross Unrealized Losses: Less Than 12 Months	Gross Unrealized Losses: Greater Than 12 Months	Fair Value
(In millions)					
Fixed maturity securities:					
U.S. government and obligations of government agencies	**$ 3,581.4**	**$ 64.3**	**$ 3.0**	**$ 1.6**	**$ 3,641.1**
Asset-backed securities	**11,005.5**	**14.4**	**83.8**	**194.3**	**10,741.8**
States, municipalities and political subdivisions-tax exempt	**7,863.5**	**128.8**	**47.8**	**7.4**	**7,937.1**
Corporate	**7,167.2**	**212.2**	**33.1**	**9.8**	**7,336.5**
Other debt	**3,508.4**	**157.5**	**14.9**	**5.5**	**3,645.5**
Redeemable preferred stocks	**1,039.4**	**22.4**	**7.3**		**1,054.5**
Fixed maturities available-for-sale	**34,165.4**	**599.6**	**189.9**	**218.6**	**34,356.5**
Fixed maturities, trading	**1,853.8**	**8.9**	**0.9**	**0.5**	**1,861.3**
Total fixed maturities	**36,019.2**	**608.5**	**190.8**	**219.1**	**36,217.8**
Equity securities:					
Equity securities available-for-sale	**350.7**	**260.5**	**0.4**	**0.2**	**610.6**
Equity securities, trading	**741.4**	**108.4**	**19.9**	**10.2**	**819.7**
Total equity securities	**1,092.1**	**368.9**	**20.3**	**10.4**	**1,430.3**
Short-term investments:					
Short-term investments available-for-sale	**9,441.0**	**2.3**	**0.4**		**9,442.9**
Short-term investments, trading	**4,805.3**				**4,805.3**
Total short-term investments	**14,246.3**	**2.3**	**0.4**	**-**	**14,248.2**
Total	**$ 51,357.6**	**$ 979.7**	**$ 211.5**	**$ 229.5**	**$ 51,896.3**
December 31, 2006					
Fixed maturity securities:					
U.S. government and obligations of government agencies	$ 5,055.6	$ 86.2	$ 2.6	$ 1.6	$ 5,137.6
Asset-backed securities	13,822.8	27.7	20.8	151.0	13,678.7
States, municipalities and political subdivisions-tax exempt	4,915.2	236.9	1.2	4.6	5,146.3
Corporate	6,810.8	337.8	7.5	9.7	7,131.4
Other debt	3,442.7	207.6	6.6	2.0	3,641.7
Redeemable preferred stocks	885.0	27.8	0.5		912.3
Fixed maturities available-for-sale	34,932.1	924.0	39.2	168.9	35,648.0
Fixed maturities, trading	1,920.5	6.0	4.4	0.4	1,921.7
Total fixed maturities	36,852.6	930.0	43.6	169.3	37,569.7
Equity securities:					
Equity securities available-for-sale	348.4	249.0	0.2	0.2	597.0
Equity securities, trading	618.6	111.6	10.4	8.0	711.8
Total equity securities	967.0	360.6	10.6	8.2	1,308.8
Short-term investments:					
Short-term investments available-for-sale	8,436.9				8,436.9
Short-term investments, trading	4,385.2	0.4	0.1		4,385.5
Total short-term investments	12,822.1	0.4	0.1	-	12,822.4
Total	$ 50,641.7	$ 1,291.0	$ 54.3	$ 177.5	$ 51,700.9

The following table summarizes, for fixed maturity and equity securities in an unrealized loss position at June 30, 2007 and December 31, 2006, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

	June 30, 2007		December 31, 2006	
	Estimated Fair Value	**Gross Unrealized Loss**	Estimated Fair Value	Gross Unrealized Loss
(In millions)				
Fixed maturity securities:				
Investment grade:				
0-6 months	**$ 10,467.1**	**$ 133.4**	$ 9,829.3	$ 23.7
7-12 months	**1,017.1**	**50.3**	1,267.1	11.8
13-24 months	**3,644.2**	**129.5**	5,247.9	127.4
Greater than 24 months	**2,226.8**	**87.8**	1,021.4	41.1
Total investment grade	**17,355.2**	**401.0**	17,365.7	204.0
Non-investment grade:				
0-6 months	**1,088.8**	**5.1**	509.0	2.1
7-12 months	**14.5**	**1.1**	87.3	1.5
13-24 months	**16.7**	**1.3**	23.9	0.5
Greater than 24 months	**2.3**		2.3	
Total non-investment grade	**1,122.3**	**7.5**	622.5	4.1
Total fixed maturity securities	**18,477.5**	**408.5**	17,988.2	208.1
Equity securities:				
0-6 months	**12.8**	**0.2**	9.8	0.2
7-12 months	**2.1**	**0.2**	0.7	
13-24 months				
Greater than 24 months	**2.9**	**0.2**	2.9	0.2
Total equity securities	**17.8**	**0.6**	13.4	0.4
Total fixed maturity and equity securities	**$ 18,495.3**	**$ 409.1**	$ 18,001.6	$ 208.5

At June 30, 2007, the carrying value of available-for-sale fixed maturities was $34,356.5 million, representing 63.3% of the total investment portfolio. The unrealized loss position associated with the available-for-sale fixed maturity portfolio included $408.5 million in gross unrealized losses, consisting of asset-backed securities which represented 68.1%, municipal securities which represented 13.5%, corporate bonds which represented 10.5%, and all other fixed maturity securities which represented 7.9%. The gross unrealized loss for any single issuer was no greater than 0.1% of the carrying value of the total available-for-sale fixed maturity portfolio. The total available-for-sale fixed maturity portfolio gross unrealized losses included 1,922 securities which were, in aggregate, approximately 2.0% below amortized cost.

Given the current facts and circumstances, the Company has determined that the securities presented in the above unrealized gain/loss tables were temporarily impaired when evaluated at June 30, 2007 or December 31, 2006, and therefore no related realized losses were recorded. A discussion of some of the factors reviewed in making that determination as of June 30, 2007 is presented below.

Asset-Backed Securities

The unrealized losses on the Company's investments in asset-backed securities were caused primarily by a change in interest rates. This category includes mortgage-backed securities guaranteed by an agency of the U.S. government. There were 363 agency mortgage-backed pass-through securities and 4 agency collateralized mortgage obligations ("CMOs") in an unrealized loss position as of June 30, 2007. The aggregate severity of the unrealized loss on these securities was approximately 5.0% of amortized cost. These securities do not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral.

The remainder of the holdings in this category are corporate mortgage-backed pass-through securities, CMOs and corporate asset-backed structured securities. The holdings in these sectors include 736 securities in an unrealized loss position with over 82.0% of these unrealized losses related to securities rated AAA. The aggregate severity of the unrealized loss was approximately 3.0% of amortized cost. The contractual cash flows on the asset-backed structured securities are pass-through but may be structured into classes of preference. The structured securities held are generally secured by over collateralization or default protection provided by subordinated tranches. Within this category, securities subject to Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets," are monitored for adverse changes in cash flow projections. If there are adverse changes in cash flows, the amount of accretable yield is prospectively adjusted and an OTTI loss is recognized. As of June 30, 2007, there was no adverse change in estimated cash flows noted for the securities held subject to EITF No. 99-20, which have an aggregate unrealized loss of $27.0 million and an aggregate severity of the unrealized loss of approximately 3.0% of amortized cost.

Because the decline in fair value was primarily attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at June 30, 2007.

States, Municipalities and Political Subdivisions – Tax-Exempt Securities

The unrealized losses on the Company's investments in municipal securities were caused primarily by changes in interest rates. The Company invests in tax-exempt municipal securities as an asset class for economic benefits of the returns on the class compared to like after-tax returns on alternative classes. The holdings in this category include 318 securities in an unrealized loss position with 80.0% of these unrealized losses related to securities A rated or above where the cash flows are secured by the credit of the issuer. The aggregate severity of the unrealized loss was approximately 2.0% of amortized cost. Because the Company has the ability and intent to hold these investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at June 30, 2007.

Corporate Securities

The Company's portfolio management objective for corporate bonds focuses on sector and issuer exposures and value analysis within sectors. In order to maximize investment objectives, corporate bonds are analyzed on a risk adjusted basis compared to other opportunities that are available in the market. Trading decisions may be made based on an issuer that may be overvalued in the Company's portfolio compared to a like issuer that may be undervalued in the market. The Company also monitors issuer exposure and broader industry sector exposures and may reduce exposures based on its current view of a specific issuer or sector.

Of the unrealized losses in this category, over 82.0% relate to securities rated as investment grade (rated BBB- or higher). The total holdings in this category are diversified across 11 industry sectors and 341 securities. The aggregate severity of the unrealized loss was approximately 1.0% of amortized cost. Within corporate bonds, the largest industry sectors were financial, communications and energy, which as a percentage of total gross unrealized losses were 37.0%, 14.0% and 12.0% at June 30, 2007. The decline in fair value was primarily attributable to changes in interest rates and macro conditions in certain sectors that the market views as temporarily out of favor. Because the decline was not related to specific credit quality issues, and because the Company has the ability and intent to hold these investments until an anticipated recovery of value, which may be maturity, the Company considers these investments to be temporarily impaired at June 30, 2007.

Investment Commitments

As of June 30, 2007 and December 31, 2006, the Company had committed approximately $188.0 million and $109.0 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of June 30, 2007 and December 31, 2006, the Company had commitments to purchase $154.1 million and $64.0 million, and sell $20.8 million and $23.7 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Consolidated Condensed Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of June 30, 2007 and December 31, 2006, the Company had obligations on unfunded bank loan participations in the amount of $16.0 million and $29.0 million.

3. Earnings Per Share

Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income 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.

The Company has two classes of common stock: 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 Loews common stock, representing the economic performance of the Company's remaining assets, including the interest in the Carolina Group not represented by Carolina Group stock.

The attribution of income to each class of common stock for the three and six months ended June 30, 2007 and 2006, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
(In millions, except %)				
Loews common stock:				
Consolidated net income	**$ 653.4**	$ 568.7	**$ 1,421.7**	$ 1,109.7
Less income attributable to Carolina Group stock	**141.7**	93.8	**259.3**	161.4
Income attributable to Loews common stock	**$ 511.7**	$ 474.9	**$ 1,162.4**	$ 948.3
Carolina Group stock:				
Income available to Carolina Group stock	**$ 227.1**	$ 187.2	**$ 415.8**	$ 337.3
Weighted average economic interest of the Carolina Group	**62.4%**	50.1%	**62.4%**	47.9%
Income attributable to Carolina Group stock	**$ 141.7**	$ 93.8	**$ 259.3**	$ 161.4

The following is a reconciliation of basic weighted shares outstanding to diluted weighted shares for the three and six months ended June 30, 2007 and 2006.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Loews Common stock:				
Weighted average shares outstanding-basic	**536.30**	555.37	**538.90**	556.41
Stock options and stock appreciation rights	**1.20**	0.79	**1.11**	0.80
Weighted average shares outstanding-diluted	**537.50**	556.16	**540.01**	557.21
Carolina Group stock:				
Weighted average shares outstanding-basic	**108.44**	86.03	**108.41**	82.15
Stock options and stock appreciation rights	**0.12**	0.08	**0.13**	0.09
Weighted average shares outstanding-diluted	**108.56**	86.11	**108.54**	82.24

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Loews common stock	**2,633**	2,480	**1,324**	119,006
Carolina Group stock	**549**	555	**25,414**	279

4. Loews and Carolina Group Consolidating Condensed Financial Information

The principal assets and liabilities attributed to the Carolina Group are the Company's 100% stock ownership interest in Lorillard, Inc.; notional, intergroup debt owed by the Carolina Group to the Loews Group ($978.0 million outstanding at June 30, 2007), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and any and all liabilities, costs and expenses of the Company and Lorillard arising out of or related to tobacco or tobacco-related businesses.

As of June 30, 2007, the outstanding Carolina Group stock represents a 62.4% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all of the Company's assets and liabilities other than the 62.4% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group. 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. Each outstanding share of Carolina Group stock has 3/10 of a vote per share.

The Company has separated, for financial reporting purposes, the Carolina Group and Loews Group. The following schedules present the consolidating condensed financial information for these individual groups. Neither group is a separate company or legal entity. Rather, each group is intended to reflect a defined set of assets and liabilities.

Loews and Carolina Group
Consolidating Condensed Balance Sheet Information

June 30, 2007	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Assets:						
Investments	$ 1,639.3	$ 101.0	$ 1,740.3	$ 52,574.5		$ 54,314.8
Cash	0.4	0.2	0.6	136.5		137.1
Receivables	20.4	0.4	20.8	14,519.9	$ (13.3) (a)	14,527.4
Property, plant and equipment	202.8		202.8	5,786.3		5,989.1
Deferred income taxes	534.1		534.1	264.7		798.8
Goodwill and other intangible assets				297.4		297.4
Other assets	342.4		342.4	1,449.8		1,792.2
Investment in combined attributed net assets of the Carolina Group				1,125.8	(978.0) (a)	
					(147.8) (b)	
Deferred acquisition costs of insurance subsidiaries				1,197.2		1,197.2
Separate account business				483.5		483.5
Total assets	$ 2,739.4	$ 101.6	$ 2,841.0	$ 77,835.6	$ (1,139.1)	$ 79,537.5
Liabilities and Shareholders' Equity:						
Insurance reserves				$ 40,936.2		$ 40,936.2
Payable for securities purchased				3,786.7		3,786.7
Collateral on loaned securities				3,098.8		3,098.8
Short-term debt				164.1		164.1
Long-term debt		$ 978.0	$ 978.0	4,957.4	$ (978.0) (a)	4,957.4
Reinsurance balances payable				528.1		528.1
Other liabilities	$ 1,461.1	9.2	1,470.3	3,452.3	(13.3) (a)	4,909.3
Separate account business				483.5		483.5
Total liabilities	1,461.1	987.2	2,448.3	57,407.1	(991.3)	58,864.1
Minority interest				3,533.9		3,533.9
Shareholders' equity	1,278.3	(885.6)	392.7	16,894.6	(147.8) (b)	17,139.5
Total liabilities and shareholders' equity	$ 2,739.4	$ 101.6	$ 2,841.0	$ 77,835.6	$ (1,139.1)	$ 79,537.5

(a) To eliminate the intergroup notional debt and interest payable/receivable.
(b) To eliminate the Loews Group's 37.6% equity interest in the combined attributed net assets of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Balance Sheet Information

December 31, 2006	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Assets:						
Investments	$ 1,767.5	$ 101.0	$ 1,868.5	$ 52,020.3		$ 53,888.8
Cash	1.2	0.3	1.5	132.3		133.8
Receivables	15.6	0.4	16.0	13,028.2	$ (16.9) (a)	13,027.3
Property, plant and equipment	196.4		196.4	5,304.9		5,501.3
Deferred income taxes	495.7		495.7	125.2		620.9
Goodwill and other intangible assets				298.9		298.9
Other assets	282.8		282.8	1,433.7		1,716.5
Investment in combined attributed net assets of the Carolina Group				1,288.3	(1,229.7) (a) (58.6) (b)	
Deferred acquisition costs of insurance subsidiaries				1,190.4		1,190.4
Separate account business				503.0		503.0
Total assets	$ 2,759.2	$ 101.7	$ 2,860.9	$ 75,325.2	$ (1,305.2)	$ 76,880.9
Liabilities and Shareholders' Equity:						
Insurance reserves				$ 41,079.9		$ 41,079.9
Payable for securities purchased				1,046.7		1,046.7
Collateral on loaned securities				3,601.5		3,601.5
Short-term debt				4.6		4.6
Long-term debt		$ 1,229.7	$ 1,229.7	5,567.8	$ (1,229.7) (a)	5,567.8
Reinsurance balances payable				539.1		539.1
Other liabilities	$ 1,463.9	11.5	1,475.4	3,681.7	(16.9) (a)	5,140.2
Separate account business				503.0		503.0
Total liabilities	1,463.9	1,241.2	2,705.1	56,024.3	(1,246.6)	57,482.8
Minority interest				2,896.3		2,896.3
Shareholders' equity	1,295.3	(1,139.5)	155.8	16,404.6	(58.6) (b)	16,501.8
Total liabilities and shareholders' equity	$ 2,759.2	$ 101.7	$ 2,860.9	$ 75,325.2	$ (1,305.2)	$ 76,880.9

(a) To eliminate the intergroup notional debt and interest payable/receivable.
(b) To eliminate the Loews Group's 37.7% equity interest in the combined attributed net assets of the Carolina Group.

Three Months Ended June 30, 2007	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 1,871.7		$ 1,871.7
Net investment income	$ 24.5	$ 2.0	$ 26.5	834.1	$ (20.5) (a)	840.1
Investment gains (losses)				(138.9)		(138.9)
Gain on issuance of subsidiary stock				3.2		3.2
Manufactured products	1,055.4		1,055.4	40.0		1,095.4
Other				965.8		965.8
Total	1,079.9	2.0	1,081.9	3,575.9	(20.5)	4,637.3
Expenses:						
Insurance claims and policyholders' benefits				1,473.4		1,473.4
Amortization of deferred acquisition costs				371.7		371.7
Cost of manufactured products sold	613.5		613.5	19.8		633.3
Other operating expenses	82.8	0.1	82.9	772.5		855.4
Interest	2.6	20.5	23.1	70.5	(20.5) (a)	73.1
Total	698.9	20.6	719.5	2,707.9	(20.5)	3,406.9
	381.0	(18.6)	362.4	868.0	-	1,230.4
Income tax expense (benefit)	142.3	(7.0)	135.3	263.2		398.5
Minority interest				169.6		169.6
Total	142.3	(7.0)	135.3	432.8	-	568.1
Income (loss) from operations	238.7	(11.6)	227.1	435.2	-	662.3
Equity in earnings of the Carolina Group				85.4	(85.4) (b)	
Income (loss) from continuing operations	238.7	(11.6)	227.1	520.6	(85.4)	662.3
Discontinued operations, net				(8.9)		(8.9)
Net income (loss)	$ 238.7	$ (11.6)	$ 227.1	$ 511.7	$ (85.4)	$ 653.4

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Income Information

Three Months Ended June 30, 2006	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 1,892.0		$ 1,892.0
Net investment income	$ 19.4	$ 1.8	$ 21.2	649.5	$ (29.8) (a)	640.9
Investment losses				(93.3)		(93.3)
Manufactured products	977.3		977.3	43.4		1,020.7
Other	0.1		0.1	816.9		817.0
Total	996.8	1.8	998.6	3,308.5	(29.8)	4,277.3
Expenses:						
Insurance claims and policyholders' benefits				1,432.2		1,432.2
Amortization of deferred acquisition costs				371.8		371.8
Cost of manufactured products sold	552.6		552.6	22.1		574.7
Other operating expenses	108.9		108.9	709.1		818.0
Restructuring and other related charges				(12.9)		(12.9)
Interest		29.8	29.8	70.7	(29.8) (a)	70.7
Total	661.5	29.8	691.3	2,593.0	(29.8)	3,254.5
	335.3	(28.0)	307.3	715.5	-	1,022.8
Income tax expense (benefit)	131.1	(11.0)	120.1	217.1		337.2
Minority interest				114.5		114.5
Total	131.1	(11.0)	120.1	331.6	-	451.7
Income (loss) from operations	204.2	(17.0)	187.2	383.9	-	571.1
Equity in earnings of the Carolina Group				93.4	(93.4) (b)	
Income (loss) from continuing operations	204.2	(17.0)	187.2	477.3	(93.4)	571.1
Discontinued operations, net				(2.4)		(2.4)
Net income (loss)	$ 204.2	$ (17.0)	$ 187.2	$ 474.9	$ (93.4)	$ 568.7

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Income Information

Six Months Ended June 30, 2007 (In millions)	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
Revenues:						
Insurance premiums				$ 3,734.0		$ 3,734.0
Net investment income	$ 56.0	$ 4.3	$ 60.3	1,588.9	$ (43.7) (a)	1,605.5
Investment gains (losses)	0.1		0.1	(160.3)		(160.2)
Gain on issuance of subsidiary stock				138.5		138.5
Manufactured products	1,968.4		1,968.4	86.2		2,054.6
Other	0.4		0.4	1,924.2		1,924.6
Total	2,024.9	4.3	2,029.2	7,311.5	(43.7)	9,297.0
Expenses:						
Insurance claims and policyholders' benefits				2,921.3		2,921.3
Amortization of deferred acquisition costs				752.6		752.6
Cost of manufactured products sold	1,157.8		1,157.8	43.0		1,200.8
Other operating expenses	164.6	0.2	164.8	1,488.1		1,652.9
Interest	2.6	43.7	46.3	149.1	(43.7) (a)	151.7
Total	1,325.0	43.9	1,368.9	5,354.1	(43.7)	6,679.3
	699.9	(39.6)	660.3	1,957.4	-	2,617.7
Income tax expense (benefit)	259.2	(14.7)	244.5	609.3		853.8
Minority interest				335.5		335.5
Total	259.2	(14.7)	244.5	944.8	-	1,189.3
Income (loss) from operations	440.7	(24.9)	415.8	1,012.6	-	1,428.4
Equity in earnings of the Carolina Group				156.5	(156.5) (b)	
Income (loss) from continuing operations	440.7	(24.9)	415.8	1,169.1	(156.5)	1,428.4
Discontinued operations, net				(6.7)		(6.7)
Net income (loss)	$ 440.7	$ (24.9)	$ 415.8	$ 1,162.4	$ (156.5)	$ 1,421.7

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Income Information

Six Months Ended June 30, 2006	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Revenues:						
Insurance premiums				$ 3,760.6		$ 3,760.6
Net investment income	$ 44.2	$ 3.6	$ 47.8	1,358.5	$ (61.3)(a)	1,345.0
Investment losses	(0.6)		(0.6)	(90.7)		(91.3)
Manufactured products	1,832.1		1,832.1	87.0		1,919.1
Other	0.1		0.1	1,588.3		1,588.4
Total	1,875.8	3.6	1,879.4	6,703.7	(61.3)	8,521.8
Expenses:						
Insurance claims and policyholders' benefits				2,924.2		2,924.2
Amortization of deferred acquisition costs				742.0		742.0
Cost of manufactured products sold	1,064.3		1,064.3	43.7		1,108.0
Other operating expenses	201.7	0.1	201.8	1,406.0		1,607.8
Restructuring and other related charges				(12.9)		(12.9)
Interest		61.3	61.3	145.3	(61.3)(a)	145.3
Total	1,266.0	61.4	1,327.4	5,248.3	(61.3)	6,514.4
	609.8	(57.8)	552.0	1,455.4	-	2,007.4
Income tax expense (benefit)	237.2	(22.5)	214.7	456.7		671.4
Minority interest				218.9		218.9
Total	237.2	(22.5)	214.7	675.6	-	890.3
Income (loss) from operations	372.6	(35.3)	337.3	779.8	-	1,117.1
Equity in earnings of the Carolina Group				175.9	(175.9)(b)	
Income (loss) from continuing operations	372.6	(35.3)	337.3	955.7	(175.9)	1,117.1
Discontinued operations, net				(7.4)		(7.4)
Net income (loss)	$ 372.6	$ (35.3)	$ 337.3	$ 948.3	$ (175.9)	$ 1,109.7

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

Loews and Carolina Group
Consolidating Condensed Statement of Cash Flows Information

Six Months Ended June 30, 2007	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Net cash provided (used) by operating activities	$ 302.0	$ (27.2)	$ 274.8	$ 2,109.5	$ (59.5)	$ 2,324.8
Investing activities:						
Purchases of property and equipment	(26.9)		(26.9)	(718.1)		(745.0)
Change in short-term investments	(247.8)		(247.8)	(819.5)		(1,067.3)
Other investing activities	406.3		406.3	(119.1)	(251.7)	35.5
	131.6	-	131.6	(1,656.7)	(251.7)	(1,776.8)
Financing activities:						
Dividends paid	(437.0)	278.8	(158.2)	(67.4)	59.5	(166.1)
Reduction of intergroup notional debt		(251.7)	(251.7)		251.7	
Excess tax benefits from share based compensation	2.6		2.6	4.1		6.7
Other financing activities				(423.8)		(423.8)
	(434.4)	27.1	(407.3)	(487.1)	311.2	(583.2)
Net change in cash	(0.8)	(0.1)	(0.9)	(34.3)		(35.2)
Net cash transactions from:						
Continuing operations to discontinued operations				62.8		62.8
Discontinued operations to continuing operations				(62.8)		(62.8)
Cash, beginning of period	1.2	0.3	1.5	172.5		174.0
Cash, end of period	$ 0.4	$ 0.2	$ 0.6	$ 138.2	$ -	$ 138.8

Loews and Carolina Group
Consolidating Condensed Statement of Cash Flows Information

Six Months Ended June 30, 2006	Carolina Group Lorillard	Carolina Group Other	Carolina Group Consolidated	Loews Group	Adjustments and Eliminations	Total
(In millions)						
Net cash provided (used) by operating activities	$ 257.0	$ (37.1)	$ 219.9	$ 1,450.7	$ (80.0)	$ 1,590.6
Investing activities:						
Purchases of property and equipment	(13.8)		(13.8)	(381.8)		(395.6)
Change in short-term investments	107.5		107.5	(2,009.7)		(1,902.2)
Other investing activities	9.4		9.4	1,043.5	(164.5)	888.4
	103.1	-	103.1	(1,348.0)	(164.5)	(1,409.4)
Financing activities:						
Dividends paid	(360.0)	201.9	(158.1)	(62.6)	80.0	(140.7)
Reduction of intergroup notional debt		(164.5)	(164.5)		164.5	
Excess tax benefits from share based compensation	0.8		0.8	2.0		2.8
Other financing activities				(52.0)		(52.0)
	(359.2)	37.4	(321.8)	(112.6)	244.5	(189.9)
Net change in cash	0.9	0.3	1.2	(9.9)	-	(8.7)
Net cash transactions from:						
Continuing operations to discontinued operations				14.5		14.5
Discontinued operations to continuing operations				(14.5)		(14.5)
Cash, beginning of period	2.4	0.1	2.5	179.5		182.0
Cash, end of period	$ 3.3	$ 0.4	$ 3.7	$ 169.6	$ -	$ 173.3

5. Receivables

	June 30, 2007	December 31, 2006
(In millions)		
Reinsurance	**$ 9,391.8**	$ 9,947.3
Other insurance	**2,575.8**	2,475.8
Security sales	**2,367.9**	325.9
Accrued investment income	**339.0**	331.4
Other	**706.5**	810.8
Total	**15,381.0**	13,891.2
Less: allowance for doubtful accounts on reinsurance receivables	**467.7**	469.6
allowance for other doubtful accounts and cash discounts	**385.9**	394.3
Receivables	**$ 14,527.4**	$ 13,027.3

6. Claim and Claim Adjustment Expense Reserves

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

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. Catastrophe losses, net of reinsurance, were $12.0 million and $6.0 million for the three months ended June 30, 2007 and 2006 and $44.0 million and $18.0 million for the six months ended June 30, 2007 and 2006. Catastrophe losses in 2007 related primarily to tornadoes, floods and winter storms. Catastrophe losses in 2006 related primarily to tornadoes. There can be no assurance that CNA's ultimate cost for catastrophes will not exceed these estimates.

The following provides discussion of CNA's asbestos, environmental pollution and mass tort ("APMT") and core reserves.

APMT Reserves

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

Establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required of management. Accordingly, a high degree of uncertainty remains for CNA's ultimate liability for APMT claim and claim adjustment expenses.

In addition to the difficulties described above, estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others: the number and outcome of direct actions against CNA; coverage issues, including whether certain costs are covered under the policies and whether policy limits apply; allocation of liability among numerous parties, some of whom may be in bankruptcy proceedings, and in particular the application of "joint and several" liability to specific insurers on a risk; inconsistent court decisions and developing legal theories; continuing aggressive tactics of plaintiffs' lawyers; the risks and lack of predictability inherent in major litigation; enactment of state and federal legislation to address asbestos claims; increases and decreases in asbestos, environmental pollution and mass tort claims which cannot now be anticipated; increases and decreases in costs to defend asbestos, pollution and mass tort claims; changing liability theories against CNA's policyholders in environmental and mass tort matters; possible exhaustion of underlying umbrella and excess coverage; and future developments pertaining to CNA's ability to recover reinsurance for asbestos, pollution and mass tort claims.

CNA has annually performed ground up reviews of all open APMT claims to evaluate the adequacy of its APMT reserves. In performing its comprehensive ground up analysis, CNA considers input from its professionals with direct responsibility for the claims, inside and outside counsel with responsibility for representation of CNA and its actuarial staff. These professionals review, among many factors, the policyholder's present and predicted future exposures, including such factors as claims volume, trial conditions, prior settlement history, settlement demands and defense costs; the impact of asbestos defendant bankruptcies on the policyholder; the policies issued by CNA, including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles; the existence of other insurance; and reinsurance arrangements.

The following table provides data related to CNA's APMT claim and claim adjustment expense reserves.

	June 30, 2007		December 31, 2006	
	Asbestos	**Environmental Pollution and Mass Tort**	Asbestos	Environmental Pollution and Mass Tort
(In millions)				
Gross reserves	**$ 2,456.0**	**$ 608.0**	$ 2,635.0	$ 647.0
Ceded reserves	**(1,090.0)**	**(215.0)**	(1,183.0)	(231.0)
Net reserves	**$ 1,366.0**	**$ 393.0**	$ 1,452.0	$ 416.0

Asbestos

CNA's property and casualty insurance subsidiaries have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves limitations 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 June 30, 2007 and December 31, 2006, CNA carried approximately $1,366.0 million and $1,452.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. CNA recorded $3.0 million and $1.0 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the six months ended June 30, 2007 and 2006. CNA paid asbestos-related claims, net of reinsurance recoveries, of $89.0 million and $50.0 million for the six months ended June 30, 2007 and 2006. On February 2, 2007, CNA paid $31.0 million to the Owens Corning Fibreboard Trust. Such payment was made pursuant to CNA's 1993 settlement with Fibreboard.

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

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

On February 13, 2003, CNA announced it had resolved asbestos-related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow – Liptak Corporation. Under the agreement, CNA is required to pay $70.0 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement resolves CNA's liabilities for all pending and future asbestos and silica claims involving A.P. Green Industries, Bigelow – Liptak Corporation and related subsidiaries, including alleged "non-products" exposures. The settlement received initial bankruptcy court approval on August 18, 2003. The court has held a confirmation hearing on the bankruptcy plan containing an injunction to protect CNA from any future claims and the parties are awaiting a ruling on confirmation.

CNA is engaged in insurance coverage litigation in New York State Court, filed in 2003, with a defendant class of underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company ("Keasbey") *(Continental Casualty Co. v. Employers Ins. of Wausau et al., No. 601037/03 (N.Y. County))*. Keasbey, a currently dissolved corporation, was a seller and installer of asbestos-containing insulation products in New York and New Jersey. Thousands of plaintiffs have filed bodily injury claims against Keasbey. However, under New York court rules, asbestos claims are not cognizable unless they meet certain minimum medical impairment standards. Since 2002, when these court rules were adopted, only a small portion of such claims have met medical impairment criteria under New York court rules and as to the remaining claims, Keasbey's involvement at a number of work sites is a highly contested issue. CNA issued Keasbey primary policies for 1970-1987 and excess policies for 1972-1978. CNA has paid an amount substantially equal to the policies' aggregate limits for products and completed operations claims in the confirmed CNA policies. Claimants against Keasbey allege, among other things, that CNA owes coverage under sections of the policies not subject to the aggregate limits, an allegation CNA vigorously contests in the lawsuit. In the litigation, CNA and the claimants seek declaratory relief as to the interpretation of various policy provisions. On May 8, 2007, the Court in the first phase of the trial held that all of CNA's primary policy products aggregates were exhausted and that past products liability claims could not be recharacterized as operations claims. The Court also found that while operations claims would not be subject to products aggregates, such claims could be made only against the policies in effect when the claimants were exposed to asbestos from Keasbey operations. These holdings limit CNA's exposure to those instances where Keasbey used asbestos in operations between 1970 and 1987. Keasbey largely ceased using asbestos in its operations in the early 1970's. CNA has noticed an appeal to the Appellate Division to challenge certain aspects of the Court's ruling, and CNA expects other parties to file cross appeals. Numerous legal issues remain to be resolved on appeal with respect to coverage that are critical to the final results which cannot be predicted with any reliability. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA has insurance coverage disputes related to asbestos bodily injury claims against a bankrupt insured, Burns & Roe Enterprises, Inc. ("Burns & Roe"). These disputes are currently part of coverage litigation (stayed in view of the bankruptcy) and an adversary proceeding in *In re: Burns & Roe Enterprises, Inc.*, pending in the U.S. Bankruptcy Court for the District of New Jersey, No. 00-41610. Burns & Roe provided engineering and related services in connection with construction projects. At the time of its bankruptcy filing, on December 4, 2000, Burns & Roe asserted that it faced approximately 11,000 claims alleging bodily injury resulting from exposure to asbestos as a result of construction projects in which Burns & Roe was involved. CNA allegedly provided primary liability coverage to Burns & Roe from 1956-1969 and 1971-1974, along with certain project-specific policies from 1964-1970. The litigation involves disputes over the confirmation of the Plan of Reorganization in bankruptcy, the scope and extent of coverage, if any, afforded to Burns & Roe for its asbestos liabilities. On December 5, 2005, Burns & Roe filed its Third Amended Plan of Reorganization ("Plan"). A confirmation hearing relating to that Plan is anticipated in 2007 or 2008. Coverage issues will be determined in a later proceeding. With respect to both confirmation of the Plan and coverage issues, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether CNA has any further responsibility to compensate claimants against Burns & Roe under its policies and, if so, under which; (b) whether CNA's responsibilities under its policies extend to a particular claimant's entire claim or only to a limited percentage of the claim; (c) whether CNA's responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions, including professional liability exclusions, in some of CNA's policies apply to exclude certain claims; (e) the extent to which claimants can establish exposure to asbestos materials as to which Burns & Roe has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Burns & Roe and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; (h) the extent that any liability of Burns & Roe would be shared with other potentially responsible parties; and (i) the impact of bankruptcy proceedings on claims and coverage issue resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Suits have also been initiated directly against the CNA companies and numerous other insurers in two jurisdictions: Texas and Montana. Approximately 80 lawsuits were filed in Texas beginning in 2002, against two CNA companies and numerous other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (e.g. *Boson v. Union Carbide Corp.,* (Nueces County, Texas)). During 2003, several of the Texas suits were dismissed as time-barred by the applicable Statute of Limitations. In other suits, the carriers argued that they did not owe any duty to the plaintiffs or the general public to advise the world generally or the plaintiffs particularly of the effects of asbestos and that Texas statutes precluded liability for such claims, and two Texas courts dismissed these suits. Certain of the Texas courts' rulings were appealed, but plaintiffs later dismissed their appeals. A different Texas court denied similar motions seeking dismissal at the pleading stage, allowing limited discovery to proceed. After that court denied a related challenge to jurisdiction, the insurers transferred those cases, among others, to a state multi-district litigation court in Harris County charged with handling asbestos cases, and the cases remain in that court. In February of 2006, the insurers petitioned the appellate court in Houston for an order of mandamus, requiring the multi-district litigation court to dismiss the cases on jurisdictional and substantive grounds, but the court has not yet acted on the petition. With respect to this litigation in particular, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the speculative nature and unclear scope of any alleged duties owed to individuals exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the fact that imposing such duties on all insurer and non-insurer corporate defendants would be unprecedented and, therefore, the legal boundaries of recovery are difficult to estimate; (c) the fact that many of the claims brought to date are barred by the Statute of Limitations and it is unclear whether future claims would also be barred; (d) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (e) the existence of hundreds of co-defendants in some of the suits and the applicability of the legal theories pled by the claimants to thousands of potential defendants. Accordingly, the extent of losses beyond any amounts that may be accrued is not readily determinable at this time.

On March 22, 2002, a direct action was filed in Montana (*Pennock, et al. v. Maryland Casualty, et al.* First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. (“W.R. Grace”)) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace’s pending bankruptcy. With respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

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

Environmental Pollution and Mass Tort

As of June 30, 2007 and December 31, 2006, CNA carried approximately $393.0 million and $416.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. CNA recorded $1.0 million of unfavorable environmental pollution and mass tort net claim and claim adjustment expense reserve development for the six months ended June 30, 2007. There was no environmental pollution and mass tort net claim and claim adjustment expense reserve development recorded for the six months ended June 30, 2006. CNA recorded $30.0 million and $20.0 million of current accident year losses related to mass tort for the six months ended June 30, 2007 and 2006. CNA paid environmental pollution-related claims and mass tort-related claims, net of reinsurance recoveries, of $54.0 million and $69.0 million for the six months ended June 30, 2007 and 2006.

In addition to claims arising from exposure to asbestos as discussed above, CNA also has exposure arising from other mass tort claims. Such claims typically involve allegations by multiple plaintiffs alleging injury resulting from exposure to or use of similar substances or products over multiple policy periods. Examples include, but are not limited to, lead paint claims, hardboard siding, polybutylene pipe, mold, silica, latex gloves, benzene products, welding rods, diet drugs, breast implants, medical devices, and various other toxic chemical exposures.

Net Prior Year Development

The development presented below includes premium development due to its direct relationship to claim and allocated claim adjustment expense reserve development. The development presented below excludes the impact of the provision for uncollectible reinsurance, but includes the impact of commutations.

Three Month Comparison

The following tables include the net prior year development recorded for Standard Lines, Specialty Lines and Other Insurance for the three months ended June 30, 2007 and 2006.

Three Months Ended June 30, 2007		**Standard Lines**		**Specialty Lines**		**Other Insurance**		**Total**
(In millions)								
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development								
Core (Non-APMT)	**$**	**(33.0)**	**$**	**(1.0)**	**$**	**8.0**	**$**	**(26.0)**
APMT						**4.0**		**4.0**
Pretax unfavorable (favorable) net prior year development before impact of premium development		**(33.0)**		**(1.0)**		**12.0**		**(22.0)**
Pretax unfavorable (favorable) premium development		**14.0**		**2.0**		**(5.0)**		**11.0**
Total pretax unfavorable (favorable) net prior year development	**$**	**(19.0)**	**$**	**1.0**	**$**	**7.0**	**$**	**(11.0)**

Three Months Ended June 30, 2006								
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development								
Core (Non-APMT)	$	5.0	$	(2.0)	$	5.0	$	8.0
Pretax unfavorable (favorable) premium development		(24.0)		2.0		(3.0)		(25.0)
Total pretax unfavorable (favorable) net prior year development	$	(19.0)	$	-	$	2.0	$	(17.0)

2007 Net Prior Year Development

The following discussion relates to net prior year development recorded for Standard Lines and Other Insurance for the three months ended June 30, 2007.

Standard Lines

Approximately $33.0 million of favorable claim and allocated claim adjustment expense reserve development was due to lower than anticipated frequency and severity on claims related to large property products, primarily in accident years 2005 and 2006. The change was driven by decreased incurred losses as a result of changes in individual case reserve estimates.

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

Approximately $14.0 million of unfavorable premium development was taken primarily as a result of favorable claim and allocated claim adjustment expense reserve development on large account retro policies relating to the automobile and general liability lines of business in accident years 2001 and subsequent. This favorable claim and allocated claim adjustment expense reserve development is due to lower than anticipated frequency and severity.

Other Insurance

Approximately $6.0 million of unfavorable claim and allocated claim adjustment expense reserve development was related to commutation activity, a portion of which was offset by a release of a previously established allowance for uncollectible reinsurance.

2006 Net Prior Year Development

The following discussion relates to net prior year development recorded for Standard Lines for the three months ended June 30, 2006.

Standard Lines

Approximately $37.0 million of unfavorable claim and allocated claim adjustment expense reserve development primarily relates to continued claim cost inflation for workers' compensation in older accident years, primarily 2002 and prior. The primary drivers of the continuing claim cost inflation are increasing medical inflation and advances in medical care.

Approximately $12.0 million of favorable claim and allocated claim adjustment expense reserve development was due to improved experience for marine business, primarily in accident years 2005 and 2004. The case incurred loss (paid loss plus case reserve estimates for known claims) for these accident years has been less than expected. The expected case incurred loss was primarily based on the loss ratio expected for this business. The lower level of actual case incurred loss is driven by lower claim frequency and indicates a lower ultimate loss. The remainder of the favorable change in marine business is due to reviews of individual claims from older accident years.

Approximately $19.0 million of favorable claim and allocated claim adjustment expense reserve development was due to umbrella products. The change covers several accident years. Initial reserves are normally estimated using the loss ratio expected for this business due to the long-tail nature of this business. The long-tail nature of the business is due to the long period of time that passes between the time the business is written and the time when all claims are known and settled. The favorable change on the recent accident years is the result of giving greater weight to projections that rely on case incurred loss thereby recognizing the low level of case incurred loss. The favorable change in older years is driven by favorable outcomes on individual claims.

Approximately $21.0 million of favorable claim and allocated claim adjustment expense reserve development was related to continued improvement in the severity and frequency of claims for property coverages, primarily in accident year 2005. The improvements in severity and frequency are substantially due to underwriting actions taken by CNA that have significantly improved the results on this business. Underwriting actions taken include efforts to write more business in non-catastrophe prone areas.

Approximately $10.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to CNA's share of an assessment from the Mississippi Windstorm Underwriting Authority Pool.

The majority of the favorable premium development was due to additional premium primarily resulting from audits and changes to premium on several ceded reinsurance agreements. Business impacted included various middle market liability coverages, workers' compensation, property, and large accounts. Unfavorable claim and allocated claim adjustment expense reserve development of approximately $16.0 million was recorded as a result of this favorable premium development.

Six Month Comparison

The following tables include the net prior year development recorded for Standard Lines, Specialty Lines and Other Insurance for the six months ended June 30, 2007 and 2006.

Six Months Ended June 30, 2007	**Standard Lines**	**Specialty Lines**	**Other Insurance**	**Total**
(In millions)				
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense reserve development				
Core (Non-APMT)	**$ (20.0)**	**$ 6.0**	**$ 8.0**	**$ (6.0)**
APMT			**4.0**	**4.0**
Pretax unfavorable (favorable) net prior year development before impact of premium development	**(20.0)**	**6.0**	**12.0**	**(2.0)**
Pretax (favorable) premium development	**(13.0)**	**(7.0)**	**(3.0)**	**(23.0)**
Total pretax unfavorable (favorable) net prior year development	**$ (33.0)**	**$ (1.0)**	**$ 9.0**	**$ (25.0)**

Six Months Ended June 30, 2006				
Pretax unfavorable net prior year claim and allocated claim adjustment expense reserve development				
Core (Non-APMT)	$ 64.0	$ 3.0	$ 11.0	$ 78.0
APMT			1.0	1.0
Pretax unfavorable net prior year development before impact of premium development	64.0	3.0	12.0	79.0
Pretax unfavorable (favorable) premium development	(73.0)	(6.0)	4.0	(75.0)
Total pretax unfavorable (favorable) net prior year development	$ (9.0)	$ (3.0)	$ 16.0	$ 4.0

2007 Net Prior Year Development

The following discussion relates to net prior year development recorded for Standard Lines and Other Insurance for the six months ended June 30, 2007.

Standard Lines

Approximately $46.0 million of favorable premium development was recorded primarily as a result of additional premium resulting from audits on recent policies related to workers' compensation and general liability books of business. This was partially offset by $30.0 million of unfavorable claim and allocated claim adjustment expense reserve development related to this premium.

Approximately $16.0 million of unfavorable premium development was taken due to a change in estimate of CNA's exposure related to its participation in the involuntary pools. This unfavorable premium development was partially offset by $9.0 million of related favorable claim and allocated claim adjustment expense reserve development.

The remaining net prior year development recorded relates primarily to the items included in the three month discussion.

Other Insurance

The net prior year development recorded for the six months ended June 30, 2007 relates to the items included in the three month discussion.

2006 Net Prior Year Development

The following discussion relates to net prior year development recorded for Standard Lines and Other Insurance for the six months ended June 30, 2006.

Standard Lines

Approximately $17.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to higher frequency and severity on claims related to commercial auto, monoline and package liability, primarily in accident years 2004 and 2000 and prior. The change was driven by increases in individual claim case reserve estimates leading to higher results from projections that rely on case incurred loss. Approximately $14.0 million of favorable claim and allocated claim adjustment expense reserve development was related to lower severities on the excess and surplus lines business in accident years 2000 and subsequent. These severity changes were driven primarily by judicial decisions and settlement activities on individual claims. The severity changes led to lower case incurred loss and lower ultimate estimates.

Approximately $15.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased severity in liability coverages for large account policies. These increases were driven by increasing medical inflation and larger verdicts than anticipated, both of which increase the severity of these claims resulting in higher case incurred loss and higher ultimate estimates.

Approximately $10.0 million of favorable claim and allocated claim adjustment expense reserve development was due to improved experience for marine business, primarily in accident years 2005 and 2004. The case incurred loss (paid loss plus case reserve estimates for known claims) for these accident years has been less than expected. The expected case incurred loss was primarily based on the loss ratio expected for this business. The lower level of actual case incurred loss is driven by lower claim frequency and indicates a lower ultimate loss. The remainder of the favorable change in marine business is due to reviews of individual cases from older accident years.

Approximately $19.0 million of favorable claim and allocated claim adjustment expense reserve development was due to umbrella products. The change covers several accident years. Initial reserves are normally estimated using the loss ratio expected for this business due to the long-tail nature of this business. The long-tail nature of the business is due to the long period of time that passes between the time the business is written and the time when all claims are known and settled. The favorable change on the recent accident years is the result of giving greater weight to projections that rely on case incurred loss thereby recognizing the low level of case incurred loss. The favorable change in older years is driven by favorable outcomes on individual claims.

Approximately $43.0 million of favorable claim and allocated claim adjustment expense reserve development was related to continued improvement in the severity and frequency of claims for property coverages, primarily in accident year 2005. The improvements in severity and frequency are substantially due to underwriting actions taken by CNA that have significantly improved the results on this business. Underwriting actions taken include efforts to write more business in non-catastrophe prone areas.

Approximately $10.0 million of unfavorable claim and allocated claim adjustment expense reserve development was due to CNA’s share of an assessment from the Mississippi Windstorm Underwriting Authority Pool.

Additional unfavorable claim and allocated claim adjustment expense reserve development was primarily due to continued claim cost inflation for workers’ compensation in older accident years, primarily 2002 and prior. The primary drivers of the continuing claim cost inflation are increasing medical inflation and advances in medical care.

The majority of the favorable premium development was due to additional premium primarily resulting from audits and changes to premium on several ceded reinsurance agreements. Business impacted included various middle market liability coverages, workers’ compensation, property, and large accounts. This favorable premium development was partially offset by unfavorable claim and allocated claim adjustment expense reserve development recorded as a result of this favorable premium development.

Other Insurance

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to the financial guarantee line of business, and an adverse arbitration ruling that was offset by a release of a previously established allowance for uncollectible reinsurance. Reserves for the financial guarantee line of business are driven by individual claim estimates. This unfavorable claim and allocated claim adjustment expense reserve development was partially offset by the favorable loss development impact of an assumed reinsurance commutation. The unfavorable premium development was also related to this reinsurance commutation.

7. Significant Transactions

Gain on Issuance of Subsidiary Stock

Securities and Exchange Commission Staff Accounting Bulletin Topic 5-H, “Accounting for Sales of Stock by a Subsidiary” (“SAB No. 51”), provides guidance on accounting for the effect of issuances of a subsidiary’s stock on the parent’s investment in that subsidiary. SAB No. 51 allows registrants to elect an accounting policy of recording such increases or decreases in a parent’s investment (SAB No. 51 gains or losses, respectively) either in income or in stockholders’ equity. In accordance with the election provided in SAB No. 51, the Company’s policy to record such SAB No. 51 gains or losses directly to the income statement.

Diamond Offshore

In the first six months of 2007, the holders of $450.5 million in principal amount of Diamond Offshore’s 1.5% debentures converted their outstanding debentures into 9.2 million shares of Diamond Offshore’s common stock at a price of $49.02 per share. In addition, the holders of $1.5 million accreted value at the dates of conversion, or $2.4 million aggregate principal amount at maturity, of Diamond Offshore’s Zero Coupon Debentures converted their outstanding debentures into 20,658 shares of Diamond Offshore’s common stock at a price of $73.00 per share.

The Company’s ownership interest in Diamond Offshore declined from approximately 54% to 51% due to these transactions. In accordance with SAB No. 51, the Company recognized a pretax gain of $141.9 million ($91.6 million after provision for deferred income taxes) on the issuance of subsidiary stock.

Prior to the conversion of Diamond Offshore’s 1.5% convertible debentures, the Company carried a deferred tax liability related to interest expense imputed on the bonds for U.S. federal income tax purposes. As a result of the conversion, the deferred tax liability was settled and a tax benefit of $26.4 million, net of minority interest, was included in shareholders’ equity as an increase in additional paid-in-capital.

Boardwalk Pipeline

In the first quarter of 2007, Boardwalk Pipeline sold 8.0 million common units at a price of $36.50 per unit in a public offering and received net proceeds of $287.9 million. In addition, the Company contributed $6.0 million to maintain its 2.0% general partner interest. The Company’s ownership interest in Boardwalk Pipeline declined from approximately 80% to 75% as a result of this transaction. The issuance price of the common units exceeded the Company’s carrying amount, increasing the amount of cumulative pretax SAB No. 51 gains to approximately $379.8 million at June 30, 2007, from $234.6 million at December 31, 2006. In accordance with SAB No. 51, recognition of a gain is only appropriate if the class of securities sold by the subsidiary does not contain any preference over the subsidiary’s other classes of securities. As a result, the Company will defer gain recognition until the subordinated units are converted into common units.

8. Benefit Plans

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

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

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

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

Net periodic benefit cost components:

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Service cost	**$ 12.3**	$ 12.6	**$ 26.3**	$ 27.7
Interest cost	**52.8**	51.2	**108.1**	105.9
Expected return on plan assets	**(64.5)**	(60.2)	**(129.3)**	(120.9)
Amortization of net loss	**0.8**	1.9	**1.6**	3.8
Amortization of prior service cost	**1.3**	1.7	**2.9**	3.4
Actuarial loss	**1.8**	5.9	**5.8**	16.5
Settlement costs	**0.7**		**3.8**	
Net periodic benefit cost	**$ 5.2**	$ 13.1	**$ 19.2**	$ 36.4

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Service cost	**$ 2.1**	$ 1.4	**$ 4.4**	$ 4.7
Interest cost	**6.3**	5.3	**12.8**	13.5
Expected return on plan assets	**(1.1)**	(1.1)	**(2.3)**	(2.3)
Amortization of net loss		0.1	**0.3**	0.6
Amortization of prior service benefit	**(6.9)**	(8.0)	**(13.7)**	(16.2)
Actuarial loss	**0.5**	0.3	**1.2**	1.7
Special termination benefits		1.3		1.3
Regulatory asset decrease	**1.3**	1.3	**2.7**	4.6
Net periodic benefit cost	**$ 2.2**	$ 0.6	**$ 5.4**	$ 7.9

9. Business Segments

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

CNA manages its property and casualty operations in two operating segments, which represent CNA's core operations: Standard Lines and Specialty Lines. The non-core operations are managed in the Life and Group Non-Core segment and Other Insurance segment. Standard Lines includes standard property and casualty coverages sold to small and middle market commercial businesses primarily through an independent agency distribution system, and excess and surplus lines, as well as insurance and risk management products sold to large corporations in the U.S. and globally. Specialty Lines provides professional, financial and specialty property and casualty products and services. Life and Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance primarily includes the results of certain property and casualty lines of business placed in run-off, including CNA Re. This segment also includes the results related to the centralized adjusting and settlement of APMT claims as well as the results of CNA's participation in voluntary insurance pools, which are primarily in run-off and various other non-insurance operations.

Lorillard is engaged in the production and sale of cigarettes with its principal products marketed under the brand names Newport, Kent, True, Maverick and Old Gold, with substantially all of its sales in the United States.

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

Diamond Offshore's business primarily consists of operating 44 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. The majority of these rigs are located in the Gulf of Mexico region with the remainder operating in Brazil, the North Sea, and various other foreign markets.

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

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-insurance subsidiaries, the operations of Bulova Corporation which distributes and sells watches and clocks, corporate interest expenses and other corporate administrative costs.

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

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	2006	**2007**	2006
(In millions)				
Revenues (a):				
CNA Financial:				
Standard Lines	**$ 1,284.8**	$ 1,309.5	**$ 2,598.8**	$ 2,656.9
Specialty Lines	**794.4**	759.3	**1,583.4**	1,510.6
Life and Group Non-Core	**333.4**	286.9	**663.3**	637.1
Other Insurance	**56.3**	57.2	**140.4**	108.8
Total CNA Financial	**2,468.9**	2,412.9	**4,985.9**	4,913.4
Lorillard	**1,079.9**	996.8	**2,024.8**	1,876.4
Boardwalk Pipeline	**159.0**	132.5	**349.4**	307.5
Diamond Offshore	**661.0**	519.3	**1,279.9**	978.0
Loews Hotels	**99.8**	101.9	**195.1**	195.3
Corporate and other	**168.7**	113.9	**461.9**	251.2
Total	**$ 4,637.3**	$ 4,277.3	**$ 9,297.0**	$ 8,521.8
Pretax income (loss) (a):				
CNA Financial:				
Standard Lines	**$ 206.8**	$ 204.9	**$ 444.8**	$ 410.4
Specialty Lines	**188.2**	162.2	**366.0**	344.6
Life and Group Non-Core	**(50.3)**	(36.8)	**(57.3)**	(62.4)
Other Insurance	**(12.7)**	23.3	**16.5**	16.1
Total CNA Financial	**332.0**	353.6	**770.0**	708.7
Lorillard	**381.0**	335.3	**699.8**	610.4
Boardwalk Pipeline	**35.6**	32.0	**115.9**	101.4
Diamond Offshore	**350.6**	240.6	**659.7**	445.9
Loews Hotels	**22.5**	19.6	**40.3**	33.5
Corporate and other	**108.7**	41.7	**332.0**	107.5
Total	**$ 1,230.4**	$ 1,022.8	**$ 2,617.7**	$ 2,007.4

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Net income (loss) (a):				
CNA Financial:				
Standard Lines	**$ 126.1**	$ 130.4	**$ 268.2**	$ 260.2
Specialty Lines	**105.2**	92.5	**204.5**	198.0
Life and Group Non-Core	**(22.2)**	(16.1)	**(19.6)**	(25.6)
Other Insurance	**(4.8)**	16.7	**13.8**	8.5
Total CNA Financial	**204.3**	223.5	**466.9**	441.1
Lorillard	**238.7**	204.2	**440.6**	373.0
Boardwalk Pipeline	**16.4**	16.5	**55.5**	52.2
Diamond Offshore	**117.6**	87.6	**224.8**	159.9
Loews Hotels	**13.8**	12.0	**24.7**	20.5
Corporate and other	**71.5**	27.3	**215.9**	70.4
Income from continuing operations	**662.3**	571.1	**1,428.4**	1,117.1
Discontinued operations	**(8.9)**	(2.4)	**(6.7)**	(7.4)
Total	**$ 653.4**	$ 568.7	**$ 1,421.7**	$ 1,109.7

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Revenues and pretax income (loss):				
CNA Financial:				
Standard Lines	**$ (69.1)**	$ (36.8)	**$ (97.2)**	$ (23.6)
Specialty Lines	**(29.0)**	(13.1)	**(39.5)**	(10.1)
Life and Group Non-Core	**(17.6)**	(34.1)	**(17.0)**	(45.7)
Other Insurance	**(23.2)**	(13.7)	**(6.6)**	(9.5)
Total CNA Financial	**(138.9)**	(97.7)	**(160.3)**	(88.9)
Corporate and other	**3.2**	4.4	**138.6**	(2.4)
Total	**$ (135.7)**	$ (93.3)	**$ (21.7)**	$ (91.3)
Net income (loss):				
CNA Financial:				
Standard Lines	**$ (40.3)**	$ (21.7)	**$ (56.6)**	$ (13.6)
Specialty Lines	**(16.8)**	(7.8)	**(22.8)**	(6.0)
Life and Group Non-Core	**(10.1)**	(20.2)	**(9.8)**	(27.1)
Other Insurance	**(13.4)**	(8.2)	**(3.8)**	(10.7)
Total CNA Financial	**(80.6)**	(57.9)	**(93.0)**	(57.4)
Corporate and other	**2.0**	2.9	**89.4**	(1.4)
Total	**$ (78.6)**	$ (55.0)	**$ (3.6)**	$ (58.8)

10. Legal Proceedings

INSURANCE RELATED

California Long Term Care Litigation

Shaffer v. Continental Casualty Company, et al., U.S. District Court, Central District of California, CV06-2235 RGK, is a class action on behalf of certain California long term health care policyholders, alleging that Continental Casualty Company ("CCC") and CNA knowingly used unrealistic actuarial assumptions in pricing these policies, which according to plaintiff, would inevitably necessitate premium increases. The plaintiff asserts claims for intentional fraud, negligent misrepresentation, and violations of various California statutes. CCC and CNA have denied the material allegations of the amended complaint and intend to vigorously contest the claims. On January 26, 2007, the court certified the case to proceed as a class action. CCC and CNA have appealed the grant of class certification to the Ninth Circuit Court of Appeals. The Ninth Circuit refused to hear the appeal on an interlocutory basis. In April of 2007, the Court denied CCC's and CNA's motions for summary judgment with the exception of the motion relating to plaintiffs' claim under the California Legal Remedies Act ("CLRA"), which was dismissed. The claim under CLRA involved a provision for claims of awards for attorneys' fees and enhanced damages. In June of 2007, CCC and CNA filed a motion to reconsider the denial of summary judgment on the fraud claim. In July of 2007, the Court denied the motion for reconsideration. Discovery has been proceeding and a trial is scheduled for October 2, 2007.

Numerous unresolved factual and legal issues remain that are critical to the final result with regard to the surviving claims, the outcome of which cannot be predicted with any reliability. Accordingly, the extent of losses are not readily determinable at this time. However, based on facts and circumstances presently known in the opinion of management, an unfavorable outcome would not materially adversely affect the equity of the Company, although results of operations may be adversely affected.

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNA and several of its insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (FSH). The plaintiffs in this litigation allege improprieties in the payment of contingent commissions to brokers and bid rigging in connection with the sale of various lines of insurance. The plaintiffs further allege the existence of a conspiracy and assert claims for federal and state antitrust law violations, for violations of the federal Racketeer Influenced and Corrupt Organizations Act and for recovery under various state common law theories. By an order entered on April 5, 2007, the Court dismissed the plaintiffs' complaints but gave plaintiffs another opportunity to amend their claims. On May 22, 2007, the plaintiffs filed an amended complaint, and on June 21, 2007, the defendants filed a motion to dismiss this complaint. CNA believes it has meritorious defenses to this action and intends to defend the case vigorously.

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

Global Crossing Limited Litigation

CCC has been named as a defendant in an action brought by the bankruptcy estate of Global Crossing Limited ("Global Crossing") in the United States Bankruptcy Court for the Southern District of New York. In the Complaint, plaintiff seeks unspecified monetary damages from CCC and the other defendants for alleged fraudulent transfers and alleged breaches of fiduciary duties arising from actions taken by Global Crossing while CCC was a shareholder of Global Crossing. On August 3, 2006, the Court granted in part and denied in part CCC's motion to dismiss the Estate Representative's Amended Complaint. The case is now in discovery. CCC believes it has meritorious defenses to the remaining claims in this action and intends to defend the case vigorously.

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

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.

A portion of the premiums assumed under the IGI Program related to United States workers' compensation "carve-out" business. Some of these premiums were received from John Hancock Mutual Life Insurance Company ("John Hancock") under four excess of loss reinsurance treaties (the "Treaties") issued by CNA Re Ltd. While John Hancock has indicated that it is not able to accurately quantify its potential exposure to its cedents on business which is retroceded to CNA, the most recent amount of incurred losses under these Treaties reported by John Hancock was $295.0 million, although CNA believes that John Hancock's ultimate losses will probably materially exceed incurred losses reported to date under the Treaties. John Hancock is disputing portions of its assumed obligations resulting in these reported losses, and has advised CNA that it is, or has been, involved in multiple arbitrations with its own cedents, in which proceedings John Hancock is seeking to avoid and/or reduce risks that would otherwise arguably be ceded to CNA through the Treaties. John Hancock has further informed CNA that it has settled several of these disputes, but has not provided CNA with details of the settlements. To the extent that John Hancock is successful in reducing its liabilities in these disputes, that development may have an impact on the recoveries it is seeking under the Treaties from CNA.

CNA has instituted arbitration proceedings against John Hancock seeking rescission of the Treaties. The hearing before the arbitration panel commenced in April of 2007 and final arguments are scheduled for September of 2007. Based on information known at this time, CNA believes it has strong grounds to successfully challenge its alleged exposure derived from John Hancock through the ongoing arbitration proceedings, although the outcome of the arbitration cannot be guaranteed with any certainty.

CNA has established reserves for its estimated exposure under the IGI Program, other than that derived from John Hancock, and an estimate for recoverables from retrocessionaires. CNA has not established any reserve for any exposure derived from John Hancock because, as indicated, CNA believes the contract will be rescinded. Although the results of CNA's various loss mitigation strategies with respect to the entire IGI Program to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty due to the complexities described above, and CNA's inability to guarantee any outcome in the arbitration proceedings. As a result of these uncertainties, the results of operations in future periods may be adversely affected by potentially significant reserve additions. However, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time. Management does not believe that any such reserve additions would be material to the equity of the Company. CNA's position in relation to the IGI Program was unaffected by the sale of CNA Re Ltd. in 2002.

New Jersey Wage and Hour Litigation

W. Curtis Himmelman, individually and on behalf of all others similarly situated v. Continental Casualty Company, Civil Action: 06-166, District Court of New Jersey (Trenton Division) is a purported class action and representative action brought on behalf of present and former CNA environmental claims analysts and workers' compensation claims analysts asserting they worked hours for which they should have been compensated at a rate of one and one-half times their base hourly wage. The Complaint was filed on January 12, 2006. The claims were originally brought under both federal and New Jersey state wage and hour laws on the basis that the relevant jobs are not exempt from overtime pay because the duties performed are not exempt duties. On August 11, 2006, the Court dismissed plaintiff's New Jersey state law claims. Under federal law, plaintiff seeks to represent others similarly situated who opt in to the action and who also allege they are owed overtime pay for hours worked over eight hours per day and/or forty hours per workweek for the period January 5, 2003 to the entry of judgment. Plaintiff seeks "overtime compensation," "compensatory, punitive and statutory damages, interest, costs and disbursements and attorneys' fees" without specifying any particular amounts (as well as an injunction). CNA denies the material allegations of the Complaint and intends to vigorously contest the claims on numerous substantive and procedural grounds.

The parties recently reached a tentative agreement in principle to resolve this matter and are in the process of negotiating a formal settlement agreement. Based on the facts and circumstances presently known, it is not expected that the outcome of the litigation will have a material adverse effect on the financial condition, cashflows or results of operations of the Company.

APMT Reserves

CNA is also a party to litigation and claims related to APMT cases arising in the ordinary course of business. See Note 6 for further discussion.

TOBACCO RELATED

Tobacco Related Product Liability Litigation

Approximately 3,900 product liability cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 2,840 of these cases.

The pending product liability cases are composed of the following types of cases:

"Conventional product liability cases" are brought by individuals who allege cancer or other health effects caused by smoking cigarettes, by using smokeless tobacco products, by addiction to tobacco, or by exposure to environmental tobacco smoke. Approximately 1,225 cases are pending, including approximately 200 cases against Lorillard. The 1,225 cases include approximately 935 cases pending in a single West Virginia court that have been consolidated for trial. Lorillard is a defendant in approximately 70 of the approximately 935 consolidated West Virginia cases.

"Flight Attendant cases" are brought by non-smoking flight attendants alleging injury from exposure to environmental smoke in the cabins of aircraft. Plaintiffs in these cases may not seek punitive damages for injuries that arose prior to January 15, 1997. Lorillard is a defendant in each of the approximately 2,625 pending Flight Attendant cases.

"Class action cases" are purported to be brought on behalf of large numbers of individuals for damages allegedly caused by smoking. Ten of these cases are pending against Lorillard. The Company is a defendant in two of the class action cases. In one of the cases pending against Lorillard, *Schwab v. Philip Morris USA, Inc., et al.*, the court has certified a nationwide class composed of purchasers of "light" cigarettes. Lorillard is not a defendant in approximately 30 additional "lights" class actions that are pending against other cigarette manufacturers.

"Reimbursement cases" are brought by or on behalf of entities who seek reimbursement of expenses incurred in providing health care to individuals who allegedly were injured by smoking. Plaintiffs in these cases have included the U.S. federal government, U.S. state and local governments, foreign governmental entities, hospitals or hospital districts, American Indian tribes, labor unions, private companies and private citizens. Four such cases are pending against Lorillard and other cigarette manufacturers in the United States. Lorillard and the Company are defendants in an additional case pending in Israel.

Included in this category is the suit filed by the federal government, *United States of America v. Philip Morris USA, Inc., et al.*, that sought disgorgement of profits and injunctive relief. During 2005, an appellate court ruled that the government may not seek disgorgement of profits. During August of 2006, the trial court issued its verdict and granted injunctive relief. The verdict did not award monetary damages. See Reimbursement Cases below.

Excluding the flight attendant and the consolidated West Virginia suits, approximately 340 product liability cases are pending against cigarette manufacturers in U.S. courts. Lorillard is a defendant in approximately 140 of the 340 cases. The Company, which is not a defendant in any of the flight attendant or the consolidated West Virginia matters, is a defendant in three of the actions. Two of these cases are class actions while the third is a conventional product liability case.

In addition to the above, "Filter cases" are brought by individuals, including former employees of Lorillard, who seek damages resulting from their alleged exposure to asbestos fibers that were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time ending more than 50 years ago. Lorillard is a defendant in approximately 25 such cases.

In addition, Lorillard is a defendant in a case in which it is alleged that a fire caused by a Lorillard cigarette led to an individual's death. The Company is not a defendant in this matter.

Plaintiffs assert a broad range of legal theories in these cases, including, among others, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the federal Racketeering Influenced and Corrupt Organizations Act ("RICO")), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust statutes, injunctive relief, indemnity, restitution, unjust enrichment, public nuisance, claims based on antitrust laws and state consumer protection acts, and claims based on failure to warn of the harmful or addictive nature of tobacco products.

Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages, although some seek damages ranging into the billions of dollars. Plaintiffs in some of the cases seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other damages.

CONVENTIONAL PRODUCT LIABILITY CASES - Approximately 1,225 cases are pending against cigarette manufacturers in the United States. Lorillard is a defendant in approximately 200 of these cases. The Company is a defendant in one of the pending cases.

Approximately 935 of the 1,225 cases are pending in a single West Virginia court in a consolidated proceeding known as *West Virginia Individual Personal Injury Cases* or "IPIC." During the third quarter of 2006, the court dismissed Lorillard from approximately 800 IPIC cases because those plaintiffs had not submitted evidence that they had smoked a Lorillard product. These dismissals are not final and it is possible some or all of these 800 dismissals could be contested in subsequent appeals noticed by the plaintiffs. Following these dismissals, Lorillard is a defendant in approximately 70 of the 935 IPIC cases. The Company is not a defendant in any of the IPIC cases. The court has entered a trial plan to govern the cases, and the first phase of the consolidated trial is scheduled to begin on March 17, 2008.

Since January 1, 2005, verdicts have been returned in eleven cases. Lorillard was not a defendant in any of these trials. Defense verdicts were returned in eight of the eleven trials, while juries found in favor of the plaintiffs and awarded damages in the three other cases. The defendants are pursuing appeals in two of these cases and post-verdict activity has not been completed in the third. In rulings addressing cases tried in earlier years, some appellate courts have reversed verdicts returned in favor of the plaintiffs while other judgments that awarded damages to smokers have been affirmed on appeal. Manufacturers have exhausted their appeals and have been required to pay damages to plaintiffs in nine individual cases in recent years. Punitive damages were paid to the smokers in three of the nine cases. Lorillard was not a party to these nine matters.

Some cases against U.S. cigarette manufacturers are scheduled for trial during 2007 and beyond. It is not known whether Lorillard will be a defendant in any of the cases that may be tried in 2007. The Company is not a defendant in any of the cases scheduled for trial in 2007. The trial dates are subject to change.

FLIGHT ATTENDANT CASES - Approximately 2,625 Flight Attendant cases are pending. Lorillard and three other cigarette manufacturers are the defendants in each of these matters. The Company is not a defendant in any of these cases. These suits were filed as a result of a settlement agreement by the parties, including Lorillard, in *Broin v. Philip Morris Companies, Inc., et al.* (Circuit Court, Miami-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 settlement agreement, among other things, permitted the plaintiff class members to file these individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.

The judges that have presided over the cases that have been tried have relied upon an order entered during October of 2000 by the Circuit Court of Miami-Dade County, Florida. The October 2000 order has been construed by these judges as holding 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.

Lorillard has been a defendant in each of the seven flight attendant cases in which verdicts have been returned. Defendants have prevailed in six of the seven trials. In the single trial decided for the plaintiff, the jury awarded $5.5 million in damages. The court, however, reduced this award to $500,000. This verdict, as reduced by the trial court, was affirmed on appeal and the defendants have paid the award. Lorillard's share of the judgment in this matter, including interest, was approximately $60,000. In one of the six cases in which a defense verdict was returned, the court granted plaintiff's motion for a new trial and, following appeal, the case has been returned to the trial court for a second trial that has not been scheduled. The five remaining cases in which defense verdicts were returned are concluded.

A trial date is scheduled in one of the flight attendant cases. Trial dates are subject to change.

CLASS ACTION CASES - Lorillard is a defendant in ten pending cases. The Company is a defendant in two of these cases. In most of the pending cases, plaintiffs seek class certification on behalf of groups of cigarette smokers, or the estates of deceased cigarette smokers, who reside in the state in which the case was filed. One of the cases in which Lorillard is a defendant, *Schwab v. Philip Morris USA, Inc., et al.*, is a purported national class action on behalf of purchasers of "light" cigarettes in which plaintiffs' claims are based on defendants' alleged RICO violations. Neither Lorillard nor the Company are defendants in approximately 30 additional class action cases in which plaintiffs assert claims on behalf of smokers or purchasers of "light" cigarettes. These cases are discussed below.

Cigarette manufacturers, including Lorillard, have defeated motions for class certification in a total of 35 cases, 13 of which were in state court and 22 of which were in federal court. Motions for class certification have also been ruled upon in some of the "lights" cases or in other class actions to which Lorillard was not a party. In some of these cases, courts have denied class certification to the plaintiffs, while classes have been certified in other matters.

The *Engle* Case - During 2006, the Florida Supreme Court issued rulings in the case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Miami-Dade County, Florida, filed May 5, 1994), that affirmed the 2003 holding of an intermediate appellate court vacating the $145.0 billion punitive damages award, including approximately $16.3 billion against Lorillard. Prior to trial, *Engle* was certified as a class action on behalf of Florida residents, and survivors of Florida residents, who were injured or died from medical conditions allegedly caused by addiction to nicotine in cigarettes. The Florida Supreme Court determined that the case could not proceed further as a class action and ordered that the class is to be decertified.

Although the Florida Supreme Court's 2006 ruling ordered class decertification, it also permits members of the former class to file individual suits, including claims for punitive damages, within a one year period that is scheduled to expire during January of 2008. The Florida Supreme Court further held that these individual plaintiffs are entitled to rely on some of the jury's findings on a number of issues in favor of the plaintiffs in the first phase of the *Engle* trial. These include, among other things, that smoking cigarettes causes a number of diseases; that cigarettes are addictive or dependence-producing; and that the defendants, including Lorillard, were negligent, breached express and implied warranties, placed cigarettes on the market that were defective and unreasonably dangerous, and concealed or conspired to conceal the risks of smoking. Notice of the Florida Supreme Court's 2006 ruling has been published to the former class members. Since the Florida Supreme Court issued its 2006 decision, cigarette manufacturers are defendants in 25 cases in which plaintiffs contend that they are members of the *Engle* class and that they intend to rely upon the *Engle* jury's Phase I verdict. Claims for 76 smokers are asserted in these 25 cases. Lorillard is a defendant in 18 of these suits, which involve the claims of 69 smokers. It also is possible that plaintiffs in some of the cases that were on file in Florida at the time the 2006 decision was issued will attempt to rely upon the Supreme Court's decision as support for their claims. In addition, several individuals have filed motions to intervene in the underlying *Engle* case in order to assert claims for damages and to share in the funds paid as a result of an agreement, discussed below, that certain of the *Engle* defendants reached with the class during 2001. It is not possible to estimate the number or ultimate outcomes of lawsuits that could be filed as a result of the Florida Supreme Court's 2006 ruling. During July of 2007, certain cigarette manufacturers, including Lorillard, moved for the creation of a multi-district proceeding for pretrial coordination of cases that are pending in federal courts.

The Florida Supreme Court's 2006 decision also reinstated verdicts that had awarded actual damages to two of the three individuals whose claims were heard during the second phase of the *Engle* trial. These awards totaled approximately $2.8 million to one smoker and $4.0 million to the second, and bear interest at the rate of 10.0% per year. Lorillard's share of either of these verdicts, if any, has not been determined.

On May 21, 2007, defendants petitioned the U.S. Supreme Court to review the Florida Supreme Court's holdings that permit members of the *Engle* class to rely upon the jury's first-phase verdict. The U.S. Supreme Court has not announced whether it will grant review of defendants' petition.

Florida enacted legislation that limits 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, Lorillard entered into an agreement with the plaintiffs during May of 2001 in which it contributed $200.0 million to a fund held for the benefit of the *Engle* plaintiffs (the "*Engle* Agreement"). Two other defendants executed agreements with the plaintiffs that were similar to Lorillard's. As a result, the class agreed to a stay of execution with respect to Lorillard and the two other defendants on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court.

The *Engle* Agreement provides that in the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 million (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 June 30, 2007, Lorillard, Inc. had a balance sheet net worth of approximately $1.3 billion. 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.

The Scott case - Another class action pending against Lorillard is *Scott v. The American Tobacco Company, et al.* (District Court, Orleans Parish, Louisiana, filed May 24, 1996). During 1997, the court certified a class composed of certain cigarette smokers resident in 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.

Trial in *Scott* was heard in two phases. While the jury in its July 2003 Phase I verdict rejected medical monitoring, the primary relief requested by plaintiffs, it returned sufficient findings in favor of the class to proceed to a Phase II trial on plaintiffs' request for a state-wide smoking cessation program.

During May of 2004, the jury returned its verdict in the trial's second phase and awarded approximately $591.0 million to fund cessation programs for Louisiana smokers. The court subsequently awarded prejudgment interest. During February of 2007, the Louisiana Court of Appeal issued a ruling that, among other things, reduced the amount of the award by approximately $312.0 million; struck the award of prejudgment interest, which totaled approximately $440.0 million as of December 31, 2006; and ruled that the only class members who are eligible to participate in the smoking cessation program are those who began smoking by September 1, 1988, and whose claims accrued by September 1, 1988. The Louisiana Court of Appeal has returned the case to the trial court, for further proceedings. Lorillard's share of any judgment has not been determined. Both plaintiffs and defendants have petitioned the Louisiana Supreme Court to review the case.

The parties filed a stipulation in the trial court agreeing that an article of Louisiana law required that the amount of the bond for the appeal be set at $50.0 million for all defendants collectively. The parties further agreed that the plaintiffs have full reservations of rights to contest in the trial court the sufficiency of the bond on any grounds. The trial court entered an order setting the amount of the bond at $50.0 million for all defendants. Defendants collectively posted a surety bond in that amount, of which Lorillard secured 25%, or $12.5 million. While Lorillard believes the limitation on the appeal bond amount is valid as required by Louisiana law, in the event of a successful challenge the amount of the appeal bond could be set as high as 150% of the judgment and judicial interest combined. If such an event occurred, Lorillard's share of the appeal bond has not been determined.

Other class action cases - Two additional cases are pending against Lorillard in which motions for class certification were granted. In one of them, *Brown v. The American Tobacco Company, Inc., et al.* (Superior Court, San Diego County, California, filed June 10, 1997), a California court granted defendants' motion to decertify the class. The class decertification order has been affirmed on appeal, but the California Supreme Court has agreed to hear the case. The class originally certified in *Brown* was composed of residents of California who smoked at least one of defendants' cigarettes between June 10, 1993 and April 23, 2001 and who were exposed to defendants' marketing and advertising activities in California. In the second case, *Daniels v. Philip Morris, Incorporated, et al.* (Superior Court, San Diego County, California, filed August 2, 1998), the court granted defendants' motion for summary judgment during 2002 and dismissed the case. The California Court of Appeal affirmed the dismissal during 2004. During June of 2007, the California Supreme Court heard plaintiffs' appeal. California law requires the court to issue decisions within 90 days after it hears argument. Prior to granting defendants' motion for summary judgment, the court had certified a class composed of California residents who, while minors, smoked at least one cigarette between April of 1994 and December 31, 1999 and were exposed to defendants' marketing and advertising activities in California. It is possible that either or both of these class certification rulings could be reinstated as a result of the pending appeals.

As discussed above, other cigarette manufacturers are defendants in approximately 30 cases in which plaintiffs' claims are based on the allegedly fraudulent marketing of "lights" or "ultra-lights" cigarettes. Among those "lights" class actions in which neither the Company nor Lorillard are defendants is the case of *Price v. Philip Morris USA* (Circuit Court, Madison County, Illinois, filed February 10, 2000). During March of 2003, the court returned a verdict in favor of the class and awarded it $7.1 billion in actual damages. The court also awarded $3.0 billion in punitive damages to the State of Illinois, which was not a party to the suit, and awarded plaintiffs' counsel approximately $1.8 billion in fees and costs. During December of 2005, the Illinois Supreme Court vacated the damages awards, decertified the class, and ordered that the case be dismissed. The U.S. Supreme Court declined to review the case, and the Illinois trial court dismissed *Price* during December of 2006. During January of 2007, plaintiffs sought an order vacating the dismissal. The Illinois Supreme Court is considering whether the trial court is permitted to address plaintiffs' motion to reinstate the case. *Price* is the only "lights" class action to have been tried, although classes have been certified in some of the other pending matters.

The Schwab case - Lorillard is a defendant in one “lights” class action, *Schwab v. Philip Morris USA, Inc., et al.* (U.S. District Court, Eastern District, New York, filed May 11, 2004). The Company is not a party to this case. Plaintiffs in *Schwab* base their claims on defendants’ alleged violations of the RICO statute in the manufacture, marketing and sale of “lights” cigarettes. Plaintiffs have estimated damages to the class in the hundreds of billions of dollars. Any damages awarded to the plaintiffs based on defendants’ violation of the RICO statute would be trebled. During September of 2006, the court granted plaintiffs’ motion for class certification and certified a nationwide class action on behalf of purchasers of “light” cigarettes. During July of 2007, the Second Circuit Court of Appeals heard defendants’ appeal of the class certification ruling. The court of appeals has prohibited activity before the trial court until the appeal is concluded.

REIMBURSEMENT CASES - Lorillard is a defendant in the four Reimbursement cases that are pending in the U.S. and it has been named as a party to the case in Israel. The case in Israel is the only Reimbursement suit in which the Company is a party.

U.S. Federal Government Action - During August of 2006, the U.S. District Court for the District of Columbia issued its final judgment and remedial order in the federal government’s reimbursement suit (*United States of America v. Philip Morris USA, Inc., et al.*, U.S. District Court, District of Columbia, filed September 22, 1999). The verdict concluded a bench trial that began in September of 2004. Lorillard, other cigarette manufacturers, two parent companies and two trade associations are defendants in this action. The Company is not a party to this case.

In its 2006 verdict, the court determined that the defendants, including Lorillard, violated certain provisions of the RICO statute, that there was a likelihood of present and future RICO violations, and that equitable relief was warranted. The government was not awarded monetary damages. The equitable relief included permanent injunctions that prohibit the defendants, including Lorillard, from engaging in any act of racketeering, as defined under RICO; from making any material false or deceptive statements concerning cigarettes; from making any express or implied statement about health on cigarette packaging or promotional materials (these prohibitions include a ban on using such descriptors as “low tar,” “light,” “ultra-light,” “mild,” or “natural”); and from making any statements that “low tar,” “light,” “ultra-light,” “mild,” or “natural” or low-nicotine cigarettes may result in a reduced risk of disease. The final judgment and remedial order also requires the defendants, including Lorillard, to make corrective statements on their websites, in certain media, in point-of-sale advertisements, and on cigarette package “onserts” concerning: the health effects of smoking; the addictiveness of smoking; that there are no significant health benefits to be gained by smoking “low tar,” “light,” “ultra-light,” “mild,” or “natural” cigarettes; that cigarette design has been manipulated to ensure optimum nicotine delivery to smokers; and that there are adverse effects from exposure to secondhand smoke. If the final judgment and remedial order are not modified or vacated on appeal, the costs to Lorillard for compliance could exceed $10.0 million. Defendants have appealed to the U.S. Court of Appeals for the District of Columbia Circuit which has stayed the judgment and remedial order while the appeal is proceeding. The government also has noticed an appeal from the final judgment. While trial was underway, the District of Columbia Court of Appeals ruled that plaintiff may not seek disgorgement of profits, but this appeal was interlocutory in nature and could be reconsidered in the present appeal. Prior to trial, the government had estimated that it was entitled to approximately $280.0 billion from the defendants for its disgorgement of profits claim. In addition, the government sought during trial more than $10.0 billion for the creation of nationwide smoking cessation, public education and counter-marketing programs. In its 2006 verdict, the trial court declined to award such relief. It is possible that these claims could be reinstated on appeal.

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 (“MSA”) 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 pretax charges of $275.2 million, $236.5 million, $524.3 million and $453.5 million ($172.4 million, $144.0 million, $330.1 million, and $277.1 million after taxes) for the three and six months ended June 30, 2007 and 2006, to accrue 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 of $9.4 billion, subject to adjustment for several factors, including inflation, market share and industry volume. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500.0 million, as well as an additional amount of up to $125.0 million in each year through 2008. 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. Lorillard and the other Original Participating Manufacturers have notified the States that they intend to seek an adjustment in the amount of payments made in 2003 pursuant to a provision in the MSA that permits such adjustment if the companies can prove that the MSA was a significant factor in their loss of market share to companies not participating in the MSA and that the States failed to diligently enforce certain statutes passed in connection with the MSA. If the Original Participating Manufacturers are ultimately successful, any adjustment would be reflected as a credit against future payments by the Original Participating Manufacturers under the agreement.

From time to time, lawsuits have been brought against Lorillard and other participating manufacturers to the MSA, or against one or more of the states, challenging the validity of that agreement on certain grounds, including as a violation of the antitrust laws. Lorillard is a defendant in one such case, which has been dismissed by the trial court but has been appealed by the plaintiffs. Lorillard understands that additional such cases are proceeding against other defendants.

In addition, in connection with the MSA, the Original Participating Manufacturers entered into an agreement to establish a $5.2 billion trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states (the "Trust"). Payments to the Trust will no longer be required as a result of an assessment imposed under a new federal law repealing the federal supply management program for tobacco growers, although the states of Maryland and Pennsylvania are contending that payments under the Trust should continue to growers in those states since the new federal law did not cover them, and the matter is being litigated. In 2005 other litigation was resolved over the Trust's obligation to return payments made by the Original Participating Manufacturers in 2004 or withheld from payment to the Trust for the fourth quarter of 2004, when the North Carolina Supreme Court ruled that such payments were due to the Trust. Lorillard's share of payments into the Trust in 2004 was approximately $30.0 million and its share of the payment due for the last quarter of that year was approximately $10.0 million. Under the new law, enacted in October of 2004, tobacco quota holders and growers will be compensated with payments totaling $10.1 billion, funded by an assessment on tobacco manufacturers and importers. Payments to qualifying tobacco quota holders and growers commenced in 2005.

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.

FILTER CASES - In addition to the above, claims have been brought against Lorillard by individuals who seek damages resulting from their alleged exposure to asbestos fibers that were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time ending more than 50 years ago. Approximately 25 such matters are pending against Lorillard. The Company is not a defendant in any of these matters. Since January 1, 2005, Lorillard has paid, or has reached agreement to pay, a total of approximately $14.0 million in payments of judgments and settlements to finally resolve approximately 65 claims. No such cases have been tried since January 1, 2005. Trial dates are scheduled in some of the pending cases. Trial dates are subject to change.

Other Tobacco - Related

TOBACCO - RELATED ANTITRUST CASES - Indirect Purchaser Suits - Approximately 30 antitrust suits were filed on behalf of putative classes of consumers in various state courts against Lorillard and its major competitors. The suits all alleged that the defendants entered into agreements to fix the wholesale prices of cigarettes in violation of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. More than 20 states permit such suits. Lorillard was a defendant in all but one of these indirect purchaser cases. The Company was also named as a defendant in most of these indirect purchaser cases, but was voluntarily dismissed without prejudice from all of them. Three indirect purchaser suits, in New York, Florida and Michigan, were dismissed by courts in their entirety and the plaintiffs withdrew their appeals. The actions in all other states except for New Mexico and Kansas, have been voluntarily dismissed.

In the Kansas case, the District Court of Seward County certified a class of Kansas indirect purchasers in 2002. The parties are in the process of litigating certain privilege issues. On July 14, 2006, the Court issued an order confirming that fact discovery is closed, with the exception of privilege issues that the Court determines, based on a Special Master's report, justify further limited fact discovery. Expert discovery, as necessary, will take place later this year. No date has as yet been set by the Court for dispositive motions and trial.

A decision granting class certification in New Mexico was affirmed by the New Mexico Court of Appeals on February 8, 2005. As ordered by the Court, class notice was sent out on October 30, 2005. The New Mexico plaintiffs were permitted to rely on discovery produced in the Kansas case. On June 30, 2006, the New Mexico Court granted summary judgment to all defendants, and the suit was dismissed. An appeal was filed by the plaintiffs on August 14, 2006, and has not yet been heard.

MSA Federal Antitrust Suit - *Sanders v. Lockyer, et al.* (U.S. District Court, Northern District of California, filed June 9, 2004). Lorillard and the other major cigarette manufacturers, along with the Attorney General of the State of California, have been sued by a consumer purchaser of cigarettes in a putative class action alleging violations of the Sherman Act and California state antitrust and unfair competition laws. The plaintiff seeks treble damages of an unstated amount for the putative class as well as declaratory and injunctive relief. All claims are based on the assertion that the Master Settlement Agreement that Lorillard and the other cigarette manufacturer defendants entered into with the State of California and more than forty other states, together with certain implementing legislation enacted by California, constitute unlawful restraints of trade. On March 28, 2005 the defendants' motion to dismiss the suit was granted. Plaintiffs appealed the dismissal to the Court of Appeals for the Ninth Circuit. Argument was heard on February 15, 2007. A decision has not yet been announced.

Defenses

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal should any adverse verdicts be returned 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. While Lorillard intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties. Plaintiffs have prevailed in several cases, as noted above. It is possible that one or more of the pending actions could be decided unfavorably as to Lorillard or the other defendants. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Lorillard cannot predict the outcome of pending litigation. Some plaintiffs have been awarded damages from cigarette manufacturers at trial. While some of these awards have been overturned or reduced, other damages awards have been paid after the manufacturers have exhausted their appeals. These awards and other litigation activities against cigarette manufacturers continue to receive media attention. In addition, health issues related to tobacco products also continue to receive media attention. It is possible, for example, that the 2006 verdict in *United States of America v. Philip Morris USA, Inc., et al.*, which made many adverse findings regarding the conduct of the defendants, including Lorillard, could form the basis of allegations by other plaintiffs or additional judicial findings against cigarette manufacturers. The 2006 decision by the Florida Supreme Court in *Engle* could lead to the filing of many new cases against cigarette manufacturers, including Lorillard. These events could have an adverse affect on the ability of Lorillard to prevail in smoking and health litigation and could influence the filing of new suits against Lorillard or the Company. Lorillard also cannot predict the type or extent of litigation that could be brought against it and other cigarette manufacturers in the future.

Except for the impact of the State Settlement Agreements as described above, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation and, therefore, no provision has been made in the Consolidated Condensed Financial Statements for any unfavorable outcome. 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 adversely affected by an unfavorable outcome or settlement of certain pending litigation.

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 not, in the opinion of management, materially affect the Company’s results of operations or equity.

11. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of June 30, 2007, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $997.0 million, including amounts related to a sold discontinued operation.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2007, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser’s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire. As of June 30, 2007 and December 31, 2006, CNA has recorded approximately $24.0 million and $28.0 million of liabilities related to these indemnification agreements.

In connection with the issuance of preferred securities by CNA Surety Capital Trust I, CNA Surety, a 62% owned and consolidated subsidiary of CNA, issued a guarantee of $75.0 million to guarantee the payment by CNA Surety Capital Trust I of annual dividends of $1.5 million over 30 years and redemption of $30.0 million of preferred securities.

Diamond Offshore Construction Projects

As of June 30, 2007, Diamond Offshore had purchase obligations aggregating approximately $365.0 million related to the major upgrades of the *Ocean Monarch* and the *Ocean Endeavor* and construction of two new jack-up rigs, the *Ocean Scepter* and *Ocean Shield*. Diamond Offshore anticipates that expenditures related to these shipyard projects will be approximately $188.0 million for the remainder of 2007 and $177.0 million in 2008, respectively. However, the actual timing of these expenditures will vary based on the completion of various construction milestones and the timing of the delivery of equipment, which are beyond Diamond Offshore’s control.

Boardwalk Pipeline Expansion Projects

Boardwalk Pipeline is engaged in several major expansion projects that will require the investment of significant capital resources. These projects include a 1.7 billion cubic feet (“Bcf”) pipeline expansion in East Texas/Mississippi, construction of a 1.7 Bcf interstate pipeline from Texas to Louisiana, a 1.2 Bcf pipeline expansion from Mississippi to Alabama, the construction of two laterals connecting its Texas Gas pipeline to transport gas for producers operating in Arkansas and Mississippi and storage expansion projects in western Kentucky and Louisiana. These projects are subject to FERC approval. As of June 30, 2007, Boardwalk Pipeline had purchase commitments of $746.6 million primarily related to its expansion projects.

Boardwalk Pipeline Magnolia Storage Facility

Boardwalk Pipeline has been in the process of developing a salt dome storage cavern near Napoleonville, Louisiana. Operational tests which began in May of 2007 and were completed in July indicated that due to anomalies that could not be corrected, Boardwalk Pipeline will be unable to place the cavern in service as expected. As a result, Boardwalk Pipeline has elected to abandon that cavern and is exploring the possibility of securing a new site on which a new cavern could be developed. In accordance with the requirements of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the carrying value of the facilities of approximately $45.1 million was tested for recoverability. In the second quarter of 2007, Boardwalk Pipeline recognized an impairment charge of approximately $14.7 million, representing the carrying value of the cavern, the fair value of which was determined to be zero based on discounted expected future cash flows. The charge was included in Other operating expenses on the Consolidated Condensed Statements of Income. Boardwalk Pipeline expects to use the other assets associated with the project, which include pipeline, compressors, base gas and other equipment and facilities, in conjunction with a replacement storage cavern to be developed.

12. Discontinued Operations

CNA has discontinued operations, which consist of run-off insurance operations acquired in its merger with The Continental Corporation in 1995. As of June 30, 2007, the remaining run-off business is administered by Continental Reinsurance Corporation International, Ltd., a Bermuda subsidiary. The business consists of facultative property and casualty, treaty excess casualty and treaty pro-rata reinsurance with underlying exposure to a diverse, multi-line domestic and international book of business encompassing property, casualty, and marine liabilities.

Results of CNA's discontinued operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Net investment income	**$ 3.2**	$ 3.9	**$ 8.9**	$ 7.8
Investment gains (losses) and other	**4.1**	(2.5)	**3.3**	(2.6)
Total revenues	**7.3**	1.4	**12.2**	5.2
Insurance related expenses	**(19.0)**	(4.0)	**(20.3)**	(13.7)
Loss before income taxes and minority interest	**(11.7)**	(2.6)	**(8.1)**	(8.5)
Income tax benefit	**1.6**		**0.5**	0.4
Minority interest	**1.2**	0.2	**0.9**	0.7
Loss from discontinued operations	**$ (8.9)**	$ (2.4)	**$ (6.7)**	$ (7.4)

On May 4, 2007, CNA sold Continental Management Services Limited ("CMS"), its United Kingdom discontinued operations subsidiary, to Tawa UK Limited, a subsidiary of Artemis Group, a diversified French-based holding company. In anticipation of the sale, the Company recorded an impairment loss of $26.2 million, after tax and minority interest, in 2006. Upon closing of the transaction in the second quarter of 2007, the loss was reduced by approximately $2.7 million. The assets and liabilities sold were $239.0 million and $157.0 million at December 31, 2006. Net loss for this business through the date of the sale was less than $0.9 million and $2.7 million for the three months ended June 30, 2007 and 2006, and $0.9 million and $6.3 million for the six months ended June 30, 2007 and 2006. CNA's subsidiary, The Continental Corporation, provided a guarantee for a portion of the liabilities related to certain marine products. The sale agreement included provisions that significantly limit CNA's exposure related to this guarantee.

Net assets of discontinued operations, included in Other Assets on the Consolidated Condensed Balance Sheets, were as follows:

	June 30, 2007	December 31, 2006
(In millions)		
Assets:		
Investments	**$ 146.9**	$ 317.1
Reinsurance receivables	**0.9**	32.8
Cash	**1.7**	40.1
Other assets	**22.6**	2.8
Total assets	**172.1**	392.8
Liabilities:		
Insurance reserves	**169.0**	307.8
Other liabilities	**3.1**	17.2
Total liabilities	**172.1**	325.0
Net assets of discontinued operations	**$ -**	$ 67.8

CNA's accounting and reporting for discontinued operations is in accordance with APB No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". At June 30, 2007 and December 31, 2006, the insurance reserves are net of discount of $77.1 million and $94.0 million. The loss from discontinued operations reported above primarily represents the net investment income, realized investment gains and losses, foreign currency gains and losses, effects of the accretion of the loss reserve discount and re-estimation of the ultimate claim and claim adjustment expense of the discontinued operations.

13. Consolidating Financial Information

The following schedules present the Company's consolidating balance sheet information at June 30, 2007 and December 31, 2006, and consolidating statements of income information for the six months ended June 30, 2007 and 2006. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and minority interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items. This information also does not reflect the impact of the Company's issuance of Carolina Group stock. Lorillard is reported as a 100% owned subsidiary and does not include any adjustments relating to the tracking stock structure. See Note 4 for consolidating condensed information of the Carolina Group and Loews Group.

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

Loews Corporation
Consolidating Balance Sheet Information

June 30, 2007	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Assets:								
Investments	$ 44,425.4	$ 1,639.3	$ 387.5	$ 584.7	$ 33.3	$ 7,244.6		$ 54,314.8
Cash	80.4	0.4	0.3	33.6	15.1	7.3		137.1
Receivables	12,143.8	20.4	59.4	505.3	28.0	1,793.5	$ (23.0)	14,527.4
Property, plant and equipment	300.1	202.8	2,363.8	2,727.9	367.7	26.8		5,989.1
Deferred income taxes	1,034.8	534.1				16.0	(786.1)	798.8
Goodwill and other intangible assets	106.0		163.5	20.3	2.6	5.0		297.4
Investments in capital stocks of subsidiaries						12,528.4	(12,528.4)	
Other assets	922.5	342.4	258.8	124.5	46.2	98.5	(0.7)	1,792.2
Deferred acquisition costs of insurance subsidiaries	1,197.2							1,197.2
Separate account business	483.5							483.5
Total assets	$ 60,693.7	$ 2,739.4	$ 3,233.3	$ 3,996.3	$ 492.9	$ 21,720.1	$ (13,338.2)	$ 79,537.5
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 40,936.9						$ (0.7)	$ 40,936.2
Payable for securities purchased	625.5					$ 3,161.2		3,786.7
Collateral on loaned securities and derivatives	3,098.8							3,098.8
Short-term debt	150.2			$ 9.5	$ 4.4			164.1
Long-term debt	2,006.1		$ 1,351.4	503.0	231.4	865.5		4,957.4
Reinsurance balances payable	528.1							528.1
Deferred income taxes			61.7	370.3	48.0	306.1	(786.1)	
Other liabilities	2,545.4	$ 1,461.1	345.4	368.1	15.3	210.2	(36.2)	4,909.3
Separate account business	483.5							483.5
Total liabilities	50,374.5	1,461.1	1,758.5	1,250.9	299.1	4,543.0	(823.0)	58,864.1
Minority interest	1,419.1		778.1	1,336.7				3,533.9
Shareholders' equity	8,900.1	1,278.3	696.7	1,408.7	193.8	17,177.1	(12,515.2)	17,139.5
Total liabilities and shareholders' equity	$ 60,693.7	$ 2,739.4	$ 3,233.3	$ 3,996.3	$ 492.9	$ 21,720.1	$ (13,338.2)	$ 79,537.5

Loews Corporation
Consolidating Balance Sheet Information

December 31, 2006	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Assets:								
Investments	$ 44,094.2	$ 1,767.5	$ 397.9	$ 815.6	$ 9.7	$ 6,803.9		$ 53,888.8
Cash	83.9	1.2	1.1	10.2	14.8	22.6		133.8
Receivables	12,202.4	15.6	87.7	567.5	27.6	128.6	$ (2.1)	13,027.3
Property, plant and equipment	240.9	196.4	2,024.4	2,653.8	362.5	23.3		5,501.3
Deferred income taxes	884.6	495.7				14.8	(774.2)	620.9
Goodwill and other intangible assets	106.0		163.5	21.8	2.6	5.0		298.9
Investments in capital stocks of subsidiaries						12,313.4	(12,313.4)	
Other assets	933.3	282.8	263.5	101.5	41.9	93.5		1,716.5
Deferred acquisition costs of insurance subsidiaries	1,190.4							1,190.4
Separate account business	503.0							503.0
Total assets	$ 60,238.7	$ 2,759.2	$ 2,938.1	$ 4,170.4	$ 459.1	$ 19,405.1	$ (13,089.7)	$ 76,880.9
Liabilities and Shareholders' Equity:								
Insurance reserves	$ 41,079.9							$ 41,079.9
Payable for securities purchased	320.0				$ 0.2	$ 726.5		1,046.7
Collateral on loaned securities	2,850.9					750.6		3,601.5
Short-term debt	0.3				4.3			4.6
Long-term debt	2,155.5		$ 1,350.9	$ 964.3	231.7	865.4		5,567.8
Reinsurance balances payable	539.1							539.1
Deferred income taxes			44.4	438.6	50.0	241.2	$ (774.2)	
Other liabilities	2,734.1	$ 1,463.9	345.4	400.8	4.3	206.7	(15.0)	5,140.2
Separate account business	503.0							503.0
Total liabilities	50,182.8	1,463.9	1,740.7	1,803.7	290.5	2,790.4	(789.2)	57,482.8
Minority interest	1,349.6		484.8	1,061.9				2,896.3
Shareholders' equity	8,706.3	1,295.3	712.6	1,304.8	168.6	16,614.7	(12,300.5)	16,501.8
Total liabilities and shareholders' equity	$ 60,238.7	$ 2,759.2	$ 2,938.1	$ 4,170.4	$ 459.1	$ 19,405.1	$ (13,089.7)	$ 76,880.9

Loews Corporation
Consolidating Statement of Income Information

Six Months Ended June 30, 2007	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 3,734.7						$ (0.7)	$ 3,734.0
Net investment income	1,278.9	$ 56.0	$ 10.5	$ 17.4	$ 0.9	$ 241.8		1,605.5
Intercompany interest and dividends						854.6	(854.6)	
Investment gains (losses)	(160.3)	0.1						(160.2)
Gain on issuance of subsidiary stock				(3.0)		141.5		138.5
Manufactured products		1,968.4				86.2		2,054.6
Other	132.6	0.4	338.9	1,262.5	194.2	(4.0)		1,924.6
Total	4,985.9	2,024.9	349.4	1,276.9	195.1	1,320.1	(855.3)	9,297.0
Expenses:								
Insurance claims and policyholders' benefits	2,921.3							2,921.3
Amortization of deferred acquisition costs	752.6							752.6
Cost of manufactured products sold		1,157.8				43.0		1,200.8
Other operating expenses	472.5	164.6	202.2	605.6	149.1	59.6	(0.7)	1,652.9
Interest	69.5	2.6	31.3	14.6	5.7	28.0		151.7
Total	4,215.9	1,325.0	233.5	620.2	154.8	130.6	(0.7)	6,679.3
	770.0	699.9	115.9	656.7	40.3	1,189.5	(854.6)	2,617.7
Income tax expense	224.6	259.2	35.3	202.5	15.6	116.6		853.8
Minority interest	78.5		25.1	231.9				335.5
Total	303.1	259.2	60.4	434.4	15.6	116.6		1,189.3
Income from continuing operations	466.9	440.7	55.5	222.3	24.7	1,072.9	(854.6)	1,428.4
Discontinued operations, net	(6.7)							(6.7)
Net income	$ 460.2	$ 440.7	$ 55.5	$ 222.3	$ 24.7	$ 1,072.9	$ (854.6)	$ 1,421.7

Loews Corporation
Consolidating Statement of Income Information

Six Months Ended June 30, 2006	CNA Financial	Lorillard	Boardwalk Pipeline	Diamond Offshore	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)								
Revenues:								
Insurance premiums	$ 3,760.7						$ (0.1)	$ 3,760.6
Net investment income	1,122.2	$ 44.2	$ 1.2	$ 16.8	$ 0.4	$ 160.2		1,345.0
Intercompany interest and dividends						561.4	(561.4)	
Investment gains (losses)	(88.9)	(0.6)		(0.2)		(1.6)		(91.3)
Manufactured products		1,832.1				87.0		1,919.1
Other	119.4	0.1	306.3	961.2	194.9	6.5		1,588.4
Total	4,913.4	1,875.8	307.5	977.8	195.3	813.5	(561.5)	8,521.8
Expenses:								
Insurance claims and policyholders' benefits	2,924.2							2,924.2
Amortization of deferred acquisition costs	742.0							742.0
Cost of manufactured products sold		1,064.3				43.7		1,108.0
Other operating expenses	493.4	201.7	175.3	519.6	156.0	61.9	(0.1)	1,607.8
Restructuring and other related charges	(12.9)							(12.9)
Interest	58.0		30.8	12.5	5.8	38.2		145.3
Total	4,204.7	1,266.0	206.1	532.1	161.8	143.8	(0.1)	6,514.4
	708.7	609.8	101.4	445.7	33.5	669.7	(561.4)	2,007.4
Income tax expense (benefit)	210.1	237.2	34.5	139.2	13.0	37.4		671.4
Minority interest	57.5		14.7	146.7				218.9
Total	267.6	237.2	49.2	285.9	13.0	37.4		890.3
Income from continuing operations	441.1	372.6	52.2	159.8	20.5	632.3	(561.4)	1,117.1
Discontinued operations, net	(7.4)							(7.4)
Net income	$ 433.7	$ 372.6	$ 52.2	$ 159.8	$ 20.5	$ 632.3	$ (561.4)	$ 1,109.7

14. Subsequent Event

On July 31, 2007, the Company's wholly owned subsidiary, HighMount Exploration & Production Holding Corp. (together with its subsidiaries "HighMount"), acquired certain exploration and production assets, and assumed certain related obligations, from subsidiaries of Dominion Resources, Inc. ("Dominion") for $4.025 billion in cash, subject to adjustment. The acquired business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama, with estimated proved reserves totaling approximately 2.5 trillion cubic feet equivalent. These properties produce predominantly natural gas and related natural gas liquids and are characterized by long reserve lives and high well completion success rates.

The acquisition was funded with approximately $2.4 billion from the Company's available cash and $1.6 billion of term loans incurred at the subsidiary level (the "Acquisition Debt"). The Acquisition Debt bears interest at a floating rate equal to the London Interbank Offered Rate ("LIBOR") plus an applicable margin and matures on July 26, 2012, subject to acceleration by the lenders upon the occurrence of customary events of default. The Credit Agreement also provides for a five year, $400.0 million revolving credit facility, borrowings under which bear interest at a floating rate equal to LIBOR plus an applicable margin.

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

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with our Consolidated Condensed Financial Statements included in Item 1 of this Report, and these Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2006. This MD&A is comprised of the following sections:

OVERVIEW

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

- commercial property and casualty insurance (CNA Financial Corporation ("CNA"), an 89% owned subsidiary);
- production and sale of cigarettes (Lorillard, Inc. ("Lorillard"), a wholly owned subsidiary);
- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP ("Boardwalk Pipeline"), a 75% owned subsidiary);
- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 51% owned subsidiary);
- operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary) and
- distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a wholly owned subsidiary).

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

On July 31, 2007, our wholly owned subsidiary, HighMount Exploration & Production Holding Corp. (together with its subsidiaries "HighMount"), acquired certain exploration and production assets, and assumed certain related obligations, from subsidiaries of Dominion Resources, Inc. for $4.025 billion in cash, subject to adjustment (the "HighMount Acquisition"). The acquired business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama, with estimated proved reserves totaling approximately 2.5 trillion cubic feet equivalent. These properties produce predominantly natural gas and related natural gas liquids and are characterized by long reserve lives and high well completion success rates.

Consolidated Financial Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions, except per share data)				
Net income attributable to Loews common stock:				
Income before net investment losses	**$ 599.2**	$ 532.3	**$ 1,172.7**	$ 1,014.3
Net investment gains (losses) (a)	**(78.6)**	(55.0)	**(3.6)**	(58.6)
Income from continuing operations	**520.6**	477.3	**1,169.1**	955.7
Discontinued operations, net	**(8.9)**	(2.4)	**(6.7)**	(7.4)
Net income attributable to Loews common stock	**511.7**	474.9	**1,162.4**	948.3
Net income attributable to Carolina Group stock	**141.7**	93.8	**259.3**	161.4
Consolidated net income	**$ 653.4**	$ 568.7	**$ 1,421.7**	$ 1,109.7
Net income per share:				
Loews common stock				
Income from continuing operations	**$ 0.97**	$ 0.85	**$ 2.16**	$ 1.71
Discontinued operations, net	**(0.02)**		**(0.01)**	(0.01)
Loews common stock	**$ 0.95**	$ 0.85	**$ 2.15**	$ 1.70
Carolina Group stock	**$ 1.30**	$ 1.09	**$ 2.39**	$ 1.96

(a) Includes a gain of $91.6 million, for the six months ended June 30, 2007, related to a reduction in the Company's ownership interest in Diamond Offshore from the conversion of Diamond Offshore's 1.5% convertible debt into Diamond Offshore common stock.

Consolidated net income (including both the Loews Group and Carolina Group) for the 2007 second quarter was $653.4 million, compared to $568.7 million in the 2006 second quarter. Consolidated net income for the six months ended June 30, 2007 was $1,421.7 million, compared to $1,109.7 million in the prior year.

Net income attributable to Loews common stock for the second quarter of 2007 amounted to $511.7 million, or $0.95 per share, compared to $474.9 million, or $0.85 per share in the comparable period of the prior year. The increase in net income reflects improved results at Diamond Offshore and increased investment income, partially offset by increased net investment losses and a decrease in the share of Carolina Group earnings attributable to Loews common stock, due to the sale of Carolina Group stock in August and May of 2006.

Net income attributable to Loews common stock includes net investment losses of $78.6 million (after tax and minority interest) in the second quarter of 2007 compared to net investment losses of $55.0 million (after tax and minority interest) in the comparable period of the prior year. The net investment losses in the second quarter of 2007 were primarily driven by an increase in interest rate related other-than-temporary impairment losses, which was partially offset by an increase in net realized results on derivative securities.

Net income per share of Carolina Group stock for the second quarter of 2007 was $1.30 per share, compared to $1.09 per share in the comparable period of the prior year. The increase in net income per share of Carolina Group stock was due to an increase in Lorillard, Inc. net income primarily from higher effective unit prices resulting from a December 2006 price increase and lower promotion expenses (accounted for as a reduction to net sales), partially offset by an increase in expenses for the State Settlement Agreements. The Company is issuing a separate press release reporting the results of the Carolina Group for the second quarter of 2007.

Net income attributable to Loews common stock for the first half of 2007 amounted to $1,162.4 million, or $2.15 per share, compared to $948.3 million, or $1.70 per share in the comparable period of the prior year. The increase in net income reflects improved results at Diamond Offshore and increased investment income, partially offset by net investment losses and a decrease in the share of Carolina Group earnings attributable to Loews common stock, due to the sale of Carolina Group stock in August and May of 2006.

Net income attributable to Loews common stock includes net investment losses of $3.6 million (after tax and minority interest) in the first half of 2007 compared to net investment losses of $58.6 million (after tax and minority interest) in the comparable period of the prior year. The net investment losses in the first half of 2007 were primarily driven by an increase in interest rate related other-than-temporary impairment losses, which was partially offset by an increase in net realized results on derivative securities and a gain of $91.6 million (after tax) related to a reduction in the Company's ownership interest in Diamond Offshore from the conversion of Diamond Offshore's 1.5% convertible debt into Diamond Offshore common stock.

Net income per share of Carolina Group stock for the first half of 2007 was $2.39 per share, compared to $1.96 per share in the comparable period of the prior year. The increase in net income per share of Carolina Group stock was due to an increase in Lorillard, Inc. net income primarily from higher effective unit prices resulting from a December 2006 price increase and lower promotion expenses (accounted for as a reduction to net sales), partially offset by an increase in expenses for the State Settlement Agreements.

Classes of Common Stock

Our Company has two classes of common stock, Carolina Group stock and Loews common stock. Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of our assets and liabilities referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are:

- our 100% stock ownership interest in Lorillard, Inc.;
- notional, intergroup debt owed by the Carolina Group to the Loews Group ($978.0 million outstanding at June 30, 2007), bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and
- any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco-related businesses.

Loews common stock represents the economic performance of the Company's remaining assets, including the interest in the Carolina Group not represented by Carolina Group stock.

As of June 30, 2007, the outstanding Carolina Group stock represents a 62.4% economic interest in the performance of the Carolina Group. The Loews Group consists of all of our assets and liabilities other than the 62.4% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group. The Loews Group's intergroup interest in the earnings of the Carolina Group declined from 52.1% to 37.6% for the six months ended June 30, 2007, as compared to 2006, due to the sales of Carolina Group stock by Loews in May and August of 2006.

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, our board of directors could, in its sole discretion, occasionally make determinations or implement policies that disproportionately affect the groups or the different classes of stock. For example, our board of directors may decide to reallocate assets, liabilities, revenues, 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 our 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 our 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 our 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 our common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in us.

Parent Company Structure

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

At June 30, 2007, the book value per share of Loews common stock was $31.54, compared to $30.14 at December 31, 2006.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

- Insurance Reserves
- Reinsurance
- Tobacco and Other Litigation
- Valuation of Investments and Impairment of Securities
- Long Term Care Products
- Pension and Postretirement Benefit Obligations

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates and the Reserves-Estimates and Uncertainties sections of our Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of our Form 10-K for the year ended December 31, 2006 for further information.

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.

CNA manages its property and casualty operations in two operating segments which represent CNA's core operations: Standard Lines and Specialty Lines. The non-core operations are managed in the Life and Group Non-Core and Other Insurance segments. Standard Lines includes standard property and casualty coverages sold to small and middle market commercial businesses primarily through an independent agency distribution system, and excess and surplus lines, as well as insurance and risk management products sold to large corporations in the U.S., as well as globally. Specialty Lines includes professional, financial and specialty property and casualty products and services. Life and Group Non-Core primarily includes the results of the life and group lines of business sold or placed in run-off. Other Insurance includes the results of certain property and casualty lines of business placed in run-off. This segment also includes the results related to the centralized adjusting and settlement of asbestos, environmental pollution and mass tort ("APMT") claims as well as the results of CNA's participation in voluntary insurance pools, which are primarily in run-off, and various other non-insurance operations.

Segment Results

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

Standard Lines

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions, except %)				
Net written premiums	**$ 1,134.0**	$ 1,163.0	**$ 2,215.0**	$ 2,273.0
Net earned premiums	**1,055.0**	1,096.0	**2,115.0**	2,182.0
Net investment income	**277.4**	238.0	**535.9**	466.3
Net operating income	**166.4**	152.1	**324.8**	273.8
Net realized investment gains (losses)	**(40.3)**	(21.7)	**(56.6)**	(13.6)
Net income	**126.1**	130.4	**268.2**	260.2
Ratios:				
Loss and loss adjustment expense	**67.4%**	67.6%	**68.5%**	69.7%
Expense	**32.3**	31.1	**30.7**	31.1
Dividend	**(0.3)**	0.4		0.4
Combined	**99.4%**	99.1%	**99.2%**	101.2%

Three Months Ended June 30, 2007 Compared to 2006

Net written premiums for Standard Lines decreased $29.0 million for the three months ended June 30, 2007, as compared with the same period in 2006. Premiums written were impacted by unfavorable premium development in 2007, as compared to favorable premium development in 2006, as well as decreased production. Net earned premiums decreased $41.0 million for the three months ended June 30, 2007, as compared with the same period in 2006, consistent with the decreased premiums written.

Standard Lines averaged rate decreases of 3.0% for the three months ended June 30, 2007, as compared to flat averaged rates for the three months ended June 30, 2006 for the contracts that renewed during those periods. Retention rates of 82.0% were achieved for those contracts that were available for renewal in each period.

Net income decreased $4.3 million for the three months ended June 30, 2007, as compared with the same period in 2006. This decrease was primarily attributable to higher net realized investment losses, substantially offset by improved net operating income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $14.3 million for the three months ended June 30, 2007, as compared with the same period in 2006. This increase was primarily driven by increased net investment income, partially offset by increased catastrophe losses. Catastrophe losses were $7.1 million after-tax and minority interest in the second quarter of 2007, as compared to $2.7 million after-tax and minority interest in the same period of 2006.

The combined ratio increased 0.3 points for the three months ended June 30, 2007, as compared with the same period in 2006. The loss ratio improved 0.2 points primarily due to the favorable impact of net prior year loss development as discussed below, partially offset by increased catastrophe losses and higher current accident year loss ratios related to the declining rate environment.

The expense ratio increased 1.2 points for the three months ended June 30, 2007, as compared with the same period in 2006. The expense ratio was unfavorably impacted by increased underwriting costs and the impact of declining earned premiums.

The dividend ratio improved 0.7 points for the three months ended June 30, 2007, as compared with the same period in 2006 due to favorable dividend development in the workers' compensation line of business.

Favorable net prior year development of $19.0 million was recorded for the three months ended June 30, 2007, including $33.0 million of favorable claim and allocated claim adjustment expense reserve development and $14.0 million of unfavorable premium development. Favorable net prior year development of $19.0 million, including $5.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $24.0 million of favorable premium development, was recorded for the three months ended June 30, 2006. Further information on Standard Lines net prior year development for the three months ended June 30, 2007 and 2006 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Six Months Ended June 30, 2007 Compared to 2006

Net written premiums for Standard Lines decreased $58.0 million for the six months ended June 30, 2007, as compared with the same period in 2006. Premiums written were unfavorably impacted by less favorable premium development and decreased production. Net earned premiums decreased $67.0 million for the six months ended June 30, 2007, as compared with the same period in 2006, consistent with the decreased premiums written.

Standard Lines averaged rate decreases of 3.0% for the six months ended June 30, 2007, as compared to flat averaged rates for the six months ended June 30, 2006 for the contracts that renewed during those periods. Retention rates of 81.0% were achieved for those contracts that were available for renewal in each period.

Net income increased $8.0 million for the six months ended June 30, 2007, as compared with the same period in 2006. This increase was attributable to improved net operating results, partially offset by decreased net realized investment results. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $51.0 million for the six months ended June 30, 2007, as compared with the same period in 2006. This increase was primarily driven by increased net investment income, increased favorable net prior year development and lower acquisition expenses. These increases to net operating income were partially offset by increased catastrophe losses. Catastrophe losses were $24.0 million after-tax and minority interest for the six months ended June 30, 2007, as compared to $10.0 million after-tax and minority interest in the same period of 2006.

The combined ratio improved 2.0 points for the six months ended June 30, 2007, as compared with the same period in 2006. The loss ratio improved 1.2 points primarily due to the favorable impact of net prior year loss development as discussed below, partially offset by increased catastrophe losses and higher current accident year loss ratios related to the declining rate environment. The expense ratio improved 0.4 points for the six months ended June 30, 2007, as compared with the same period in 2006.

The dividend ratio improved 0.4 points for the six months ended June 30, 2007, as compared with the same period in 2006 due to favorable dividend development in the workers' compensation line of business.

Favorable net prior year development of $33.0 million was recorded for the six months ended June 30, 2007, including $20.0 million of favorable claim and allocated claim adjustment expense reserve development and $13.0 million of favorable premium development. Favorable net prior year development of $9.0 million, including $64.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $73.0 million of favorable premium development, was recorded for the six months ended June 30, 2006. Further information on Standard Lines net prior year development for the six months ended June 30, 2007 and 2006 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of June 30, 2007 and December 31, 2006 for Standard Lines.

(In millions)	June 30, 2007	December 31, 2006
Gross Case Reserves	**$ 6,805.0**	$ 6,746.0
Gross IBNR Reserves	**7,981.0**	8,188.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 14,786.0**	$ 14,934.0
Net Case Reserves	**$ 5,312.0**	$ 5,234.0
Net IBNR Reserves	**6,533.0**	6,632.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 11,845.0**	$ 11,866.0

Specialty Lines

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except %)	**2007**	2006	**2007**	2006
Net written premiums	**$ 639.0**	$ 625.0	**$ 1,289.0**	$ 1,273.0
Net earned premiums	**657.0**	633.0	**1,305.0**	1,261.0
Net investment income	**120.4**	99.4	**230.4**	186.4
Net operating income	**122.0**	100.3	**227.3**	204.0
Net realized investment gains (losses)	**(16.8)**	(7.8)	**(22.8)**	(6.0)
Net income	**105.2**	92.5	**204.5**	198.0
Ratios:				
Loss and loss adjustment expense	**60.9%**	61.2%	**61.2%**	60.2%
Expense	**26.0**	27.2	**26.4**	26.8
Dividend	**0.2**	0.1	**0.2**	0.1
Combined	**87.1%**	88.5%	**87.8%**	87.1%

Three Months Ended June 30, 2007 Compared to 2006

Net written premiums for Specialty Lines increased $14.0 million for the three months ended June 30, 2007, as compared to the same period in 2006. Premiums written were unfavorably impacted by decreased production as compared to the second quarter of 2006. This unfavorable impact was more than offset by decreased ceded premiums. The US Specialty Lines reinsurance structure was primarily quota share reinsurance through April 2007. CNA elected not to renew this coverage upon its expiration. With its current diversification in the previously reinsured lines of business and management of the gross limits on the business written, CNA did not believe the cost of renewing the program was commensurate with its projected benefit. Net earned premiums increased $24.0 million for the three months ended June 30, 2007, as compared with the same period in 2006, which reflects the increased net premiums over the past several quarters in Specialty Lines.

Specialty Lines averaged rate decreases of 5.0% for the three months ended June 30, 2007, as compared to averaged rate increases of 1.0% for the three months ended June 30, 2006 for the contracts that renewed during those periods. Retention rates of 83.0% and 88.0% were achieved for those contracts that were available for renewal in each period.

Net income increased $12.7 million for the three months ended June 30, 2007, as compared with the same period in 2006. This increase was attributable to increased net operating income, partially offset by higher net realized investment losses. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $21.7 million for the three months ended June 30, 2007, as compared with the same period in 2006. This increase was primarily driven by an increase in net investment income and favorable experience in the warranty line of business.

The combined ratio improved 1.4 points for the three months ended June 30, 2007, as compared with the same period in 2006. The expense ratio improved 1.2 points for the three months ended June 30, 2007, as compared with the same period in 2006. The improvement was primarily due to a change in estimate related to dealer profit commissions in the warranty line of business.

Unfavorable net prior year development of $1.0 million, including $1.0 million of favorable claim and allocated claim adjustment expense reserve development and $2.0 million of unfavorable premium development, was recorded for the three months ended June 30, 2007. There was $2.0 million of favorable claim and allocated claim adjustment expense reserve development and $2.0 million of unfavorable premium development, resulting in no net prior year development for the three months ended June 30, 2006.

Six Months Ended June 30, 2007 Compared to 2006

Net written premiums for Specialty Lines increased $16.0 million and net earned premiums increased $44.0 million for the six months ended June 30, 2007, as compared with the same period in 2006, consistent with the reasons discussed in the three month comparison above.

Specialty Lines averaged rate decreases of 4.0% for the six months ended June 30, 2007, as compared to averaged rate increases of 1.0% for the six months ended June 30, 2006 for the contracts that renewed during those periods. Retention rates of 84.0% and 88.0% were achieved for those contracts that were available for renewal in each period.

Net income increased $6.5 million for the six months ended June 30, 2007, as compared with the same period in 2006. This increase was primarily due to increased net operating income, partially offset by higher net realized investment losses. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $23.3 million for the six months ended June 30, 2007, as compared with the same period in 2006. This increase in net operating income was primarily due to the reasons discussed in the three month comparison above.

The combined ratio increased 0.7 points for the six months ended June 30, 2007, as compared with the same period in 2006. The loss ratio increased 1.0 point, primarily due to higher current accident year loss ratios across several lines of business related to the declining rate environment.

The expense ratio improved 0.4 points for the six months ended June 30, 2007, as compared with the same period in 2006. This improvement in the expense ratio is primarily due to a change in estimate related to dealer profit commissions in the warranty line of business.

Favorable net prior year development of $1.0 million, including $6.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $7.0 million of favorable premium development, was recorded for the six months ended June 30, 2007. Favorable net prior year development of $3.0 million, including $3.0 million of unfavorable claim and allocated claim adjustment expense reserve development and $6.0 million of favorable premium development, was recorded for the six months ended June 30, 2006.

The following table summarizes the gross and net carried reserves as of June 30, 2007 and December 31, 2006 for Specialty Lines.

(In millions)	**June 30, 2007**	December 31, 2006
Gross Case Reserves	**$ 1,702.0**	$ 1,715.0
Gross IBNR Reserves	**4,143.0**	3,814.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 5,845.0**	$ 5,529.0
Net Case Reserves	**$ 1,358.0**	$ 1,350.0
Net IBNR Reserves	**3,130.0**	2,921.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 4,488.0**	$ 4,271.0

Life and Group Non-Core

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Net earned premiums	**$ 157.0**	$ 159.0	**$ 313.0**	$ 322.0
Net investment income	**188.4**	137.5	**349.4**	324.6
Net operating income	**(12.1)**	4.1	**(9.8)**	1.5
Net realized investment losses	**(10.1)**	(20.2)	**(9.8)**	(27.1)
Net income (loss)	**(22.2)**	(16.1)	**(19.6)**	(25.6)

Three Months Ended June 30, 2007 Compared to 2006

Net earned premiums for Life and Group Non-Core decreased $2.0 million for the three months ended June 30, 2007, as compared with the same period in 2006. The net earned premiums relate primarily to the group and individual long term care businesses.

Net results decreased $6.1 million for the three months ended June 30, 2007, as compared with the same period in 2006. The decrease in net results was primarily due to a decline in results for life settlement contracts and unfavorable prior year loss development in the group reinsurance business. In addition, the favorable resolution of certain contingencies impacted net results less favorably in 2007, as compared to 2006. Partially offsetting these unfavorable impacts was lower net realized investment losses. The increase in net investment income was more than offset by a corresponding increase in the policyholders' funds reserves supported by the trading portfolio. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Six Months Ended June 30, 2007 Compared to 2006

Net earned premiums for Life and Group Non-Core decreased $9.0 million for the six months ended June 30, 2007, as compared with the same period in 2006.

Net results increased $6.0 million for the six months ended June 30, 2007, as compared with the same period in 2006. The increase in net results was primarily due to lower net realized investment losses, partially offset by the unfavorable items discussed in the three month comparison. The increase in net investment income was offset by a corresponding increase in the policyholders' funds reserves supported by the trading portfolio.

Other Insurance

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Net investment income	**$ 86.0**	$ 77.0	**$ 164.0**	$ 145.0
Revenues	**55.6**	57.2	**139.7**	108.8
Net operating income	**8.6**	24.9	**17.6**	19.2
Net realized investment gains (losses)	**(13.4)**	(8.2)	**(3.8)**	(10.7)
Net income (loss)	**(4.8)**	16.7	**13.8**	8.5

Three Months Ended June 30, 2007 Compared to 2006

Revenues decreased $1.6 million for the three months ended June 30, 2007, as compared with the same period in 2006. Revenues decreased due to net realized investment results, offset by increased net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net results decreased $21.5 million for the three months ended June 30, 2007, as compared with the same period in 2006. Net income for the second quarter of 2006 included a release of a restructuring accrual. Net results for the second quarter of 2007 included an increase of interest costs on corporate debt and increased current accident year losses related to mass torts as compared to the prior year period.

Unfavorable net prior year development of $7.0 million was recorded for the three months ended June 30, 2007, including $12.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $5.0 million of favorable premium development. Unfavorable net prior year development of $2.0 million, including $5.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $3.0 million of favorable premium development, was recorded for the three months ended June 30, 2006. Further information on Other Insurance net prior year development for the three months ended June 30, 2007 and 2006 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements under Item 1.

Six Months Ended June 30, 2007 Compared to 2006

Revenues increased $30.9 million for the six months ended June 30, 2007, as compared with the same period in 2006. The increase in revenues was primarily due to increased net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net income increased $5.3 million for the six months ended June 30, 2007, as compared with the same period in 2006. The increase was primarily due to increased revenues, decreased net prior year development and a loss in 2006 related to a commutation. These favorable impacts were partially offset by the items discussed in the three month comparison above.

Unfavorable net prior year development of $9.0 million was recorded for the six months ended June 30, 2007, including $12.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $3.0 million of favorable premium development. Unfavorable net prior year development of $16.0 million, including $12.0 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $4.0 million of unfavorable premium development, was recorded for the six months ended June 30, 2006. Further information on Other Insurance net prior year development for the six months ended June 30, 2007 and 2006 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements under Item 1.

The following table summarizes the gross and net carried reserves as of June 30, 2007 and December 31, 2006 for Other Insurance.

	June 30, 2007	December 31, 2006
(In millions)		
Gross Case Reserves	**$ 2,390.0**	$ 2,511.0
Gross IBNR Reserves	**3,091.0**	3,528.0
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 5,481.0**	$ 6,039.0
Net Case Reserves	**$ 1,423.0**	$ 1,453.0
Net IBNR Reserves	**1,818.0**	1,999.0
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 3,241.0**	$ 3,452.0

APMT Reserves

CNA’s property and casualty insurance subsidiaries have actual and potential exposures related to APMT claims.

Establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial, and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required on CNA’s part. Accordingly, a high degree of uncertainty remains for CNA’s ultimate liability for APMT claim and claim adjustment expenses.

In addition to the difficulties described above, estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others: the number and outcome of direct actions against CNA; coverage issues, including whether certain costs are covered under the policies and whether policy limits apply; allocation of liability among numerous parties, some of whom may be in bankruptcy proceedings, and in particular the application of “joint and several” liability to specific insurers on a risk; inconsistent court decisions and developing legal theories; continuing aggressive tactics of plaintiffs’ lawyers; the risks and lack of predictability inherent in major litigation; enactment of state and federal legislation to address asbestos claims; the potential for increases and decreases in asbestos, environmental pollution and mass tort claims which cannot now be anticipated; the potential for increases and decreases in costs to defend asbestos, pollution and mass tort claims; the possibility of expanding theories of liability against CNA’s policyholders in environmental and mass tort matters; possible exhaustion of underlying umbrella and excess coverage; and future developments pertaining to CNA’s ability to recover reinsurance for asbestos, pollution and mass tort claims.

Due to the inherent uncertainties in estimating claim and claim adjustment expense reserves for APMT and due to the significant uncertainties described related to APMT claims, CNA’s ultimate liability for these cases, both individually and in aggregate, may exceed the recorded reserves. Any such potential additional liability, or any range of potential additional amounts, cannot be reasonably estimated currently, but could be material to CNA’s business, insurer financial strength and debt ratings and our results of operations and equity. Due to, among other things, the factors described above, it may be necessary for CNA to record material changes in its APMT claim and claim adjustment expense reserves in the future, should new information become available or other developments emerge.

CNA has annually performed ground up reviews of all open APMT claims to evaluate the adequacy of its APMT reserves. In performing the comprehensive ground up analysis, CNA considers input from its professionals with direct responsibility for the claims, inside and outside counsel with responsibility for its representation and its actuarial staff. These professionals consider, among many factors, the policyholder’s present and predicted future exposures, including such factors as claims volume, trial conditions, prior settlement history, settlement demands and defense costs; the impact of asbestos defendant bankruptcies on the policyholder; facts or allegations regarding the policies CNA issued or are alleged to have issued, including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles; the policyholders’ allegations; the existence of other insurance; and reinsurance arrangements.

Further information on APMT claim and claim adjustment expense reserves and net prior year development is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Asbestos

In the past several years, CNA experienced, at certain points in time, significant increases in claim counts for asbestos-related claims. The factors that led to these increases included, among other things, intensive advertising campaigns by lawyers for asbestos claimants, mass medical screening programs sponsored by plaintiff lawyers and the addition of new defendants such as the distributors and installers of products containing asbestos. In recent years, the rate of new filings has decreased. Various challenges to mass screening claimants have been successful. Historically, the majority of asbestos bodily injury claims have been filed by persons exhibiting few, if any, disease symptoms. Studies have concluded that the percentage of unimpaired claimants to total claimants ranges between 66.0% and up to 90.0%. Some courts and some state statutes mandate that so-called “unimpaired” claimants may not recover unless at some point the claimant’s condition worsens to the point of impairment. Some plaintiffs classified as “unimpaired” continue to challenge those orders and statutes. Therefore, the ultimate impact of the orders and statutes on future asbestos claims remains uncertain.

Several factors are, in CNA’s view, negatively impacting asbestos claim trends. Plaintiff attorneys who previously sued entities that are now bankrupt continue to seek other viable targets. As a result, companies with few or no previous asbestos claims are becoming targets in asbestos litigation and, although they may have little or no liability, nevertheless must be defended. Additionally, plaintiff attorneys and trustees for future claimants are demanding that policy limits be paid lump-sum into the bankruptcy asbestos trusts prior to presentation of valid claims and medical proof of these claims. Various challenges to these practices have succeeded in litigation, and are continuing to be litigated. Plaintiff attorneys and trustees for future claimants are also attempting to devise claims payment procedures for bankruptcy trusts that would allow asbestos claims to be paid under lax standards for injury, exposure and causation. This also presents the potential for exhausting policy limits in an accelerated fashion. Challenges to these practices are being mounted, though the ultimate impact or success of these tactics remains uncertain.

As a result of bankruptcies and insolvencies, CNA had in the past observed an increase in the total number of policyholders with current asbestos claims as additional defendants were added to existing lawsuits and were named in new asbestos bodily injury lawsuits. During the last few years the rate of new bodily injury claims had moderated and most recently the new claims filing rate has decreased although the number of policyholders claiming coverage for asbestos related claims has remained relatively constant in the past several years.

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

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

CNA has also used coverage in place agreements to resolve large asbestos exposures. Coverage in place agreements are typically agreements between CNA and its policyholders identifying the policies and the terms for payment of asbestos related liabilities. Claims payments are contingent on presentation of adequate documentation showing exposure during the policy periods and other documentation supporting the demand for claims payment. Coverage in place agreements may have annual payment caps. Coverage in place agreements are evaluated based on claims filings trends and severities.

CNA categorizes active asbestos accounts as large or small accounts. CNA defines a large account as an active account with more than $100,000 of cumulative paid losses. CNA has made resolving large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less of cumulative paid losses. Approximately 81.8% and 83.1% of CNA’s total active asbestos accounts are classified as small accounts at June 30, 2007 and December 31, 2006.

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

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

The tables below depict CNA's overall pending asbestos accounts and associated reserves at June 30, 2007 and December 31, 2006.

June 30, 2007	**Number of Policyholders**	**Net Paid Losses**	**Net Asbestos Reserves**	**Percent of Asbestos Net Reserves**
(In millions of dollars)				
Policyholders with settlement agreements				
Structured settlements	**14**	**$ 19.0**	**$ 167.0**	**12.2%**
Wellington	**3**	**2.0**	**12.0**	**0.9**
Coverage in place	**36**	**39.0**	**85.0**	**6.2**
Total with settlement agreements	**53**	**60.0**	**264.0**	**19.3**
Other policyholders with active accounts				
Large asbestos accounts	**231**	**24.0**	**216.0**	**15.8**
Small asbestos accounts	**1,038**		**87.0**	**6.4**
Total other policyholders	**1,269**	**24.0**	**303.0**	**22.2**
Assumed reinsurance and pools		**5.0**	**137.0**	**10.0**
Unassigned IBNR			**662.0**	**48.5**
Total	**1,322**	**$ 89.0**	**$ 1,366.0**	**100.0%**

December 31, 2006				
Policyholders with settlement agreements				
Structured settlements	15	$ 22.0	$ 171.0	11.8%
Wellington	3	(1.0)	14.0	1.0
Coverage in place	38	(18.0)	132.0	9.0
Total with settlement agreements	56	3.0	317.0	21.8
Other policyholders with active accounts				
Large asbestos accounts	220	76.0	254.0	17.5
Small asbestos accounts	1,080	17.0	101.0	7.0
Total other policyholders	1,300	93.0	355.0	24.5
Assumed reinsurance and pools		6.0	141.0	9.7
Unassigned IBNR			639.0	44.0
Total	1,356	$ 102.0	$ 1,452.0	100.0%

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

As a result of the uncertainties and complexities involved, reserves for asbestos claims cannot be estimated with traditional actuarial techniques that rely on historical accident year loss development factors. In establishing asbestos reserves, CNA evaluates the exposure presented by each insured. As part of this evaluation, CNA considers the available insurance coverage; limits and deductibles; the potential role of other insurance, particularly underlying coverage below any of its excess liability policies; and applicable coverage defenses, including asbestos exclusions. Estimation of asbestos-related claim and claim adjustment expense reserves involves a high degree of judgment on CNA's part and consideration of many complex factors, including: inconsistency of court decisions, jury attitudes and future court decisions; specific policy provisions; allocation of liability among insurers and insureds; missing policies and proof of coverage; the proliferation of bankruptcy proceedings and attendant uncertainties; novel theories asserted by policyholders and their counsel; 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; volatility in claim numbers and settlement demands; increases in the number of non-impaired claimants and the extent to which they can be precluded from making claims; the efforts by insureds to obtain coverage not subject to aggregate limits; long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims; medical inflation trends; the mix of asbestos-related diseases presented and the ability to recover reinsurance.

CNA is involved in significant asbestos-related claim litigation, which is described in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Environmental Pollution and Mass Tort

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 has been 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 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 CNA for defense costs and indemnification in connection with environmental pollution matters. The vast majority of 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 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.

CNA has made resolution of large environmental pollution exposures a management priority. CNA has resolved a number of its large environmental accounts by negotiating settlement agreements. In its settlements, CNA sought to resolve those exposures and obtain the broadest release language to avoid future claims from the same policyholders seeking coverage for sites or claims that had not emerged at the time CNA settled with its policyholder. While the terms of each settlement agreement vary, CNA sought to obtain broad environmental releases that include known and unknown sites, claims and policies. The broad scope of the release provisions contained in those settlement agreements should, in many cases, prevent future exposure from settled policyholders. It remains uncertain, however, whether a court interpreting the language of the settlement agreements will adhere to the intent of the parties and uphold the broad scope of language of the agreements.

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

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

CNA categorizes active accounts as large or small accounts in the pollution area. CNA defines a large account as an active account with more than $100,000 cumulative paid losses. CNA has made closing large accounts a significant management priority. Small accounts are defined as active accounts with $100,000 or less cumulative paid losses. Approximately 76.0% and 75.1% of CNA’s total active pollution accounts are classified as small accounts as of June 30, 2007 and December 31, 2006.

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

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

The tables below depict CNA's overall pending environmental pollution accounts and associated reserves at June 30, 2007 and December 31, 2006.

June 30, 2007	**Number of Policyholders**	**Net Paid Losses**	**Net Environmental Pollution Reserves**	**Percent of Environmental Pollution Net Reserve**
(In millions of dollars)				
Policyholders with Settlement Agreements				
Structured settlements	**8**	**$ 5.0**	**$ 6.0**	**2.3%**
Coverage in place	**19**	**3.0**	**10.0**	**3.7**
Total with Settlement Agreements	**27**	**8.0**	**16.0**	**6.0**
Other Policyholders with Active Accounts				
Large pollution accounts	**105**	**10.0**	**56.0**	**21.1**
Small pollution accounts	**332**	**2.0**	**45.0**	**17.0**
Total Other Policyholders	**437**	**12.0**	**101.0**	**38.1**
Assumed Reinsurance & Pools			**32.0**	**12.1**
Unassigned IBNR			**116.0**	**43.8**
Total	**464**	**$ 20.0**	**$ 265.0**	**100.0%**
December 31, 2006				
Policyholders with Settlement Agreements				
Structured settlements	11	$ 16.0	$ 9.0	3.2%
Coverage in place	18	5.0	14.0	4.9
Total with Settlement Agreements	29	21.0	23.0	8.1
Other Policyholders with Active Accounts				
Large pollution accounts	115	20.0	58.0	20.4
Small pollution accounts	346	9.0	46.0	16.1
Total Other Policyholders	461	29.0	104.0	36.5
Assumed Reinsurance & Pools		1.0	32.0	11.2
Unassigned IBNR			126.0	44.2
Total	490	$ 51.0	$ 285.0	100.0%

Lorillard

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

The following table summarizes the results of operations for Lorillard for the three and six months ended June 30, 2007 and 2006 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Manufactured products	**$ 1,055.4**	$ 977.3	**$ 1,968.4**	$ 1,832.1
Net investment income	**24.5**	19.4	**56.0**	44.2
Investment (losses) gains			**0.1**	(0.6)
Other		0.1	**0.4**	0.1
Total	**1,079.9**	996.8	**2,024.9**	1,875.8
Expenses:				
Cost of sales	**613.5**	552.6	**1,157.8**	1,064.3
Other operating	**85.4**	108.9	**167.2**	201.7
Total	**698.9**	661.5	**1,325.0**	1,266.0
	381.0	335.3	**699.9**	609.8
Income tax expense	**142.3**	131.1	**259.2**	237.2
Net income	**$ 238.7**	$ 204.2	**$ 440.7**	$ 372.6

Revenues increased by $83.1 million and $149.1 million, or 8.3% and 7.9%, and net income increased by $34.5 million and $68.1 million, or 16.9% and 18.3%, in the three and six months ended June 30, 2007, as compared to the corresponding periods of 2006.

The increase in revenues in the three months ended June 30, 2007, as compared to the corresponding period of 2006, is due to higher net sales of $78.1 million and higher investment income of $5.1 million. Net sales revenue increased $36.1 million due to higher average unit prices resulting from a December 2006 price increase, $19.6 million due to higher effective unit prices reflecting lower sales promotion expenses and $22.4 million due to a 3.6% increase in unit sales volume, assuming prices were unchanged from the prior year.

Net income increased in the three months ended June 30, 2007, as compared to the corresponding period of 2006, due primarily to the higher revenues discussed above, lower other operating expenses and lower income tax expense, partially offset by a $14.8 million increase in promotional expenses included in cost of sales and higher State Settlement Agreement costs as described below. Other operating expenses in 2006 included $15.5 million of costs related to a restructuring of the sales organization. Income tax expense in 2007 was $6.7 million lower due to the statutory increase in the tax benefit related to the manufacturer's deduction.

Lorillard recorded pretax charges of $275.2 million and $236.5 million ($172.4 million and $144.0 million after taxes) for the three months ended June 30, 2007 and 2006, respectively, to record its obligations under settlement agreements entered into between the major cigarette manufacturers, including Lorillard, and each of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and certain U.S. territories (together, the "State Settlement Agreements"). Lorillard's portion of ongoing adjusted settlement payments and related 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 portion of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. The $38.7 million pretax increase in tobacco settlement costs in the three months ended June 30, 2007 is due to an increase in the base payment ($27.0 million) effective January 1, 2007, the impact of the inflation adjustment ($9.9 million) and higher gross unit sales ($9.8 million), partially offset by other adjustments ($8.0 million) under the State Settlement Agreements.

The increase in revenues in the six months ended June 30, 2007, as compared to the corresponding period of 2006, is due to higher net sales of $136.3 million and higher investment income of $12.5 million. Net sales revenue increased $74.3 million due to higher average unit prices resulting from a December 2006 price increase, $54.5 million due to higher effective unit prices reflecting lower sales promotion expenses and $7.5 million due to a 1.4% increase in unit sales volume, assuming prices were unchanged from the prior year.

Net income increased in the six months ended June 30, 2007, as compared to the corresponding period of 2006, due primarily to the higher revenues discussed above, lower other operating expenses and lower income tax expense, partially offset by an $18.9 million increase in promotional expenses included in cost of sales and higher State Settlement Agreement costs as described below. Other operating expenses in 2006 included $15.5 million of costs related to a restructuring of the sales organization. Income tax expense in 2007 was $13.1 million lower due to the statutory increase in the tax benefit related to the manufacturer's deduction.

Lorillard recorded pretax charges of $524.3 million and $453.5 million ($330.1 million and $277.1 million after taxes) for the six months ended June 30, 2007 and 2006, respectively, to record its obligations under the State Settlement Agreements. The $70.8 million pretax increase in tobacco settlement costs in the six months ended June 30, 2007 is due to an increase in the base payment ($50.9 million) effective January 1, 2007, the impact of the inflation adjustment ($18.6 million) and higher gross unit sales ($7.3 million), partially offset by other adjustments ($6.0 million) under the State Settlement Agreements.

Lorillard regularly reviews results of its promotional spending activities and adjusts its promotional spending programs in an effort to maintain its competitive position. Accordingly, unit sales volume and sales promotion costs in any particular quarter are not necessarily indicative of sales and costs that may be realized in subsequent periods.

Overall, domestic industry unit sales volume decreased 4.6% and 5.3% in the three and six months ended June 30, 2007, as compared with the corresponding periods of 2006. Industry sales for premium brands were 73.7% and 73.4% of the total market in the three and six months ended June 30, 2007, as compared to 72.1% and 72.0% in the corresponding periods of 2006.

Lorillard's total (domestic, Puerto Rico and certain U.S. Territories) gross unit sales volume increased 3.6% and 1.4% in the three and six months ended June 30, 2007, as compared to the corresponding period of 2006. Domestic wholesale volume increased 3.6% and 1.4% in the three and six months ended June 30, 2007, as compared to the corresponding periods of 2006. Total Newport unit sales volume increased 4.2% and 1.9% in the three and six months ended June 30, 2007, as compared with the corresponding periods of 2006. Domestic Newport unit sales volume increased 4.3% and 1.9% in the three and six months ended June 30, 2007, as compared with the corresponding periods of 2006. On-going competitive promotions and the availability of deep discount brands continue to affect these results.

Deep discount brands are produced by manufacturers that are subject to lower payment obligations under State Settlement Agreements. This cost advantage enables them to price their brands more than 50% lower than the list prices of premium brand offerings from major manufacturers. As a result of this price differential, deep discount brands have grown from an estimated share in 1998 of less than 1.5 % to an estimated 11.6% for the second quarter of 2007, and continue to be a significant competitive factor in the domestic U.S. market. Deep discount brands decreased by a 0.8 share in the second quarter of 2007, as compared with the corresponding period of 2006.

The costs of litigating and administering product liability claims, as well as other legal expenses, are included in other operating expenses. Lorillard's outside legal fees and other external product liability defense costs were $19.1 million, $18.8 million, $28.2 million and $36.3 million for the three and six months ended June 30, 2007 and 2006, respectively. Numerous factors affect product liability defense costs. The principal factors are as follows:

- the number and types of cases filed and appealed;
- the number of cases tried and appealed;
- the development of the law;
- the application of new or different theories of liability by plaintiffs and their counsel; and
- litigation strategy and tactics.

Please read Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report for detailed information regarding tobacco litigation. The factors that have influenced past product liability defense costs are expected to continue to influence future costs. Although Lorillard does not expect that product liability defense costs will increase significantly in the future, it is possible that adverse developments in the factors discussed above, as well as other circumstances beyond the control of Lorillard, could have a material adverse effect on our financial condition, results of operations or cash flows.

Selected Market Share Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(Units in billions)				
Total domestic Lorillard unit volume (1)	**9.473**	9.142	**17.861**	17.610
Total domestic industry unit volume (1)	**92.652**	97.127	**175.811**	185.616
Lorillard's share of the domestic market (1)	**10.2%**	9.4%	**10.2%**	9.5%
Lorillard's premium segment as a percentage of its total domestic volume (1)	**94.7%**	94.8%	**94.8%**	94.9%
Lorillard's share of the premium segment (1)	**13.1%**	12.4%	**13.1%**	12.5%
Newport share of the domestic market (1)	**9.4%**	8.6%	**9.4%**	8.7%
Newport share of the premium segment (1)	**12.8%**	11.9%	**12.7%**	12.1%
Total menthol segment market share for the industry (2)	**28.3%**	27.4%	**28.4%**	27.7%
Total discount segment market share for the industry (1)	**26.3%**	27.9%	**26.6%**	28.0%
Newport's share of the menthol segment (2)	**33.6%**	32.7%	**33.6%**	32.8%
Newport as a percentage of Lorillard's (3):				
Total volume	**92.2%**	91.6%	**92.3%**	91.8%
Net sales	**93.9%**	93.0%	**93.9%**	93.2%

Sources:
(1) Management Science Associates, Inc.
(2) Lorillard proprietary data
(3) Lorillard shipment reports

Unless otherwise specified, market share data in this MD&A is based on data made available by Management Science Associates, Inc. ("MSAI"), an independent third-party database management organization that collects wholesale shipment data from various cigarette manufacturers. MSAI divides the cigarette market into two price segments, the premium price segment and the discount or reduced price segment. MSAI's information relating to unit sales volume and market share of certain of the smaller, primarily deep discount, cigarette manufacturers is based on estimates derived by MSAI.

Lorillard management continues to believe that volume and market share information for deep discount manufacturers are understated and, correspondingly, share information for the larger manufacturers, including Lorillard, are overstated by MSAI.

Business Environment

The tobacco industry in the United States, including Lorillard, continues to be faced with a number of issues that have impacted or may adversely impact the business, results of operations and financial condition of Lorillard and us, including the following:

- A substantial volume of litigation seeking compensatory and punitive damages ranging into the billions of dollars, as well as equitable and injunctive relief, arising out of allegations of cancer and other health effects resulting from the use of cigarettes, addiction to smoking or exposure to environmental tobacco smoke, including claims for economic damages relating to alleged misrepresentation concerning the use of descriptors such as "lights," as well as other alleged damages. Please read Item 3 – Legal Proceedings of our 2006 Annual Report on Form 10-K and Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report for information with respect to litigation and the State Settlement Agreements.

- Substantial annual payments by Lorillard, continuing in perpetuity, and significant restrictions on marketing and advertising agreed to under the terms of the State Settlement Agreements. The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and place significant restrictions on their ability to market and sell cigarettes.

- The continuing contraction of the U.S. cigarette market, in which Lorillard currently conducts its only significant business. As a result of price increases, restrictions on advertising and promotions, increases in regulation and excise taxes, health concerns, a decline in the social acceptability of smoking, increased pressure from anti-tobacco groups and other factors, U.S. cigarette shipments have decreased at a compound rate of approximately 2.6% over the 12 months ending June 1998 through the 12 months ending June 2007, according to information provided by MSAI.

- Substantial federal, state and local excise taxes which are reflected in the retail price of cigarettes. In the first six months of 2007, the federal excise tax was $0.39 per pack and combined state and local excise taxes ranged from $0.07 to $3.66 per pack. In the first six months of 2007, excise tax increases of $1.00 per pack were implemented in three states. Proposals continue to be made to increase federal, state and local excise taxes, including bills being considered by the U.S. Congress that would increase the federal excise tax on cigarettes by as much as $0.61 per pack to finance health insurance for children. Lorillard believes that increases in excise and similar taxes have had an adverse impact on sales of cigarettes and that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard, and an increased sales shift toward lower priced discount cigarettes rather than premium brands. In addition, Lorillard, other cigarette manufacturers and importers are required to pay an assessment under a federal law designed to fund payments to tobacco quota holders and growers.

- Substantial and increasing regulation of the tobacco industry and governmental restrictions on smoking. Bills have been introduced in the U.S. Congress to grant the Food and Drug Administration ("FDA") authority to regulate tobacco products. Lorillard believes that FDA regulations, if enacted, could among other things result in new restrictions on the manner in which cigarettes can be advertised and marketed, and may alter the way cigarette products are developed and manufactured. Lorillard also believes that any such proposals, if enacted, would provide Philip Morris, as the largest tobacco company in the country, with a competitive advantage.

Boardwalk Pipeline

Boardwalk Pipeline Partners, LP and subsidiaries ("Boardwalk Pipeline"). Boardwalk Pipeline is a 75% owned subsidiary.

The following table summarizes the results of operations for Boardwalk Pipeline for the three and six months ended June 30, 2007 and 2006 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Operating	**$ 153.1**	$ 131.8	**$ 338.9**	$ 306.3
Net investment income	**5.9**	0.7	**10.5**	1.2
Total	**159.0**	132.5	**349.4**	307.5
Expenses:				
Operating	**108.9**	85.3	**202.2**	175.3
Interest	**14.5**	15.2	**31.3**	30.8
Total	**123.4**	100.5	**233.5**	206.1
	35.6	32.0	**115.9**	101.4
Income tax expense	**10.3**	10.9	**35.3**	34.5
Minority interest	**8.9**	4.6	**25.1**	14.7
Net income	**$ 16.4**	$ 16.5	**$ 55.5**	$ 52.2

Boardwalk Pipeline derives revenues primarily from the interstate transportation and storage of natural gas for third parties. Transportation and storage services are provided under firm service and interruptible service agreements. Transportation and storage rates and general terms and conditions of service are established by, and subject to review and revision by, the Federal Energy Regulatory Commission ("FERC").

Under firm transportation agreements, customers generally pay a fixed "capacity reservation" fee to reserve pipeline capacity at certain receipt and delivery points, plus a commodity and fuel charge paid on the volume of gas actually transported. Firm storage customers reserve a specific amount of storage capacity and generally pay a capacity reservation charge based on the amount of capacity being reserved plus an injection and/or withdrawal fee. Capacity reservation revenues derived from a firm service contract is consistent from year to year, but is generally higher in winter peak periods (November through March) than off-peak periods resulting in a seasonal earnings pattern where the majority of earnings are generated in the first and fourth quarters of a calendar year.

Interruptible transportation and storage service is typically short-term in nature and is generally used by customers that either do not need firm service or have been unable to contract for firm service. Customers pay for interruptible services when capacity is used.

Boardwalk Pipeline's parking and lending ("PAL") service is an interruptible service offered to customers providing them the ability to park (inject) or borrow (withdraw) gas into or out of Boardwalk Pipeline's storage facilities at a specific location for a specific period of time. Customers pay for PAL service in advance or on a monthly basis depending on the terms of the agreement.

Operating expenses typically do not vary significantly based upon the amount of gas transported with the exception of gas consumed by Gulf South's compressor stations. Gulf South's fuel recoveries are included as part of transportation revenues.

Total revenues increased by $26.5 million to $159.0 million for the three months ended June 30, 2007, compared to $132.5 million for the three months ended June 30, 2006. Operating revenues increased primarily due to a $7.9 million increase in transportation fees due to higher reservation rates, including $2.5 million associated with the Carthage, Texas to Keatchie, Louisiana pipeline expansion project which was placed in service at the end of 2006. Operating revenues also included a $7.9 million increase driven primarily from higher fuel revenues from system volumes and higher realized gas prices including hedging activity and a $6.7 million increase in PAL and storage revenues mainly due to gas parked by customers during the summer and fall of 2006 for withdrawal during the summer of 2007. Net investment income increased $5.2 million as a result of higher levels of invested cash.

Net income remained flat as compared to the second quarter of 2006, primarily due to the increased revenues discussed above, offset by a $23.6 million increase in operating expenses and a $4.3 million increase in minority interest expense. Operating expenses in the second quarter of 2007 include a $14.7 million loss due to impairment of the Magnolia storage facility discussed below, and a $4.1 million increase in fuel costs primarily due to an increase in gas usage. Operating expenses also reflect a $2.9 million increase resulting from the absence of a prior year benefit for hurricane expense and a $2.7 million increase in operation and maintenance expenses due to engine overhauls, remediation and inline inspections at certain locations. These increases were partially offset by a $2.8 million decline in employee labor and benefit costs as a result of the early retirement plan implemented in the second half of 2006. The increase in minority interest expense is primarily due to the sale of Boardwalk Pipeline common units in the fourth quarter of 2006 and the first quarter of 2007.

Boardwalk Pipeline has been in the process of developing a salt dome storage cavern near Napoleonville, Louisiana. Operational tests which began in May of 2007 and were completed in July indicated that due to anomalies that could not be corrected, Boardwalk Pipeline will be unable to place the cavern in service as expected. As a result, Boardwalk Pipeline has elected to abandon that cavern and is exploring the possibility of securing a new site on which a new cavern could be developed. In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the carrying value of the facilities of approximately $45.1 million was tested for recoverability. In the second quarter of 2007, Boardwalk Pipeline recognized an impairment charge of approximately $14.7 million, representing the carrying value of the cavern, the fair value of which was determined to be zero based on discounted expected future cash flows. The charge was included in Other operating expenses on the Consolidated Condensed Statements of Income. Boardwalk Pipeline expects to use the other assets associated with the project, which include pipeline, compressors, base gas and other equipment and facilities, in conjunction with a replacement storage cavern to be developed. If it is determined in the future that the assets cannot be used in conjunction with a new cavern, Boardwalk Pipeline may be required to record an additional impairment charge at the time that determination is made.

Total revenues increased by $41.9 million to $349.4 million for the six months ended June 30, 2007, compared to $307.5 million for the six months ended June 30, 2006. Operating revenues increased primarily due to a $13.9 million increase in fuel revenues related to an increase in system volumes and higher realized gas prices including hedging activity and $13.8 million increase in transportation fees due to higher reservation rates, including $4.2 million from new contracts associated with the Carthage, Texas to Keatchie, Louisiana pipeline expansion. Operating revenues also included a $9.6 million increase in PAL and storage revenues mainly due to gas parked by customers during the summer and fall of 2006 for withdrawal during the summer of 2007. Net investment income increased $9.3 million as a result of higher levels of invested cash.

Net income increased by $3.3 million to $55.5 million in the first six months of 2007, as compared to $52.2 million in the first six months of 2006, primarily due to the increased revenues discussed above, partially offset by a $26.9 million increase in operating expenses and a $10.4 million increase in minority interest expense. Operating expenses in the first half of 2007 include a $14.7 million loss due to impairment of the Magnolia storage facility and a $3.8 million settlement charge recognized as a result of the early retirement incentive program. The increase in operating expenses also consists of a $3.6 million increase in fuel expense mainly due to higher gas prices and increased gas usage and a $3.5 million increase resulting from the absence of a prior year benefit for hurricane expense. Operating expenses also reflect a $3.2 million increase in property and other taxes resulting primarily from the absence of a prior year benefit for franchise taxes associated with the change in tax status and a $3.0 million increase in operation and maintenance expenses due to engine overhauls, remediation and inline inspections at certain locations. These increases were partially offset by an $8.3 million decline in employee labor and benefit costs as a result of the early retirement plan implemented in the second half of 2006. The increase in minority interest expense is primarily due to the sale of Boardwalk Pipeline common units discussed above.

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore is a 51% owned subsidiary.

The following table summarizes the results of operations for Diamond Offshore for the three and six months ended June 30, 2007 and 2006 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Operating	**$ 653.4**	$ 510.9	**$ 1,262.5**	$ 961.2
Net investment income	**7.6**	8.4	**17.4**	16.8
Investment gains (losses)			**(3.0)**	(0.2)
Total	**661.0**	519.3	**1,276.9**	977.8
Expenses:				
Operating	**306.3**	273.0	**605.6**	519.6
Interest	**4.1**	5.7	**14.6**	12.5
Total	**310.4**	278.7	**620.2**	532.1
	350.6	240.6	**656.7**	445.7
Income tax expense	**108.7**	72.7	**202.5**	139.2
Minority interest	**124.2**	80.4	**231.9**	146.7
Net income	**$ 117.7**	$ 87.5	**$ 222.3**	$ 159.8

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

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

Diamond Offshore's operating income is primarily affected by revenue factors, but is also a function of varying levels of operating expenses. Diamond Offshore's operating expenses represent all direct and indirect costs associated with the operation and maintenance of its drilling equipment. The principal components of Diamond Offshore's operating costs are, among other things, direct and indirect costs of labor and benefits, repairs and maintenance, freight, regulatory inspections, boat and helicopter rentals and insurance. Labor and repair and maintenance costs represent the most significant components of operating expenses. In the current period of high, sustained utilization, maintenance and repairs costs may increase in order to maintain Diamond Offshore's equipment in proper, working order. In general, Diamond Offshore's labor costs increase primarily due to higher salary levels, rig staffing requirements, inflation and costs associated with labor regulations in the geographic regions in which Diamond Offshore's rigs operate. Diamond Offshore has experienced and continues to experience upward pressure on salaries and wages as a result of the strengthening offshore drilling market and increased competition for skilled workers. In response to these market conditions, Diamond Offshore has implemented retention programs, including increases in compensation. Costs to repair and maintain equipment fluctuate depending upon the type of activity the drilling unit is performing, as well as the age and condition of the equipment.

Operating expenses generally are not affected by changes in dayrates and may not be significantly affected by short-term fluctuations in utilization. For instance, if a rig is to be idle for a short period of time, few decreases in operating expenses may actually occur since the rig is typically maintained in a prepared or "ready stacked" state with a full crew. In addition, when a rig is idle, Diamond Offshore is responsible for certain operating expenses such as rig fuel and supply boat costs, which are typically a cost of the operator when a rig is under contract. However, if the rig is to be idle for an extended period of time, Diamond Offshore may reduce the size of a rig's crew and take steps to "cold stack" the rig, which lowers expenses and partially offsets the impact on operating income.

Operating income is also negatively impacted when Diamond Offshore performs certain regulatory inspections that are due every five years ("5-year survey") for each of Diamond Offshore's rigs as well as intermediate surveys, which are performed at interim periods between 5-year surveys. Operating revenue decreases because these surveys are performed during scheduled down-time in a shipyard. Operating expenses increase as a result of these surveys due to the cost to mobilize the rigs to a shipyard, inspection costs incurred and repair and maintenance costs. Repair and maintenance costs may be required resulting from the survey or may have been previously planned to take place during this mandatory down-time. The number of rigs undergoing a 5-year survey will vary from year to year.

Costs of mobilizing Diamond Offshore's rigs to shipyards for scheduled surveys, which were a major component of its survey-related costs during 2006, are indicative of higher prices commanded by support businesses to the offshore drilling industry. Diamond Offshore expects mobilization costs to be a significant component of its survey-related costs in 2007.

Revenues increased by $141.7 million and $299.1 million, or 27.3% and 30.6%, and net income increased by $30.2 million and $62.5 million in the three and six months ended June 30, 2007, as compared to the corresponding periods of the prior year.

Revenues from high specification floaters and intermediate semisubmersible rigs increased by $122.5 million and $253.6 million in the three and six months ended June 30, 2007, as compared to the corresponding periods of the prior year. The increase primarily reflects increased dayrates of $106.9 million and $246.3 million and increased utilization of $14.6 million and $10.2 million, respectively.

Revenues from jack-up rigs increased $15.0 million and $39.1 million, in the three and six months ended June 30, 2007, as compared to the corresponding periods of the prior year, due primarily to increased dayrates of $16.3 million and $57.7 million, partially offset by decreased utilization of $11.3 million and $29.7 million, respectively. Revenues were also favorably impacted by the recognition of a lump-sum demobilization fee of $6.6 million in the three and six months ended June 30, 2007.

Net income increased in the three and six months ended June 30, 2007, as compared to the corresponding periods of the prior year, due to the revenue increases as noted above, and for the three month period, reduced interest expense, partially offset by increased contract drilling expenses.

Interest expense decreased $1.6 million in the second quarter of 2007, as compared to the second quarter of 2006, primarily due to reduced interest expense as a result of conversions of Diamond Offshore's 1.5% debentures into common stock. Interest expense increased $2.1 million in the six months ended June 30, 2007, primarily due to an $8.9 million write off of debt issuance costs related to conversions of Diamond Offshore's 1.5% debentures into common stock, which was partially offset by reduced interest expense as a result of these conversions.

Loews Hotels

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

The following table summarizes the results of operations for Loews Hotels for the three and six months ended June 30, 2007 and 2006 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Operating	**$ 99.3**	$ 101.7	**$ 194.2**	$ 194.9
Net investment income	**0.5**	0.2	**0.9**	0.4
Total	**99.8**	101.9	**195.1**	195.3
Expenses:				
Operating	**74.5**	79.4	**149.1**	156.0
Interest	**2.8**	2.9	**5.7**	5.8
Total	**77.3**	82.3	**154.8**	161.8
	22.5	19.6	**40.3**	33.5
Income tax expense	**8.7**	7.6	**15.6**	13.0
Net income	**$ 13.8**	$ 12.0	**$ 24.7**	$ 20.5

Revenues decreased by $2.1 million and $0.2 million or 2.1% and 0.1%, and net income increased by $1.8 million and $4.2 million or 15.0% and 20.5%, respectively in the three and six months ended June 30, 2007, as compared to the corresponding periods of 2006.

Revenues decreased in the three months ended June 30, 2007, as compared to the corresponding period of 2006, due to the classification of joint venture equity income as a component of operating expenses in 2007, as compared to revenues in 2006, partially offset by an increase in revenue per available room to $193.37, compared to $179.41 in the prior year, reflecting improvements in average room rates of $14.96, or 6.8%, and a 0.8% increase in occupancy rates.

Revenues decreased in the six months ended June 30, 2007, as compared to the corresponding period of 2006, due to the classification of joint venture equity income as a component of operating expenses in 2007, as compared to revenues in 2006, and a 0.7% decrease in occupancy rates, partially offset by an increase in revenue per available room to $185.62, compared to $172.74 in the prior year, reflecting improvements in average room rates of $18.64, or 8.5%.

Net income for the three and six months ended June 30, 2007 increased primary due to the increases in revenue per available room as discussed above.

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

Corporate and Other

Corporate operations consist primarily of investment income, including investment gains (losses) from non-insurance subsidiaries, the operations of Bulova, corporate interest expenses and other corporate administrative costs.

The following table summarizes the results of operations for Corporate and Other for the three and six months ended June 30, 2007 and 2006 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Revenues:				
Manufactured products	**$ 40.0**	$ 43.4	**$ 86.2**	$ 87.0
Net investment income	**130.9**	60.4	**241.8**	160.2
Investment gains (losses)	**3.2**	4.4	**141.5**	(1.6)
Other	**(4.7)**	5.7	**(4.0)**	6.4
Total	**169.4**	113.9	**465.5**	252.0
Expenses:				
Cost of sales	**19.8**	22.1	**43.0**	43.7
Operating	**26.9**	31.0	**59.6**	61.8
Interest	**14.0**	19.1	**28.0**	38.2
Total	**60.7**	72.2	**130.6**	143.7
	108.7	41.7	**334.9**	108.3
Income tax expense	**37.3**	14.3	**116.6**	37.4
Net income	**$ 71.4**	$ 27.4	**$ 218.3**	$ 70.9

Revenues increased by $55.5 million and $213.5 million and net income increased by $44.0 million and $147.4 million in the three and six months ended June 30, 2007, as compared to the corresponding periods of 2006.

Revenues and net income increased in the three and six months ended June 30, 2007, as compared to the corresponding periods of 2006, due primarily to higher net investment income of $70.5 million and $81.6 million and, for the six months ended June 30, 2007, increased investment gains of $143.1 million. Investment gains for 2007 include a $141.9 million pretax gain ($91.6 million after tax) primarily due to the issuance of Diamond Offshore common stock related to the conversion of $450.5 million principal amount of Diamond Offshore's 1.5% debentures into Diamond Offshore common stock. The increase in investment income is primarily due to improved performance of the Company's trading portfolio and improved yields on higher invested amounts.

Net income for the three and six months ended June 30, 2007, also benefited from lower corporate interest expenses due to the maturity of $300.0 million principal amount of 6.8% notes in December of 2006.

LIQUIDITY AND CAPITAL RESOURCES

CNA Financial

Cash Flow

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

For the six months ended June 30, 2007, net cash provided by operating activities was $541.0 million as compared with $923.0 million for the same period in 2006. The decrease in cash provided by operating activities is primarily related to decreased net sales of trading securities to fund policyholder withdrawals of investment contract products issued by CNA. The policyholder fund withdrawals are reflected as financing cash outflows.

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

For the six months ended June 30, 2007, net cash used by investing activities was $529.0 million as compared with $503.0 million for the same period in 2006. Cash flows used for investing activities related principally to purchases of fixed maturity securities and short term investments. Net cash flows provided by investing activities-discontinued operations included $64.0 million of cash proceeds related to the sale of the United Kingdom discontinued operations business.

For the six months ended June 30, 2007, net cash used by financing activities was $54.0 million as compared with $413.0 million for the same period in 2006. The decrease in cash used by financing activities is related to decreased policyholder fund withdrawals in 2007, as compared to 2006, which are reflected as return of investment contract account balances on the Consolidated Condensed Statements of Cash Flows.

CNA believes that its present cash flows from operating, investing and financing activities are sufficient to fund its working capital needs.

On August 1, 2007, CNA entered into a credit agreement with a syndicate of banks for a new $250.0 million five-year senior unsecured revolving credit facility, which is available for general corporate purposes. Any borrowings will bear interest at a LIBOR rate plus a spread dependent on CNA's then current ratings of its senior, unsecured long-term debt. CNA is required to pay certain fees under the agreement, including a facility fee and a utilization fee, both of which adjust automatically in the event of a ratings change.

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

Dividends

On June 11, 2007, CNA paid a quarterly dividend of $0.10 per share, to shareholders of record on May 11, 2007. On July 25, 2007, CNA's Board of Directors declared a quarterly dividend of $0.10 per share, payable September 4, 2007 to shareholders of record on August 13, 2007. The declaration and payment of future dividends to holders of CNA's common stock will be at the discretion of CNA's Board of Directors and will depend on many factors, including CNA's earnings, financial condition, business needs, and regulatory constraints. CNA's ability to pay dividends 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. As of June 30, 2007, CCC is able to pay approximately $650.0 million of dividend payments over the next twelve months that are not subject to prior approval.

Regulatory Matters

CNA previously established a plan to reorganize and streamline its U.S. property and casualty insurance legal entity structure in order to realize capital, operational, and cost efficiencies. The remaining phase of this plan is the merger of Transcontinental Insurance Company, a New York domiciled insurer, into its parent company, National Fire Insurance Company of Hartford, which is a CCC subsidiary. Subject to regulatory approval, this merger is planned to be completed effective December 31, 2007.

Along with other companies in the industry, CNA received subpoenas, interrogatories and inquiries from and have produced documents and/or provided information to: (i) California, Connecticut, Delaware, Florida, Hawaii, Illinois, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, West Virginia and the Canadian Council of Insurance Regulators concerning investigations into practices including contingent compensation arrangements, fictitious quotes and tying arrangements; (ii) the Securities and Exchange Commission ("SEC"), the New York State Attorney General, the United States Attorney for the Southern District of New York, the Connecticut Attorney General, the Connecticut Department of Insurance, the Delaware Department of Insurance, the Georgia Office of Insurance and Safety Fire Commissioner and the California Department of Insurance concerning reinsurance products and finite insurance products purchased and sold by CNA; (iii) the Massachusetts Attorney General and the Connecticut Attorney General concerning investigations into anti-competitive practices; and (iv) the New York State Attorney General concerning declinations of attorney malpractice insurance. CNA continues to respond to these subpoenas, interrogatories and inquiries to the extent they are still open.

The SEC and representatives of the United States Attorney's Office for the Southern District of New York conducted interviews with several of CNA's current and former executives relating to the restatement of CNA's financial results for 2004, including CNA's relationship with and accounting for transactions with an affiliate that were the basis for the restatement. CNA has also provided the SEC with information relating to CNA's restatement in 2006 of prior period results. It is possible that CNA's analyses of, or accounting treatment for, finite reinsurance contracts or discontinued operations could be questioned or disputed by regulatory authorities. As a result, further restatement of the financial results are possible.

Lorillard

Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation. Plaintiffs in most of the cases seek unspecified amounts of compensatory damages and punitive damages, although some seek damages ranging into the billions of dollars. Plaintiffs in some of the cases seek treble damages, statutory damages, disgorgement of profits, equitable and injunctive relief, and medical monitoring, among other remedies.

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 we are a defendant in any of the lawsuits, we believe that we are not a proper defendant in these matters and have moved or plan to move for dismissal of all such claims against us. While Lorillard intends to defend vigorously all tobacco products liability litigation, 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. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Except for the impact of the State Settlement Agreements as described below, we are unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending tobacco related litigation and, therefore, no provision has been made in the Consolidated Condensed Financial Statements for any unfavorable outcome. It is possible that our results of operations, cash flows and financial position could be materially adversely affected by an unfavorable outcome of certain pending litigation.

The State Settlement Agreements require Lorillard and the other Original Participating Manufacturers ("OPMs") to make aggregate annual payments of $9.4 billion, subject to adjustment for several factors described below. In addition, the OPMs are required to pay plaintiffs' attorneys' fees, subject to an aggregate annual cap of $500.0 million, as well as an additional aggregate amount of up to $125.0 million in each year through 2008. These payment obligations are several and not joint obligations of each of the OPMs. We believe that Lorillard's obligations under the State Settlement Agreements will materially adversely affect our cash flows and operating income in future years.

Both the aggregate payment obligations of the OPMs, and the payment obligations of Lorillard, individually, under the State Settlement Agreements are subject to adjustment for several factors which include:

- inflation;
- aggregate volume of domestic cigarette shipments;
- market share; and
- industry operating income.

The inflation adjustment increases payments on a compounded annual basis by the greater of 3.0% or the actual total percentage change in the consumer price index for the preceding year. The inflation adjustment is measured starting with inflation for 1999. The volume adjustment increases or decreases payments based on the increase or decrease in the total number of cigarettes shipped in or to the 50 U.S. states, the District of Columbia and Puerto Rico by the OPMs during the preceding year, as compared to the 1997 base year shipments. If volume has increased, the volume adjustment would increase the annual payment by the same percentage as the number of cigarettes shipped exceeds the 1997 base number. If volume has decreased, the volume adjustment would decrease the annual payment by 98.0% of the percentage reduction in volume. In addition, downward adjustments to the annual payments for changes in volume may, subject to specified conditions and exceptions, be reduced in the event of an increase in the OPMs aggregate operating income from domestic sales of cigarettes over base year levels established in the State Settlement Agreements, adjusted for inflation. Any adjustments resulting from increases in operating income would be allocated among those OPMs who have had increases.

Lorillard's cash payment under the State Settlement Agreements in the six months ended June 30, 2007 was $746.9 million, including Lorillard's deposit of $110.5 million, in an interest-bearing escrow account in accordance with procedures established in the MSA pending resolution of a claim by Lorillard and other OPMs that they are entitled to reduce their MSA payments based on a loss of market share to non-participating manufacturers. Most of the states that are parties to the MSA are disputing the availability of the reduction and Lorillard believes that this dispute will ultimately be resolved by judicial and arbitration proceedings. Lorillard's $110.5 million reduction is based upon the OPMs collective loss of market share in 2004. In April of 2006, Lorillard had previously deposited $108.7 million in the same escrow account discussed above, which was based on a loss of market share in 2003 to non-participating manufacturers. Lorillard and other OPMs have the right to claim additional reductions of MSA payments in subsequent years under provisions of the MSA. In addition to the payments made in the first half of 2007, Lorillard anticipates the additional amount payable in 2007 will be approximately $200.0 million to $225.0 million, primarily based on 2007 estimated industry volume.

Please read Item 3 - Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2006 and Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report for additional information regarding this settlement and other litigation matters.

Lorillard's cash and investments, net of receivables and payables, totaled $1,639.7 million and $1,768.7 million at June 30, 2007 and December 31, 2006, respectively. At June 30, 2007, 84.9% of Lorillard's cash and investments were invested in short-term securities.

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 inflow of $302.0 million for the six months ended June 30, 2007, compared to a net cash inflow of $257.0 million for the corresponding period of the prior year. Lorillard believes, based on current conditions, that cash flows from operating activities will be sufficient to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict the impact on its cash flows of cash requirements related to any future settlements or judgments, including cash required to bond any appeals, if necessary, or the impact of subsequent legislative actions, and thus can give no assurance that it will be able to meet all of those requirements.

Boardwalk Pipeline

At June 30, 2007 and December 31, 2006, cash and investments amounted to $387.8 million and $399.0 million, respectively. Cash flow from operating activities for the six months ended June 30, 2007 amounted to $171.7million, compared to $136.5 million in the first six months of 2006. In the six months ended June 30, 2007 and 2006, Boardwalk Pipeline's capital expenditures were $380.1 million and $55.2 million, respectively.

Boardwalk Pipeline is currently engaged in several major pipeline and storage expansion projects that will transport natural gas supplies from the Bossier Sands, Barnett Shale, Fayetteville Shale and the Caney/Woodford Shale areas in East Texas, Arkansas and Oklahoma to existing or new assets and third-party interstate pipeline interconnects. The total cost of the pipeline expansion projects, before taking into account any potential equity contribution by a third party in Gulf Crossing Pipeline, is estimated to be approximately $3.7 billion, which is an increase from the $3.4 billion reported in the first quarter of 2007. This increase reflects the expanded pipeline capacity necessary to accommodate additional volumes from assumed capacity options that are considered probable of exercise, contractor penalties incurred as a result of delays in construction and higher labor and materials costs due to the large number of pipeline projects under way throughout the industry. Actual costs may exceed the current estimate due to a variety of factors, including awaiting receipt of regulatory approvals, the timing of which Boardwalk Pipeline cannot control, weather-related costs and further delays in construction which could result in additional contractor and shipper penalties and stand-by costs. For more information on Boardwalk Pipeline's expansion projects, please read "Expansion Projects" in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2006.

As of June 30, 2007, Boardwalk Pipeline was in compliance with all the covenant requirements under its credit agreement and no funds were drawn under this facility. In April of 2007, Boardwalk Pipeline's revolving credit facility was amended to increase the aggregate commitments from $400.0 million to $700.0 million and to extend the term to June 29, 2012, among other modifications. In April of 2007, Boardwalk Pipeline issued letters of credit for $221.5 million to support certain obligations associated with its Fayetteville Shale expansion project which reduced the available capacity under the facility.

In the first quarter of 2007, Boardwalk Pipeline sold 8.0 million common units at a price of $36.50 per unit in a public offering and received net proceeds of $287.9 million. In addition, we contributed $6.0 million to maintain our 2.0% general partner interest. The proceeds will be used to finance its expansion activities.

For the year ending December 31, 2007, Boardwalk Pipeline expects to make capital expenditures of approximately $1.5 billion, of which it expects approximately $1.47 billion for the expansion projects discussed above and approximately $60.0 million to be for maintenance capital. The amount of expansion capital Boardwalk Pipeline expends in 2007 could vary significantly depending on the progress made with these projects, the number and types of other capital projects Boardwalk Pipeline decides to pursue, the timing of any of those projects and numerous other factors beyond Boardwalk Pipeline's control.

Boardwalk Pipeline expects to fund its 2007 maintenance capital expenditures from operating cash flows and its expansion capital expenditures with a combination of borrowings under the revolving credit facility and proceeds from sales of debt and equity securities.

During the first half of 2007, Boardwalk Pipeline paid cash distributions of $97.6 million, including $75.6 million to us.

Diamond Offshore

Cash and investments, net of receivables and payables, totaled $618.3 million at June 30, 2007 compared to $825.8 million at December 31, 2006. In the first half of 2007, Diamond Offshore paid cash dividends totaling $588.0 million, consisting of a special cash dividend of $553.4 million and its regular quarterly cash dividends of $34.6 million.

Cash provided by operating activities was $583.9 million in the first six months of 2007, compared to $246.6 million in the comparable period of 2006. The increase in cash flow from operations is the result of higher average dayrates as a result of an increase in worldwide demand for offshore contract drilling services.

Diamond Offshore estimates that capital expenditures for rig modifications and new construction for the remainder of 2007 will be approximately $188.0 million. As of June 30, 2007, Diamond Offshore had spent approximately $508.6 million for the upgrade costs for two rigs and construction of two new jack-up rigs.

Diamond Offshore estimates that capital expenditures associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements will be approximately $205.0 million in the remainder of 2007. As of June 30, 2007, Diamond Offshore had spent approximately $140.0 million for capital additions.

In addition to anticipated capital spending for rig upgrades, new construction and in connection with its rig capital maintenance program, Diamond Offshore has committed to spend approximately $136.0 million towards the modification of six of its intermediate semisubmersible rigs in connection with their upcoming contracts in Brazil and Mexico. These modifications are required to meet contract specifications for each of the drilling rigs. Diamond Offshore expects to spend approximately $60.0 million and $76.0 million on these contract modification projects during the remainder of 2007 and during 2008, respectively.

In the first six months of 2007, the holders of $450.5 million principal amount of Diamond Offshore’s 1.5% Debentures converted their outstanding debentures into 9.2 million shares of Diamond Offshore’s common stock.

As of June 30, 2007 and December 31, 2006, there were no loans outstanding under Diamond Offshore’s $285.0 million credit facility; however, $67.9 million in letters of credit were issued under the credit facility in the second quarter of 2007.

Diamond Offshore’s liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures and debt service requirements. Cash required to meet Diamond Offshore’s capital commitments is determined by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating Diamond Offshore’s ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is the opinion of Diamond Offshore’s management that its operating cash flows and cash reserves will be sufficient to meet these capital commitments; however, Diamond Offshore will continue to make periodic assessments based on industry conditions.

Effective May 1, 2007, Diamond Offshore renewed its principal insurance policies. For physical damage coverage, Diamond Offshore’s deductible is $75.0 million per occurrence (or lower for some rigs if they are declared a constructive total loss). For physical damage due to named windstorms in the U.S. Gulf of Mexico, there is an annual aggregate limit of $125.0 million. If named windstorms in the U.S. Gulf of Mexico cause significant damage to Diamond Offshore’s rigs or equipment, it could have a material adverse effect on our financial position, results of operations or cash flows.

Loews Hotels

Cash and investments increased to $48.4 million at June 30, 2007 from $24.5 million at December 31, 2006. 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 and advances or capital contributions from us.

Corporate and Other

Parent Company cash and investments, net of receivables and payables, at June 30, 2007 totaled $5.8 billion, as compared to $5.3 billion at December 31, 2006. The increase in net cash and investments is primarily due to the receipt of $854.6 million in dividends from subsidiaries which includes $280.4 million from a Diamond Offshore special dividend and investment income, partially offset by $166.1 million of dividends paid to our shareholders and $384.2 million related to repurchases of our common stock.

As of June 30, 2007, there were 535,639,104 shares of Loews common stock outstanding and 108,443,641 shares of Carolina Group stock outstanding. Depending on market and other conditions, we may purchase shares of our, and our subsidiaries', outstanding common stock in the open market or otherwise. During the six months ended June 30, 2007, we purchased 8.7 million shares of Loews common stock at an aggregate cost of $384.2 million.

On July 31, 2007, HighMount completed the HighMount Acquisition for $4.025 billion in cash, subject to adjustment. The acquisition was funded with approximately $2.4 billion from the Company's available cash and $1.6 billion of term loans incurred by HighMount (the "Acquisition Debt"). The Acquisition Debt bears interest at a floating rate equal to the London Interbank Offered Rate ("LIBOR") plus an applicable margin and matures on July 26, 2012, subject to acceleration by the lenders upon the occurrence of customary events of default. The Credit Agreement also provides for a five year, $400.0 million revolving credit facility, borrowings under which bear interest at a floating rate equal to LIBOR plus an applicable margin.

HighMount has entered into interest rate swaps for a notional amount of $1.6 billion to hedge its exposure to fluctuations in LIBOR. These swaps effectively fix the floating rate at 5.23%.

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

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

INVESTMENTS

Insurance

Net Investment Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Fixed maturity securities	**$ 525.2**	$ 479.8	**$ 1,021.6**	$ 895.0
Short-term investments	**39.2**	57.9	**88.7**	123.0
Limited partnerships	**70.6**	53.3	**122.7**	126.8
Equity securities	**6.0**	8.2	**11.1**	14.3
Income (loss) from trading portfolio (a)	**40.6**	(9.8)	**43.4**	32.5
Interest on funds withheld and other deposits	**(0.3)**	(29.8)	**(0.8)**	(54.6)
Other	**12.2**	5.1	**22.9**	8.1
Total investment income	**693.5**	564.7	**1,309.6**	1,145.1
Investment expense	**(22.8)**	(12.9)	**(30.7)**	(22.9)
Net investment income	**$ 670.7**	$ 551.8	**$ 1,278.9**	$ 1,122.2

(a) The change in net unrealized gains on trading securities, included in net investment income, was $1.0 million, $(6.0) million, $3.0 million and $(4.0) million for the three and six months ended June 30, 2007 and 2006.

Net investment income increased by $118.9 million for the three months ended June 30, 2007 compared with the same period of 2006. The improvement was primarily driven by an increase in the overall invested asset base and a reduction of interest expense on funds withheld and other deposits. During 2006, CNA commuted several significant finite reinsurance contracts which contained interest crediting provisions. As of December 31, 2006, no further interest expense was due on the funds withheld on the commuted contracts. Also impacting net investment income was an increase in income from the trading portfolio of approximately $50.4 million. The increase in income from the trading portfolio was more than offset by a corresponding increase in the policyholders' funds reserves supported by the trading portfolio, which is included in Insurance claims and policyholders' benefits on the Consolidated Condensed Statements of Income.

Net investment income increased by $156.7 million for the six months ended June 30, 2007 compared with the same period of 2006. The improvement was primarily driven by an increase in the overall invested asset base and a reduction of interest expense on funds withheld and other deposits.

The bond segment of the investment portfolio yielded approximately 5.8% and 5.6% for the six months ended June 30, 2007 and 2006.

Net Realized Investment Gains (Losses)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Realized investment gains (losses):				
Fixed maturity securities:				
U.S. Government bonds	**$ (95.5)**	$ (0.4)	**$ (93.8)**	$ 3.4
Corporate and other taxable bonds	**(49.9)**	(76.6)	**(24.9)**	(96.3)
Tax-exempt bonds	**(41.8)**	(14.1)	**(53.3)**	11.3
Asset-backed bonds	**(77.4)**	(4.3)	**(110.1)**	(13.7)
Redeemable preferred stock	**(0.6)**	(0.7)	**(0.5)**	(0.9)
Total fixed maturity securities	**(265.2)**	(96.1)	**(282.6)**	(96.2)
Equity securities	**10.5**	2.9	**14.0**	5.9
Derivative securities	**114.7**	(1.4)	**107.0**	5.5
Short-term investments	**0.2**	(2.3)		(4.0)
Other invested assets, including dispositions	**0.6**	(1.8)	**0.9**	(1.8)
Allocated to participating policyholders' and minority interests	**0.3**	1.0	**0.4**	1.7
Total realized investment gains (losses)	**(138.9)**	(97.7)	**(160.3)**	(88.9)
Income tax benefit	**48.3**	34.4	**55.7**	26.1
Minority interest	**10.0**	5.4	**11.6**	5.4
Net realized investment gains (losses)	**$ (80.6)**	$ (57.9)	**$ (93.0)**	$ (57.4)

Net realized investment losses increased by $22.7 million for the three months ended June 30, 2007 compared with the same period of 2006. The increase was primarily driven by an increase in interest rate related other-than-temporary impairment ("OTTI") losses on securities for which CNA did not assert an intent to hold until an anticipated recovery in value. For the three months ended June 30, 2007, OTTI losses of $101.4 million were recorded primarily in the corporate and other taxable bonds, asset-backed bonds and U.S. Government bonds sectors. This compares to OTTI losses for the three months ended June 30, 2006 of $18.3 million recorded primarily in the corporate and other taxable bonds sector. The increase in OTTI losses was partially offset by an increase in net realized investment results on derivative securities, primarily related to interest rate swaps. The interest rate swaps were entered into as an economic hedge of fixed maturity securities based on the potential for rising interest rates.

Net realized investment losses increased by $35.6 million for the six months ended June 30, 2007 compared with the same period of 2006. The increase was primarily driven by an increase in interest rate related OTTI losses on securities for which CNA did not assert an intent to hold until an anticipated recovery in value. For the six months ended June 30, 2007, OTTI losses of $152.1 million were recorded primarily in the corporate and other taxable bonds, asset-backed bonds, and U.S. Government bonds sectors. This compares to OTTI losses for the six months ended June 30, 2006 of $24.6 million recorded primarily in the corporate and other taxable bonds sector. The increase in OTTI losses was partially offset by an increase in net realized investment gains on derivative securities, primarily related to interest rate swaps.

A primary objective in the management of the fixed maturity and equity portfolios is to optimize return relative to underlying liabilities and respective liquidity needs. CNA's views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions, and the domestic and global economic conditions, are some of the factors that enter into an investment decision. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on its views of a specific issuer or industry sector. A further consideration in the management of the investment portfolio is the characteristics of the underlying liabilities and the ability to align the duration of the portfolio to those liabilities to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and long term in nature, CNA segregates investments for asset/liability management purposes.

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

The effective durations of fixed maturity securities, short term investments and interest rate derivatives are presented in the table below. Short term investments are net of securities lending collateral and accounts payable and receivable amounts for securities purchased and sold, but not yet settled. The segregated investments had an effective duration of 9.9 years and 9.8 years at June 30, 2007 and December 31, 2006. The remaining interest sensitive investments had an effective duration of 3.5 years and 3.2 years at June 30, 2007 and December 31, 2006. The overall effective duration was 5.0 years and 4.7 years at June 30, 2007 and December 31, 2006.

	June 30, 2007		December 31, 2006	
	Fair Value	**Effective Duration (In years)**	Fair Value	Effective Duration (In years)
(In millions)				
Segregated investments	**$ 8,585.0**	**9.9**	$ 8,524.0	9.8
Other interest sensitive investments	**29,995.0**	**3.5**	30,178.0	3.2
Total	**$ 38,580.0**	**5.0**	$ 38,702.0	4.7

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

CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk) and credit risk (risk of nonperformance of underlying obligor). Derivative securities are recorded at fair value at the reporting date. CNA also uses derivatives to mitigate market risk by purchasing S&P 500 index futures in a notional amount equal to the contract liability relating to Life and Group Non-Core indexed group annuity contracts. CNA provided collateral to satisfy margin deposits on exchange-traded derivatives totaling $27.0 million as of June 30, 2007. For over-the-counter derivative transactions CNA utilizes International Swaps and Derivatives Association Master Agreements that specify certain limits over which collateral is exchanged. As of June 30, 2007, CNA provided $6.0 million of cash as collateral for over-the-counter derivative instruments.

CNA classifies its fixed maturity securities and its equity securities as either available-for-sale or trading, and as such, they are carried at fair value. The amortized cost of fixed maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, which is included in net investment income. Changes in fair value related to available-for-sale securities are reported as a component of other comprehensive income. Changes in fair value of trading securities are reported within net investment income.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
(In millions)				
Net realized gains (losses) on fixed maturity and equity securities:				
Fixed maturity securities:				
Gross realized gains	**$ 45.0**	$ 25.0	**$ 143.0**	$ 102.0
Gross realized losses	**(311.0)**	(121.0)	**(426.0)**	(198.0)
Net realized losses on fixed maturity securities	**(266.0)**	(96.0)	**(283.0)**	(96.0)
Equity securities:				
Gross realized gains	**13.0**	4.0	**20.0**	8.0
Gross realized losses	**(2.0)**	(1.0)	**(6.0)**	(2.0)
Net realized gains on equity securities	**11.0**	3.0	**14.0**	6.0
Net realized losses on fixed maturity and equity securities	**$ (255.0)**	$ (93.0)	**$ (269.0)**	$ (90.0)

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

Issuer Description and Discussion	**Fair Value Date of Sale**	**Loss On Sale**	**Months in Unrealized Loss Prior To Sale (a)**
(In millions)			
Various notes and bonds issued by the United States Treasury. Securities sold due to inflationary outlook and asset class reallocation.	**$ 8,435.0**	**$ 78.0**	**0-6**
Mortgage-backed pass-through securities sold based on view of interest rate changes.	**376.0**	**9.0**	**0-6**
Total	**$ 8,811.0**	**$ 87.0**	

(a) Represents the range of consecutive months the various positions were in an unrealized loss prior to sale. 0-12+ means certain positions were less than 12 months, while others were greater than 12 months.

Valuation and Impairment of Investments

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

	June 30, 2007		December 31, 2006	
(In millions of dollars)				
General account investments:				
Fixed maturity securities available-for-sale:				
U.S. Treasury securities and obligations of government agencies	$ 3,641.0	8.2%	$ 5,138.0	11.6%
Asset-backed securities	10,740.0	24.2	13,677.0	31.0
States, municipalities and political subdivisions-tax-exempt	7,937.0	17.9	5,146.0	11.7
Corporate securities	7,336.0	16.5	7,132.0	16.2
Other debt securities	3,646.0	8.1	3,642.0	8.2
Redeemable preferred stock	1,055.0	2.4	912.0	2.1
Total fixed maturity securities available-for-sale	34,355.0	77.3	35,647.0	80.8
Fixed maturity securities trading:				
U.S. Treasury securities and obligations of government agencies	4.0		2.0	
Asset-backed securities	53.0	0.1	55.0	0.1
Corporate securities	124.0	0.3	133.0	0.3
Other debt securities	18.0		14.0	
Total fixed maturity securities trading	199.0	0.4	204.0	0.4
Equity securities available-for-sale:				
Common stock	470.0	1.1	452.0	1.0
Preferred stock	141.0	0.3	145.0	0.4
Total equity securities available-for-sale	611.0	1.4	597.0	1.4
Equity securities trading	74.0	0.2	60.0	0.1
Short-term investments available-for-sale	6,901.0	15.5	5,538.0	12.6
Short-term investments trading	207.0	0.5	172.0	0.4
Limited partnerships	2,012.0	4.5	1,852.0	4.2
Other investments	68.0	0.2	26.0	0.1
Total general account investments	$ 44,427.0	100.0%	$ 44,096.0	100.0%

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

Investments in the general account had a net unrealized gain of $453.0 million at June 30, 2007 compared with a net unrealized gain of $966.0 million at December 31, 2006. The unrealized position at June 30, 2007 was comprised of a net unrealized gain of $191.0 million for fixed maturity securities, a net unrealized gain of $260.0 million for equity securities and a net unrealized gain of $2.0 million for short term investments. The unrealized position at December 31, 2006 was comprised of a net unrealized gain of $716.0 million for fixed maturity securities, a net unrealized gain of $249.0 million for equity securities and a net unrealized gain of $1.0 million for short term investments. See Note 2 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for further detail on the unrealized position of CNA's general account investment portfolio.

Sub-prime Mortgage Exposure

Included in CNA's fixed maturity securities at June 30, 2007 were $10,793.0 million of asset-backed securities, at fair value, consisting of approximately 60.0% in collateralized mortgage obligations, 27.0% in corporate asset-backed obligations, 12.0% in corporate mortgage-backed pass-through certificates and 1.0% in U.S. Government agency issued pass-through certificates. The majority of asset-backed securities are actively traded in liquid markets and priced by a third party pricing service. Of the total asset-backed holdings, less than 8.0% have exposure to sub-prime mortgage collateral, measured by the original deal structure. This represents less than 2.0% of total invested assets. Of the securities with sub-prime exposure, 95.0% are rated as investment grade. All asset-backed securities, including those with sub-prime exposure, are reviewed as part of the ongoing OTTI monitoring process. Included in after-tax OTTI losses discussed above for the three and six months ended June 30, 2007, were $20.0 million and $35.0 million related to securities with sub-prime exposure. In addition to sub-prime exposure in fixed maturity securities, there is an additional exposure of approximately $44.0 million through other investments, including limited partnerships.

The following table provides the composition of fixed maturity securities available-for-sale in a gross unrealized loss position at June 30, 2007 in relation to the total of all fixed maturity securities in a gross unrealized loss position by maturity profile. Securities not due at a single date are allocated based on weighted average life.

	Percent of Market Value	Percent of Unrealized Loss
Due in one year or less	**5.0%**	**2.0%**
Due after one year through five years	**29.0**	**27.0**
Due after five years through ten years	**36.0**	**30.0**
Due after ten years	**30.0**	**41.0**
Total	**100.0%**	**100.0%**

CNA's non-investment grade fixed maturity securities available-for-sale at June 30, 2007 that were in a gross unrealized loss position had a fair value of $1,122.0 million. The following tables summarize the fair value and gross unrealized loss of non-investment grade securities categorized by the length of time those securities have been in a continuous unrealized loss position and further categorized by the severity of the unrealized loss position in 10.0% increments as of June 30, 2007 and December 31, 2006.

	Estimated	Fair Value as a Percentage of Amortized Cost				Gross Unrealized
June 30, 2007	**Fair Value**	**90-99%**	**80-89%**	**70-79%**	**<70%**	**Loss**
(In millions)						
Fixed maturity securities:						
Non-investment grade:						
0-6 months	**$ 1,089.0**	**$ 5.0**				**$ 5.0**
7-12 months	**14.0**	**1.0**				**1.0**
13-24 months	**17.0**	**1.0**				**1.0**
Greater than 24 months	**2.0**					
Total non-investment grade	**$ 1,122.0**	**$ 7.0**	**$ -**	**$ -**	**$ -**	**$ 7.0**
December 31, 2006						
Fixed maturity securities:						
Non- investment grade:						
0-6 months	$ 509.0	$ 2.0				$ 2.0
7-12 months	87.0	1.0	$ 1.0			2.0
13-24 months	24.0					
Greater than 24 months	2.0					
Total non-investment grade	$ 622.0	$ 3.0	$ 1.0	$ -	$ -	$ 4.0

As part of the ongoing OTTI monitoring process, CNA evaluated the facts and circumstances based on available information for each of the non-investment grade securities and determined that the securities presented in the above tables were temporarily impaired when evaluated at June 30, 2007 or December 31, 2006. This determination was based on a number of factors that CNA regularly considers including, but not limited to: the issuers' ability to meet current and future interest and principal payments, an evaluation of the issuers' financial condition and near term prospects, CNA's assessment of the sector outlook and estimates of the fair value of any underlying collateral. In all cases where a decline in value is judged to be temporary, CNA has the intent and ability to hold these securities for a period of time sufficient to recover the amortized cost of its investment through an anticipated recovery in the fair value of such securities or by holding the securities to maturity. In many cases, the securities held are matched to liabilities as part of ongoing asset/liability duration management. As such, CNA continually assesses its ability to hold securities for a time sufficient to recover any temporary loss in value or until maturity. CNA believes it has sufficient levels of liquidity so as to not impact the asset/liability management process.

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

The general account portfolio consists primarily of high quality bonds, 90.0% and 90.9% of which were rated as investment grade (rated BBB- or higher) at June 30, 2007 and December 31, 2006.

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

		June 30, 2007			December 31, 2006	
(In millions of dollars)						
U.S. Government and affiliated agency securities	**$**	**3,777.0**	**11.3%**	$	5,285.0	15.1%
Other AAA rated		**15,320.0**	**45.7**		16,311.0	46.7
AA and A rated		**5,713.0**	**17.1**		5,222.0	15.0
BBB rated		**5,320.0**	**15.9**		4,933.0	14.1
Non investment-grade		**3,369.0**	**10.0**		3,188.0	9.1
Total	**$**	**33,499.0**	**100.0%**	$	34,939.0	100.0%

At June 30, 2007 and December 31, 2006, approximately 95.0% and 96.0% of the general account portfolio was issued by U.S. Government and affiliated agencies or was rated by Standard & Poor's or Moody's Investors Service. The remaining bonds were rated by other rating agencies or CNA.

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

The carrying value of securities that are either subject to trading restrictions or trade in illiquid private placement markets at June 30, 2007 was $216.0 million which represents 0.5% of CNA's total investment portfolio. These securities were in a net unrealized gain position of $135.0 million at June 30, 2007. Of these securities, 87.0% were priced by independent third party sources.

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

		June 30, 2007		December 31, 2006
(In millions)				
Short-term investments available-for-sale:				
Commercial paper	**$**	**1,264.0**	$	923.0
U.S. Treasury securities		**1,639.0**		1,093.0
Money market funds		**341.0**		196.0
Other, including collateral held related to securities lending		**3,657.0**		3,326.0
Total short-term investments available-for-sale		**6,901.0**		5,538.0
Short-term investments trading:				
Commercial paper		**77.0**		43.0
U.S. Treasury securities		**1.0**		2.0
Money market funds		**129.0**		127.0
Total short-term investments trading		**207.0**		172.0
Total short-term investments	**$**	**7,108.0**	$	5,710.0

The fair value of collateral held related to securities lending, included in other short-term investments, was $3,089.0 million and $2,850.9 million at June 30, 2007 and December 31, 2006, respectively.

ACCOUNTING STANDARDS

In September of 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that adopting SFAS No. 157 will have on our results of operations and equity.

In February of 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. SFAS No. 159 helps to mitigate volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that adopting SFAS No. 159 will have on our results of operations and equity.

FORWARD-LOOKING STATEMENTS

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

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

Risks and uncertainties primarily affecting us and our insurance subsidiaries

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

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

- development of claims and the impact on loss reserves, including changes in claim settlement policies;

- the performance of reinsurance companies under reinsurance contracts with CNA;

- the effects upon insurance markets and upon industry business practices and relationships of current litigation, investigations and regulatory activity by the New York State Attorney General's office and other authorities concerning contingent commission arrangements with brokers and bid solicitation activities;

- legal and regulatory activities with respect to certain non-traditional and finite-risk insurance products, and possible resulting changes in accounting and financial reporting in relation to such products, including our restatement of financial results in May of 2005 and CNA's relationship with an affiliate, Accord Re Ltd., as disclosed in connection with that restatement;

- regulatory limitations, impositions and restrictions upon CNA, including the effects of assessments and other surcharges for guaranty funds and second-injury funds and other mandatory pooling arrangements;

- weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, as well as of natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow;

- man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

- the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to CNA’s ability to contain its terrorism exposure effectively, notwithstanding the extension until 2007 of the Terrorism Risk Insurance Act of 2002;

- the occurrence of epidemics;

- exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, mass tort and construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint;

- whether a national privately financed trust to replace litigation of asbestos claims with payments to claimants from the trust will be established or approved through federal legislation, or, if established and approved, whether it will contain funding requirements in excess of CNA’s established loss reserves or carried loss reserves;

- the sufficiency of CNA’s loss reserves and the possibility of future increases in reserves;

- regulatory limitations and restrictions, including limitations upon CNA’s ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;

- the risks and uncertainties associated with CNA’s loss reserves as outlined under “Critical Accounting Estimates, Reserves – Estimates and Uncertainties” in the MD&A portion of this Report;

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

- the effects of corporate bankruptcies and accounting errors, such as Enron and WorldCom, on capital markets and on the markets for directors and officers and errors and omissions coverages;

- general economic and business conditions, including inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;

- the effectiveness of current initiatives by claims management to reduce the loss and expense ratios through more efficacious claims handling techniques; and

- changes in the composition of CNA’s operating segments.

Risks and uncertainties primarily affecting us and our tobacco subsidiaries

- health concerns, claims and regulations relating to the use of tobacco products and exposure to environmental tobacco smoke;

- legislation, including actual and potential excise tax increases, and the effects of tobacco litigation settlements on pricing and consumption rates;

- continued intense competition from other cigarette manufacturers, including significant levels of promotional activities and the presence of a sizable deep-discount category;

- the continuing decline in volume in the domestic cigarette industry;

- increasing marketing and regulatory restrictions, governmental regulation and 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 impact of each of the factors described under “Results of Operations—Lorillard” in the MD&A portion of this Report.

Risks and uncertainties primarily affecting us and our energy subsidiaries

- the impact of changes in demand for oil and natural gas and oil and gas price fluctuations on exploration and production activity;

- costs and timing of rig upgrades;

- utilization levels and dayrates for offshore oil and gas drilling rigs;

- the availability and cost of insurance, and the risks associated with self-insurance, covering drilling rigs;

- regulatory issues affecting natural gas transmission, including ratemaking and other proceedings particularly affecting our gas transmission subsidiaries;

- the ability of Boardwalk Pipeline to renegotiate, extend or replace existing customer contracts on favorable terms;

- the successful development and projected cost of planned expansion projects and investments; and

- the development of additional natural gas reserves and changes in reserve estimates.

Risks and uncertainties affecting us and our subsidiaries generally

- general economic and business conditions;

- changes in financial markets (such as interest rate, credit, currency, commodities and equities markets) or in the value of specific investments;

- changes in domestic and foreign political, social and economic conditions, including the impact of the global war on terrorism, the war in Iraq, the future outbreak of hostilities and future acts of terrorism;

- potential changes in accounting policies by the Financial Accounting Standards Board, the SEC or regulatory agencies for any of our subsidiaries’ industries which may cause us or our subsidiaries to revise their financial accounting and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries’ business or financial performance;

- the impact of regulatory initiatives and compliance with governmental regulations, judicial rulings and jury verdicts;

- the results of financing efforts;

- the closing of any contemplated transactions and agreements;

- the successful integration, transition and management of acquired businesses; and

- the outcome of pending litigation.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a large diversified holding company. As such, we and our subsidiaries have significant amounts of financial instruments that involve market risk. Our measure of market risk exposure represents an estimate of the change in fair value of our financial instruments. Changes in the trading portfolio are recognized in the Consolidated Condensed Statements of Income. Market risk exposure is presented for each class of financial instrument held by us at June 30, 2007 and December 31, 2006, assuming immediate adverse market movements of the magnitude described below. We believe that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since our investment portfolio is subject to change based on our portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

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

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

The sensitivity analysis estimates the change in the market value of our interest sensitive assets and liabilities that were held on June 30, 2007 and December 31, 2006 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.

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

Our debt is denominated in U.S. Dollars and has been primarily issued at fixed rates, therefore, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $305.1 million and $559.9 million at June 30, 2007 and December 31, 2006, respectively. A 100 basis point decrease would result in an increase in market value of $327.6 million and $352.9 million at June 30, 2007 and December 31, 2006, respectively.

Equity Price Risk – We have exposure to equity price risk as a result of our investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% decrease in the underlying reference price or index from its level at June 30, 2007 and December 31, 2006, with all other variables held constant.

Foreign Exchange Rate Risk – Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. We have foreign exchange rate exposure when we buy or sell foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by our asset/liability matching strategy and through the use of futures for those instruments which are not matched. Our foreign transactions are primarily denominated in Australian dollars, Canadian dollars, British pounds, Japanese yen and the European Monetary Unit. The sensitivity analysis assumes an instantaneous 20% decrease in the foreign currency exchange rates versus the U.S. dollar from their levels at June 30, 2007 and December 31, 2006, with all other variables held constant.

Commodity Price Risk – We have exposure to price risk as a result of our investments in commodities. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous increase of 20% from their levels at June 30, 2007 and December 31, 2006.

Credit Risk – We are exposed to credit risk which relates to the risk of loss resulting from the nonperformance by a customer of its contractual obligations. Boardwalk Pipeline has exposure related to receivables for services provided, as well as volumes owed by customers for imbalances or gas lent by Boardwalk Pipeline to them generally under parking and lending services and no-notice services. Boardwalk Pipeline maintains credit policies intended to minimize this risk and actively monitors these policies. Natural gas price volatility has increased dramatically in recent years, which has materially increased Boardwalk Pipeline's credit risk related to gas loaned to its customers. As of June 30, 2007, the amount of gas loaned out by Boardwalk Pipeline was approximately 15.0 trillion British thermal units ("TBtu") and, assuming an average market price during June 2007 of $7.33 per million British thermal units ("MMBtu"), the market value of gas loaned out at June 30, 2007 would have been approximately $110.0 million. As of December 31, 2006, the amount of gas loaned out by our subsidiaries was approximately 15.1 TBtu and, assuming an average market price during December 2006 of $6.81 per MMBtu, the market value of gas loaned out at December 31, 2006 would have been approximately $102.8 million. If any significant customer should have credit or financial problems resulting in a delay or failure to repay the gas it owes Boardwalk Pipeline, it could have a material adverse effect on our financial condition, results of operations and cash flows.

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

Trading portfolio:

Category of risk exposure:	**Fair Value Asset (Liability)**		**Market Risk**	
	June 30, 2007	December 31, 2006	**June 30, 2007**	December 31, 2006
(In millions)				
Equity markets (1):				
Equity securities (a)	**$ 794.0**	$ 685.5	**$ (199.0)**	$ (171.0)
Futures - short			**76.0**	
Options - purchased	**25.2**	25.9	**3.0**	(1.0)
- written	**(5.4)**	(13.0)		9.0
Warrants	**0.5**	0.4		
Short sales	**(63.9)**	(61.9)	**16.0**	15.0
Limited partnership investments	**379.0**	343.2	**(30.0)**	(27.0)
Interest rate (2):				
Futures – long			**34.0**	(29.0)
Futures – short			**(69.0)**	21.0
Interest rate swaps – long		(0.5)		(4.0)
Fixed maturities – long	**1,861.3**	1,921.7	**58.0**	(38.0)
Fixed maturities – short	**(288.7)**		**(22.0)**	
Short-term investments	**4,805.3**	4,385.5		
Other derivatives	**0.4**	2.2	**(4.0)**	9.0
Commodities (3):				
Forwards – short	**24.6**		**(61.0)**	
Options - purchased		0.5		(1.0)
- written		(0.1)		1.0

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%, (2) a decrease in interest rates of 100 basis points at June 30, 2007 and an increase in interest rates of 100 basis points at December 31, 2006 and (3) an increase in commodity 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) A decrease in equity prices of 25% would result in market risk amounting to $(173.0) and $(162.0) at June 30, 2007 and December 31, 2006, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	June 30, 2007	December 31, 2006	**June 30, 2007**	December 31, 2006
(In millions)				
Equity markets (1):				
Equity securities:				
General accounts (a)	**$ 610.6**	$ 597.0	**$ (153.0)**	$ (149.0)
Separate accounts	**44.2**	41.4	**(11.0)**	(10.0)
Limited partnership investments	**1,973.3**	1,817.3	**(156.0)**	(143.0)
Interest rate (2):				
Fixed maturities (a)(b)	**34,356.5**	35,648.0	**(1,974.0)**	(1,959.0)
Short-term investments (a)	**9,442.9**	8,436.9	**(8.0)**	(5.0)
Other invested assets	**16.2**	21.3		
Other derivative securities	**50.7**	4.6	**126.0**	190.0
Separate accounts (a):				
Fixed maturities	**428.4**	433.5	**(21.0)**	(21.0)
Short-term investments	**3.9**	21.4		
Debt	**(5,057.0)**	(5,443.0)		

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 $(287.0) and $(283.0) at June 30, 2007 and December 31, 2006, 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 $(265.0) and $(227.0) at June 30, 2007 and December 31, 2006, respectively.

Item 4. Controls and Procedures.

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

The Company’s principal executive officer (“CEO”) and principal financial officer (“CFO”) undertook an evaluation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. The CEO and CFO have concluded that the Company’s controls and procedures were effective as of June 30, 2007.

There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended June 30, 2007, that have materially affected or that are reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. Insurance Related.

Information with respect to insurance related legal proceedings is incorporated by reference to Note 10 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report.

2. Tobacco Related.

Information with respect to tobacco related legal proceedings is incorporated by reference to Note 10 of the Notes to Consolidated Condensed Financial Statements in Part I of this Report and Item 3, Legal Proceedings, and Exhibit 99.01, Pending Tobacco Litigation, of the Company's Report on Form 10-K for the year ended December 31, 2006.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2006 includes a detailed discussion of certain material risk factors facing our company. The information presented below describes updates and additions to such risk factors and should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Our recent acquisition of HighMount creates risks and uncertainties.

On July 31, 2007 we acquired the assets and business of HighMount from Dominion Resources, Inc. ("Dominion") for approximately $4.0 billion. As with any acquisition, our acquisition of HighMount involves potential risks, including, among other things:

- variations from assumptions about the amount of recoverable reserves, production volumes, revenues and costs and the future price of natural gas, oil and natural gas liquids ("NGLs");
- an inability to successfully integrate the business;
- difficulty in hiring, training or retaining qualified personnel to manage and operate the business;
- an inability to coordinate organizations, systems and facilities needed to operate HighMount as a stand-alone business, independent from Dominion, including reliance on transition services to be provided by Dominion;
- the assumption of unknown liabilities and limitations on our rights to indemnity from Dominion;
- the diversion of management's and employees' attention from other business concerns; and
- unforeseen difficulties operating in a new industry.

In connection with the acquisition, we conducted a customary due diligence review of the acquired business, including among other things, assessment of recoverable reserves, title to acquired assets, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain. In connection with the assessments, we performed a review of HighMount's properties, but such a review will not reveal all existing or potential problems. In the course of our due diligence, we did not inspect every well, facility or pipeline. We could not necessarily observe structural and environmental problems or reserves. We were not be able to obtain contractual indemnities from Dominion for many pre-closing liabilities and risks, known or unknown, and assumed many such risks. The incurrence of an unexpected liability or the failure of the business to perform in accordance with our expectations could have a material adverse effect on our financial position and results of operations.

Risks Related to Us and Our Subsidiary, HighMount Exploration & Production

HighMount may not be able to replace reserves and sustain production at current levels. Replacing reserves is risky and uncertain and requires significant capital expenditures.

HighMount's future success depends largely upon its ability to find, develop or acquire additional reserves that are economically recoverable. Unless HighMount replaces the reserves produced through successful development, exploration or acquisition, its proved reserves will decline over time. HighMount may not be able to successfully find and produce reserves economically in the future or to acquire proved reserves at acceptable costs.

By their nature, undeveloped reserves are less certain. Thus, HighMount must make a substantial amount of capital expenditures for the acquisition, exploration and development of reserves. HighMount expects to fund its capital expenditures with cash from its operating activities. If HighMount’s cash flow from operations is not sufficient to fund its capital expenditure budget, there can be no assurance that additional debt or equity financing will be available to meet those requirements.

Estimates of natural gas, oil and NGL reserves are uncertain and inherently imprecise.

Estimating accumulations of natural gas, oil and NGLs is complex and is not an exact science because of the numerous uncertainties inherent in the process. The process relies on interpretations of available geological, geophysical, engineering and production data. The extent, quality and reliability of this technical data can vary. The process also requires certain economic assumptions, some of which are mandated by the Securities and Exchange Commission, such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, these estimates are inherently imprecise. The accuracy of a reserve estimate is a function of:

- the quality and quantity of available data;
- the interpretation of that data;
- the accuracy of various mandated economic assumptions; and
- the judgment of the persons preparing the estimate.

Actual future production, commodity prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable reserves most likely will vary from HighMount’s estimates. Any significant variance could materially affect the quantities and present value of HighMount’s reserves. In addition, HighMount may adjust estimates of proved reserves to reflect production history, results of exploration and development and prevailing commodity prices.

The timing of both the production and the expenses from the development and production of oil and gas properties will affect both the timing of actual future net cash flows from proved reserves and their present value. In addition, the 10% discount factor, which is required by the Securities and Exchange Commission to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor. The effective interest rate at various times, and the risks associated with our business, or the oil and gas industry in general, will affect the accuracy of the 10% discount factor.

If commodity prices decrease, HighMount may be required to take write-downs of the carrying values of its properties.

HighMount may be required, under full cost accounting rules, to write down the carrying value of its oil and gas properties if commodity prices decline significantly, or if it makes substantial downward adjustments to its estimated proved reserves, or increases its estimates of development costs or deterioration in its exploration results. HighMount utilizes the full cost method of accounting for its exploration and development activities. Under full cost accounting, HighMount is required to perform a ceiling test each quarter. The ceiling test is an impairment test and generally establishes a maximum, or “ceiling,” of the book value of HighMount’s natural gas properties that is equal to the expected after tax present value (discounted at the required rate of 10%) of the future net cash flows from proved reserves, including the effect of cash flow hedges, calculated using prevailing prices on the last day of the period.

If the net book value of HighMount’s exploration and production properties (reduced by any related net deferred income tax liability) exceeds its ceiling limitation, SEC regulations require HighMount to impair or “write down” the book value of its exploration and production properties. Depending on the magnitude of any future impairment, a ceiling test write-down could significantly reduce HighMount’s income, or produce a loss. As ceiling test computations involve the prevailing price on the last day of the quarter, it is impossible to predict the timing and magnitude of any future impairment. Any such write-down could materially adversely affect our results of operations and equity.

Drilling for and producing natural gas, oil and NGLs is a high risk activity with many uncertainties that could adversely affect HighMount’s business, financial condition or results of operations.

HighMount’s future success will depend in part on the success of its exploitation, exploration, development and production activities. HighMount’s exploration and production activities are subject to numerous risks beyond its control, including the risk that drilling will not result in commercially viable production at acceptable levels. HighMount's decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. HighMount's cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- lack of acceptable prospective acreage;
- inadequate capital resources;
- unexpected drilling conditions; pressure or irregularities in formations; equipment failures or accidents;
- adverse weather conditions;
- unavailability or high cost of drilling rigs, equipment or labor;
- reductions in commodity prices;
- limitations in the market for natural gas, oil and NGLs;
- title problems;
- compliance with governmental regulations; and
- mechanical difficulties.

HighMount's business involves many hazards and operational risks, some of which may not be fully covered by insurance. If a significant accident or event occurs that is not fully insured, HighMount's operations and financial results could be adversely affected.

HighMount is not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect HighMount's business, financial condition or results of operations. HighMount's exploration and production activities are subject to all of the operating risks associated with drilling for and producing natural gas, oil and NGLs, including the possibility of:

- environmental hazards, such as uncontrollable flows of natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

If any of these events occur, HighMount could incur substantial losses as a result of injury or loss of life, damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of HighMount's operations and repairs to resume operations, any of which could adversely affect its ability to conduct operations or result in substantial losses. HighMount may elect not to obtain insurance, if the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event that is not covered or not fully covered by insurance could have a material adverse effect on HighMount's business, financial condition or results of operations.

HighMount's hedging activities may have a material adverse effect on our earnings, profitability, cash flows and financial condition.

HighMount is exposed to risks associated with fluctuations in commodity prices. The extent of HighMount's commodity price risk is related to the effectiveness and scope of HighMount's hedging activities. To the extent HighMount hedges its commodity price risk, HighMount will forego the benefits it would otherwise experience if commodity prices or interest rates were to change in its favor. Furthermore, because HighMount has entered into derivative transactions related to only a portion of the volume of its expected natural gas supply and production of NGLs, HighMount will continue to have direct commodity price risk to the unhedged portion. HighMount's actual future supply and production may be significantly higher or lower than HighMount estimates at the time it enters into derivative transactions for that period.

As a result, HighMount's hedging activities may not be as effective as HighMount intends in reducing the volatility of its cash flows, and in certain circumstances may actually increase the volatility of cash flows. In addition, even though HighMount's management monitors its hedging activities, these activities can result in substantial losses. Such losses could occur under various circumstances, including if a counterparty does not perform its obligations under the applicable hedging arrangement, the hedging arrangement is imperfect or ineffective, or HighMount's hedging policies and procedures are not properly followed or do not work as planned.

Natural gas, oil, NGL and other commodity prices are volatile, and a reduction in these prices could adversely affect HighMount's revenue, profitability and cash flow.

The commodity price HighMount receives for its production heavily influences its revenue, profitability, access to capital and future rate of growth. HighMount is subject to risks due to frequent and often substantial fluctuations in commodity prices. NGL prices generally fluctuate on a basis that correlates to fluctuations in crude oil prices. In the past, the prices of natural gas and crude oil have been extremely volatile, and HighMount expects this volatility to continue. The markets and prices for natural gas, oil and NGLs depend upon factors beyond HighMount's control. These factors include demand, which fluctuates with changes in market and economic conditions and other factors, including:

- the impact of weather on the demand for these commodities;
- the level of domestic production and imports of these commodities;
- natural gas storage levels;
- actions taken by foreign producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the availability and marketing of competitive fuels;
- the impact of energy conservation efforts; and
- the extent of governmental regulation and taxation.

Lower commodity prices may decrease HighMount's revenues and may reduce the amount of natural gas, oil and NGLs that HighMount can produce economically. A substantial or extended decline in prices may materially and adversely affect HighMount's future business, financial condition, results of operations, and cash flows.

Risks Related to Us and Our Subsidiaries Generally

Certain of our subsidiaries face significant risks related to compliance with environmental laws.

- Development, production and sale of natural gas, oil and NGLs in the United States are subject to extensive laws and regulations, including environmental laws and regulations, including those related to discharge of materials into the environment and environmental protection, permits for drilling operations, bonds for ownership, development and production of gas properties and reports concerning operations, which could result in liabilities for personal injuries, property damage, spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages, suspension or termination of HighMount's operations and administrative, civil and criminal penalties.

Future acts of terrorism could harm us and our subsidiaries.

- *HighMount*. The impact that future terrorist attacks or regional hostilities (particularly in the Middle East) may have on the energy industry in general, and on HighMount in particular, is unknown and may affect HighMount's operations in unpredictable ways, including disruptions of fuel supplies and markets and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror or war. Moreover, HighMount may be required to incur significant additional costs, including insurance costs, to safeguard its assets in the event of any future such activities.

The risk factor in our Annual Report on Form 10-K for the year ended December 31, 2006 captioned ***"Diamond Offshore significantly increased insurance deductibles and has elected to self-insure for a portion of its liability exposure and for physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico"*** is amended and restated in its entirety as follows:

Diamond Offshore is self-insured for a portion of physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico.

Effective May 1, 2007, Diamond Offshore renewed its principal insurance policies. For physical damage due to named windstorms in the U.S. Gulf of Mexico, Diamond Offshore's deductible is $75.0 million per occurrence (or lower for some rigs if they are declared a constructive total loss) with an annual aggregate limit of $125.0 million. Accordingly, Diamond Offshore's insurance coverage for all physical damage to Diamond Offshore's rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico for the policy period ending April 30, 2008 is limited to $125.0 million. If named windstorms in the U.S. Gulf of Mexico cause significant damage to Diamond Offshore's rigs or equipment, it could have a material adverse effect on our financial position, results of operations or cash flows.

The risk factor in our Annual Report on Form 10-K for the year ended December 31, 2006 captioned ***"Boardwalk Pipeline's natural gas transportation and storage operations are subject to FERC rate-making policies"*** is amended and restated in its entirety as follows:

Boardwalk Pipeline's natural gas transportation and storage operations are subject to FERC rate-making policies.

Action by the FERC on currently pending matters as well as matters arising in the future could adversely affect Boardwalk Pipeline's ability to establish rates, or to charge rates that would cover future increases in Boardwalk Pipeline's costs, or even to continue to collect rates that cover current costs, including a reasonable return. Boardwalk Pipeline cannot make assurances that it will be able to recover all of its costs through existing or future rates. An adverse determination in any future rate proceeding brought by or against Texas Gas or Gulf South could have a material adverse effect on our business, financial condition and results of operations that could have an adverse impact on Boardwalk Pipeline's ability to service its debt.

On July 20, 2004, the United States Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") issued its opinion in *BP West Coast Products, LLC v. FERC ("BP West Coast")* and vacated the portion of the FERC's decision applying the FERC's *Lakehead* policy to determine an allowance for income taxes in the regulated cost of service. In its *Lakehead* decision, the FERC allowed an oil pipeline limited partnership to include in its cost of service an income tax allowance to the extent that its unitholders were corporations subject to income tax. The D.C. Circuit emphasized that a regulated pipeline's cost of service should include only "appropriate cost[s]" and compared income taxes paid by owners of equity interests in a pipeline to the costs of bookkeeping paid by such owners, indicating the court's belief that such costs paid by an entity other than the regulated entity would not be recoverable in the rates of the pipeline. In May and June 2005, the FERC issued a statement of general policy and an order on remand of *BP West Coast*, respectively, in which the FERC stated it will permit pipelines to include in cost-of-service a tax allowance to reflect actual or potential tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails risk due to the case-by-case review requirement. On December 16, 2005, the FERC issued a case-specific review of the income tax allowance issue in the *SFPP, L.P.* proceeding. The FERC ruled favorably to SFPP, L.P. on all income tax issues and set forth guidelines regarding the type of evidence necessary for the pipeline to determine its income tax allowance. The FERC's *BP West Coast* remand decision, the new tax allowance policy, and the December 16, 2005 order were appealed to the D.C. Circuit. The D.C. Circuit issued an order on May 29, 2007, in which it denied these appeals and fully upheld FERC's new tax allowance policy and the application of that policy in the December 16, 2005 order. Boardwalk Pipeline has no way of knowing whether any party will seek rehearing or appeal of the D.C. Circuit's decision. However, it is possible that a party could request rehearing of the decision and/or petition for writ of certiorari to the United States Supreme Court. As a result, the ultimate outcome of these proceedings is not certain and could result in changes to the

FERC's treatment of income tax allowances in cost of service. If the FERC were to change its tax allowance policies in the future, or if current policy was reversed or changed on appeal by a court, such changes could materially and adversely impact the rates Boardwalk Pipeline is permitted to charge as future rates are approved for its interstate transportation services.

If Texas Gas or Gulf South were to file a rate case or if Boardwalk Pipeline was to be required to defend its rates, Boardwalk Pipeline would be required to establish pursuant to the new policy statement that the inclusion of an income tax allowance in its cost of service was just and reasonable. To establish that its tax allowance is just and reasonable, Boardwalk Pipeline's general partner may elect to require owners of Boardwalk Pipeline's units to recertify their status as being subject to United States federal income taxation on the income generated by Texas Gas or Gulf South. Boardwalk Pipeline can provide no assurance that the certification and re-certification procedures provided in Boardwalk Pipeline's partnership agreement will be sufficient to establish that its unitholders, or its unitholders' owners, are subject to United States federal income taxation on the income generated by Boardwalk Pipeline. If Boardwalk Pipeline is unable to establish that the master partnership's unitholders, or its unitholders' owners, are subject to United States federal income taxation on the income generated by Boardwalk Pipeline, the FERC could disallow a substantial portion of Texas Gas' or Gulf South's income tax allowance. If the FERC were to disallow a substantial portion of Texas Gas' or Gulf South's income tax allowance, it is likely that the level of maximum lawful rates could decrease from current levels.

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

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

(c) STOCK REPURCHASES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
May 1, 2007 - May 31, 2007	1,272,400	$ 48.62	N/A	N/A
June 1, 2007 June 30, 2007	164,700	$ 50.70	N/A	N/A

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

Set forth below is information relating to the 2007 Annual Meeting of Shareholders of the Registrant.

The annual meeting was called to order at 11:00 A.M., May 8, 2007. Represented at the meeting, in person or by proxy, were shares representing 522,889,659 votes, approximately 91.5% of the votes represented by issued and outstanding shares entitled to vote.

The following business was transacted:

Election of Directors

Over 96% of the votes cast for directors were voted for the election of the following directors. The number of votes for and withheld with respect to each director was as follows:

	Votes For	Votes Withheld
Ann E. Berman	514,359,868	8,529,791
Joseph L. Bower	512,829,125	10,060,534
Charles M. Diker	513,337,437	9,552,222
Paul J. Fribourg	511,605,866	11,283,793
Walter L. Harris	511,895,863	10,993,796
Philip A. Laskawy	514,404,047	8,485,612
Gloria R. Scott	507,095,126	15,794,533
Andrew H. Tisch	507,289,917	15,599,742
James S. Tisch	507,264,528	15,625,131
Jonathan M. Tisch	508,357,858	14,531,801

Ratification of the appointment of independent auditors

Approved – 513,089,385 votes, approximately 98.1% of the votes cast, voted to ratify the appointment of Deloitte & Touche, LLP as independent auditors for the Company. 7,004,535 votes, approximately 1.3% of the votes cast, voted against, and shares representing 2,795,735 votes, approximately 0.5% of the votes cast, abstained. In addition, there were shares representing 4 votes as to which brokers indicated that they did not have authority to vote ("broker non-votes").

Approval of Amended and Restated Incentive Compensation Plan for Executive Officers

Approved – 501,782,634 votes, approximately 96.0% of the votes cast, voted to approve the Company's Amended and Restated Incentive Compensation Plan for Executive Officers. 17,596,530 votes, approximately 3.4% of the votes cast, voted against, and shares representing 3,510,485 votes, approximately 0.7% of the votes cast, abstained. In addition, there were 10 broker non-votes.

Shareholder proposal relating to cumulative voting

Rejected – 399,081,719 votes, approximately 83.2% of the votes cast, voted against this shareholder proposal. 77,415,153 votes, approximately 16.1% of the votes cast, were cast for, and shares representing 3,394,406 votes, approximately 0.7% of the votes cast, abstained. In addition, there were shares representing 42,998,381 broker non-votes.

Shareholder proposal relating to the production, promotion and marketing of tobacco products

Rejected – 444,852,107 votes, approximately 92.7% of the votes cast, voted against this shareholder proposal. 1,436,244 votes, approximately 0.3% of the votes cast, were cast for, and shares representing 33,602,926 votes, approximately 7.0% of the votes cast, abstained. In addition, there were 42,998,382 broker non-votes.

Item 6. Exhibits.

Description of Exhibit	Exhibit Number
Alabama/Michigan/Permian Package Purchase Agreement Between Dominion Exploration & Production, Inc., Dominion Energy, Inc., Dominion Oklahoma Texas Exploration & Production, Inc., Dominion Reserves, Inc., LDNG Texas Holdings, LLC and DEPI Texas Holdings, LLC as Sellers and LO&G Acquisition Corp. as Purchaser, dated June 1, 2007	10.1*
Amendment #1 to Alabama/Michigan/Permian Package Purchase Agreement Between Dominion & Exploration Production, Inc., Dominion Energy, Inc., Dominion Oklahoma Texas Exploration & Production, Inc., Dominion Reserves, Inc., LDNG Texas Holdings, LLC and DEPI Texas Holdings, LLC as Sellers and LO&G Acquisition Corp. as Purchaser, dated June 1, 2007	10.2*
Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.1*
Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.2*
Certification by the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.1*
Certification by the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.2*
Pending Tobacco Litigation, incorporated by reference to Exhibit 99.01 to Registrant's Report on Form 10-K for the year ended December 31, 2006	99.1

*Filed herewith.

SIGNATURES

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

LOEWS CORPORATION
(Registrant)

Dated: August 1, 2007

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

ALABAMA/MICHIGAN/PERMIAN PACKAGE
PURCHASE AGREEMENT

BETWEEN

DOMINION EXPLORATION & PRODUCTION, INC.
DOMINION ENERGY, INC.
DOMINION OKLAHOMA TEXAS EXPLORATION & PRODUCTION, INC.
DOMINION RESERVES, INC.
LDNG TEXAS HOLDINGS, LLC
DEPI TEXAS HOLDINGS, LLC

AS SELLERS,

AND

L O & G ACQUISITION CORP.,

AS PURCHASER,

Dated as of June 1, 2007

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ALABAMA/MICHIGAN/PERMIAN PACKAGE PURCHASE AGREEMENT

This Alabama/Michigan/Permian Package Purchase Agreement (this "Agreement"), is dated as of June 1, 2007, by and between Dominion Exploration & Production, Inc., a corporation organized under the Laws of Delaware ("DEPI"), Dominion Energy, Inc., a corporation organized under the Laws of Virginia ("DEI"), Dominion Oklahoma Texas Exploration & Production, Inc., a corporation organized under the Laws of Delaware ("DOTEPI"), Dominion Reserves, Inc., a corporation organized under Laws of Virginia ("Reserves"), LDNG Texas Holdings, LLC, a limited liability company organized under the laws of Oklahoma ("LDNG") and DEPI Texas Holdings, LLC, a limited liability company organized under the laws of Delaware ("DEPI Texas") (collectively "Sellers"), and L O & G Acquisition Corp., a company organized under the Laws of Delaware ("Purchaser"). Sellers and Purchaser are sometimes referred to collectively as the "Parties" and individually as a "Party."

RECITALS:

Each Seller desires to sell and Purchaser desires to purchase all of the issued and outstanding shares or partnership interests, as applicable, owned of record by each Seller (the "Shares") of the corporations and partnerships described opposite each Seller's name in Exhibit A (each, a "Company" and collectively, the "Companies"), and, in the case of LDNG, listed opposite such Seller's name in Exhibit C, and DEPI, DOTEPI and Reserves desire to sell and Purchaser desires to purchase those certain interests in oil and gas properties, rights and related assets that are defined and described as "Additional Assets" herein.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1.
PURCHASE AND SALE

Section 1.1 **Purchase and Sale**. On the terms and conditions contained in this Agreement, each Seller agrees to sell to Purchaser and Purchaser agrees to purchase, accept and pay for (i) the Shares set forth opposite such Seller's name in Exhibit A and Exhibit C and (ii) in the case of DEPI, DOTEPI and Reserves as Sellers, the Additional Assets owned by such Seller (collectively, the "Interests").

Section 1.2 **Certain Definitions**. As used herein:

(a) "Additional Assets" means all of DEPI's, DOTEPI's and Reserves' right, title, and interest in and to the following:

(i) The oil and gas leases, oil, gas and mineral leases and subleases, royalties, overriding royalties, net profits interests, mineral fee interests, carried interests, and other rights to oil and gas in place, and mineral servitudes ("Oil and Gas Leases"), that are described on Exhibit D-1 and all other Oil and Gas Leases located in (A) any county in Michigan or in any county referred to on Exhibit D-1 or (B) any county in New Mexico or Texas other than the Excluded New Mexico Counties or Excluded Texas Counties (collectively, the "Additional Leases"), and any and all oil, gas, water, CO_2 or injection wells thereon or on pooled, communitized or unitized acreage that includes all or any part of the Additional Leases, including the interests in the wells shown on Exhibit D-2 attached hereto (the "Additional Wells");

(ii) All pooled, communitized or unitized acreage which includes all or part of any Additional Leases (the "Additional Units"), and all tenements, hereditaments and appurtenances belonging to the Additional Leases and Additional Units.

(iii) The gas processing plants, gas gathering systems, pipelines, and other mid-stream equipment described on Exhibit D-3 (the "Additional Midstream Assets" and, together with the Additional Leases, Additional Wells and Additional Units, the "Additional Properties");

(iv) The Material Contracts listed on Schedule 4.8, Part I and all other currently existing contracts, agreements and instruments with respect to the Additional Properties, to the extent applicable to the Additional Properties, including operating agreements, unitization, pooling, and communitization agreements, declarations and orders, area of mutual interest agreements, joint venture agreements, farmin and farmout agreements, leases, easements, rights-of-way, exploration agreements, participation agreements, marketing agreements, balancing agreements, exchange agreements, transportation agreements, gathering agreements, agreements for the sale, storage and purchase of oil and gas and treating and processing agreements, but excluding any contracts, agreements and instruments included within the definition of "Excluded Assets," and provided that the defined term "Additional Contracts" shall not include the Additional Leases, conveyances and assignments of Additional Leases and other similar instruments constituting such Seller's chain of title to the Additional Leases (subject to such exclusion and proviso, the "Additional Contracts");

(v) All surface fee interests, easements, permits, licenses, servitudes, rights-of-way, surface leases and other surface rights appurtenant to, and used or held for use primarily in connection with, the Additional Properties, but excluding any permits and other appurtenances included within the definition of "Excluded Assets;"

(vi) All equipment, machinery, facilities, fixtures and other tangible personal property and improvements, including pipelines and well equipment (both surface and subsurface), located on the Additional Properties or used or held for use primarily in connection with the operation of the Additional Properties or the exploration, production, transportation or processing of oil and gas from the Additional Properties, but excluding (A) office furniture, fixtures and equipment except as described in Section 1.2(a)(vii), (B) materials and equipment inventory except as described in Section 1.2(a)(viii), (C) vehicles except as described in Section 1.2(a)(ix) and (D) any such items included within the definition of “Excluded Assets” (subject to such exclusions, the “Additional Equipment”);

(vii) The offices leases, office subleases or buildings described on Exhibit D-4, Part I and Part II, and the furniture, fixtures and equipment located in those offices and buildings (or the applicable portion thereof indicated on such Exhibit), less furniture, fixture and equipment assigned to any employee of Sellers or their Affiliates presently located in that space who does not become a Company Onshore Employee, plus furniture, fixtures and equipment assigned to any employee of Sellers or their Affiliates in the same building but outside of the space indicated on Exhibit D-4 who does become a Company Onshore Employee, but excluding in any case any such items included within the definition of “Excluded Assets;”

(viii) The materials and equipment inventory, if any, described on Exhibit D-5;

(ix) The vehicles acquired pursuant to Section 6.13;

(x) All oil and gas produced from or attributable to the Additional Leases, Additional Units or Additional Wells after the Closing Date, all oil, condensate and scrubber liquids inventories and ethane, propane, iso-butane, nor-butane and gasoline inventories of Sellers from the Additional Properties in storage as of the end of the Closing Date, and all production, plant and transportation imbalances of Sellers with respect to the Additional Properties as of the end of the Closing Date; and

(xi) The information, books, records, trade secrets and confidential information, including but not limited to geophysical and geological information, drilling operations, production data, customer information, operational data, research and development studies, reservoir modeling information and models, engineering information, and know-how (but excluding any trade secrets and confidential information of third parties) and other data, information and records of each Seller and its Affiliates, whether in hard copy or electronic or digital format, to the extent relating primarily to the Additional Properties or other Additional Assets, excluding, however, in each case:

(A) all corporate, financial, Tax and legal data, information and records of such Seller that relates primarily to: (1) such Seller’s business generally (whether or not relating to the Additional Assets); (2) such Seller’s business and operations in Virginia, West Virginia, Ohio, Pennsylvania, New York, Kentucky, and Maryland (the “Appalachian Business”); (3) such Seller’s business and operations in the Excluded Onshore Areas; (4) such Seller’s business and operations in the Offshore Package Areas; or (5) the businesses of such Seller and its Affiliates (other than the Companies and Subsidiaries) other than the exploration and production of oil and gas, each of which is being retained by such Seller;

(B) any data, information and records to the extent disclosure or transfer is prohibited or subjected to payment of a fee or other consideration by any license agreement or other agreement with a Person other than Affiliates of Seller, or by applicable Law, and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration, as applicable;

(C) all legal records and legal files of Sellers including all work product of and attorney-client communications with any Seller's legal counsel (other than Additional Leases, title opinions, Additional Contracts and Sellers' working files for litigation of DEPI, DOTEPI and Reserves listed on Schedule 4.4 which is assumed by Purchaser pursuant to Section 12.1);

(D) all software;

(E) data, information and records relating to any sale of all or any portion of the Additional Assets proposed or considered by Sellers and their Affiliates pursuant to that sales process commenced in the fall of 2006 and announced pursuant to a press release dated November 1, 2006, including bids received from and records of negotiations with third Persons in connection therewith;

(F) any data, information and records relating primarily to the other Excluded Assets;

(G) those original information, data and records retained by any Seller pursuant to Section 13.6; and

(H) originals of well files and division order files with respect to Additional Wells and Additional Units for which DEPI, DOTEPI or Reserves is operator but for which Purchaser does not become operator (provided that copies of such files will be included in the Additional Records).

(Clauses (A) through (G) shall hereinafter be referred to as the "Additional Excluded Records" and subject to such exclusions, the data, information and records described in this Section 1.2(a)(xi) shall hereinafter be referred to as the "Additional Records.") For the avoidance of doubt, employment records of each Company Onshore Employee who becomes an employee of Purchaser or any Designated Affiliate pursuant to Article 10 shall not be included in the Additional Records except to the extent: (i) permitted by applicable Law; and (ii) such employee expressly authorizes the transfer of such employment records from Sellers to Purchaser pursuant to a written waiver.

(xii) The radio licenses described on Exhibit D-6 except those for which a transfer is prohibited or subject to payment of a fee or other consideration and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration, as applicable; and

(xiii) All (A) accounts, instruments and general intangibles (as such terms are defined in the Uniform Commercial Code of Texas) attributable to the other Additional Assets at the Closing Date (other than the Excluded Assets and the amounts to which Seller is entitled pursuant to Section 2.3 and Section 2.4); and (B) liens and security interests and collateral in favor of Sellers that exist as of the Closing Date, whether choate or inchoate, under any law, rule or regulation or under any of the Additional Contracts (i) arising from the ownership, operation or sale or other disposition of any of the other Additional Assets or (ii) arising in favor of any Seller as the operator of any of the Additional Assets, but only to the extent Purchaser is appointed successor operator.

(b) "Administrative Services Agreement" means that certain Administrative Services Agreement effective as of June 1, 1994, by and between DRI and Dominion Resources Black Warrior Trust, as amended from time to time.

(c) "Adverse Environmental Condition" shall mean, with respect to the Assets, any violation of Environmental Laws; any condition that is required to be remediated or cured under applicable Environmental Laws; the failure to remediate or cure any condition that is required to be remediated or cured under applicable Environmental Laws; or any actual or threatened action or proceeding before any Governmental Authority alleging potential liability arising out of or resulting from any actual or alleged violation of, or any remedial obligation under, any Environmental Laws.

(d) "Affiliate" means, with respect to any Person, a Person that directly or indirectly controls, is controlled by or is under common control with such Person, with control in such context meaning the ability to direct the management or policies of a Person through ownership of voting shares or other securities, pursuant to a written agreement, or otherwise.

(e) "Annual Incentive Plan" means the annual incentive bonus plan sponsored by Dominion Resources, Inc. for its eligible employees.

(f) "Assets" means the Company Assets and the Additional Assets.

(g) "Business Day" means any day other than a Saturday, a Sunday, or a day on which banks are closed for business in New York, New York or Richmond, Virginia, United States of America.

(h) "COBRA" has the meaning set forth in Section 10.9.

(i) "Code" means the United States Internal Revenue Code of 1986, as amended.

(j) "Company Assets" means all of each Company's and Wholly-Owned Subsidiary's right, title, and interest in and to the following:

(i) The Oil and Gas Leases that are described on Exhibit B-1 and all other Oil and Gas Leases owned by any Company or Wholly-Owned Subsidiary (collectively, the "Company Leases"), and any and all oil, gas, water, CO2 or injection wells thereon or on the pooled, communitized or unitized acreage that includes all or any part of the Leases, including the interests in the wells shown on Exhibit B-2 attached hereto (the "Company Wells");

(ii) All pooled, communitized or unitized acreage which includes all or a part of any Company Lease (the "Company Units"), and all tenements, hereditaments and appurtenances belonging to the Company Leases and Company Units;

(iii) The gas processing plants, gas gathering systems, pipelines and other mid-stream equipment described on Exhibit B-3 (the "Company Midstream Assets" and, together with the Company Leases, Company Wells and Company Units, the "Company Properties");

(iv) The Material Contracts listed on Schedule 4.8 and all other currently existing contracts, agreements and instruments with respect to the Company Properties, to the extent applicable to the Company Properties, including but not limited to, operating agreements, unitization, pooling and communitization agreements, declarations and orders, area of mutual interest agreements, joint venture agreements, farmin and farmout agreements, leases, easements, rights-of-way, exploration agreements, participation agreements, marketing agreements, balancing agreements, exchange agreements, transportation agreements, gathering agreements, agreements for the sale, storage and purchase of oil and gas and treating and processing agreements, but excluding any contracts, agreements and instruments included within the definition of Excluded Assets, and provided that the defined term "Company Contracts" shall not include the Company Leases, conveyances and assignments of Company Leases and other similar instruments constituting any Company's or Wholly-Owned Subsidiary's chain of title to the Company Leases (subject to such exclusion and proviso, the "Company Contracts");

(v) All surface fee interests, easements, permits, licenses, servitudes, rights-of-way, surface leases and other surface rights appurtenant to, and used or held for use in connection with, the Company Properties, but excluding any permits and other appurtenances included within the definition of Excluded Assets;

(vi) All equipment, machinery, facilities, fixtures and other tangible personal property and improvements, including pipelines and well equipment (both surface and subsurface), located on the Company Properties or used or held for use in connection with the operation of the Company Properties or the exploration, production, transportation or processing of oil or gas from the Company Properties, but excluding (A) office furniture, fixtures and equipment except as described in Section 1.2(j)(vii), and (B) any such items included within the definition of Excluded Assets (subject to such exclusions, the "Company Equipment");

(vii) The office leases or buildings, if any, described on Exhibit B-4 and the furniture, fixtures and equipment located therein, but excluding any such items included within the definition of Excluded Assets;

(viii) The materials and equipment inventory, if any, used or held for use in connection with the Company Properties, but excluding any such items included within the definition of Excluded Assets;

(ix) All vehicles used in connection with the Company Properties, but excluding any such items included within the definition of Excluded Assets;

(x) All oil and gas produced from or attributable to the Company Leases, Company Units, or Company Wells after the Closing Date, all oil, condensate and scrubber liquids inventories and ethane, propane, iso-butane, nor-butane and gasoline inventories of the Companies and Wholly-Owned Subsidiaries from the Company Properties in storage as of the end of the Closing Date and production, plant and transportation imbalances of the Companies and Wholly-Owned Subsidiaries as of the end of the Closing Date;

(xi) The software, trade secrets and confidential information, including but not limited to geophysical and geological information, drilling operations, production data, customer information, operational data, research and development studies, reservoir modeling information and models, engineering information, and know-how (but excluding any trade secrets and confidential information of third parties) and other data, information and records of the Companies and Wholly-Owned Subsidiaries and their Affiliates, excluding however

(A) any data, information, software and records to the extent disclosure or change in ownership in connection with a sale of shares is prohibited or subjected to payment of a fee or other consideration by any license agreement or other agreement with a Person other than Affiliates of Seller, or by applicable Law, and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration, as applicable;

(B) all legal records and legal files of Sellers including all work product of and attorney-client communications with any Seller's legal counsel (other than Sellers' working files for litigation of the Companies and Subsidiaries listed on Schedule 4.4 which is assumed by Purchaser pursuant to Section 12.1);

(C) data, information and records relating to any sale of all or any portion of the Shares or any Company Assets proposed or considered by Sellers and their Affiliates pursuant to that sales process commenced in the fall of 2006 and announced pursuant to a press release on November 1, 2006, including bids received from and records of negotiations with third Persons;

(D) any data, information and records primarily relating to the other Excluded Assets; and

(E) those original data, information, software and records retained by any Seller pursuant to Section 13.6.

(Clauses (A) through (E) shall hereinafter be referred to as the "Company Excluded Records" and subject to such exclusions, the data, information, software and records described in this Section 1.2(j)(xi) shall hereinafter be referred to as the "Company Records");

(xii) Radio licenses except those for which change in ownership in connection with a sale of equity ownership is prohibited or subject to payment of a fee or other consideration and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration as applicable;

(xiii) the Equity Interests in the Subsidiaries that are not Wholly-Owned Subsidiaries; and

(xiv) All (A) accounts, instruments and general intangibles (as such terms are defined in the Uniform Commercial Code of Texas) attributable to the other Company Assets at the Closing Date (other than the Excluded Assets and the amounts to which Seller is entitled pursuant to Section 2.3 and Section 2.4); and (B) liens and security interests and collateral in favor of the Companies and Wholly-Owned Subsidiaries that exist as of the Closing Date, whether choate or inchoate, under any law, rule or regulation or under any of the Company Contracts (i) arising from the ownership, operation or sale or other disposition of any of the other Company Assets or (ii) arising in favor of any Company or Wholly-Owned Subsidiary as the operator of any of the Company Assets, but only to the extent Purchaser is appointed successor operator.

(k) "Company Onshore Employees" has the meaning set forth in Section 10.1(a).

(l) "Company's U.S. Benefit Plans" has the meaning set forth in Section 10.3(a)(i).

(m) "Comparability Period" has the meaning set forth in Section 10.2(a).

(n) "Consolidated Group" means an affiliated, consolidated, combined or unitary group with respect to any Taxes of which any of (i) a Company or Subsidiary treated as a corporation for tax purposes and (ii) DRI or an Affiliate of DRI (other than any such Company or Subsidiary), is or was a member prior to the Closing Date.

(o) "Consolidated Onshore E&P Business" means, together, the E&P Business and the business and operations conducted by DEPI, DOTEPI, Reserves, and all Persons that are wholly-owned by DEPI, DOTEPI and Reserves, directly or indirectly, that pertain to the Excluded Onshore Areas.

(p) "Contracts" means Company Contracts and Additional Contracts.

(q) "DEPI I, LP" means Dominion Exploration & Production I, L.P., a limited partnership organized under the Laws of Texas.

(r) "DEPI Texas Beneficial Interests" means all of the interests of DEPI I, LP in the Additional Properties located in Texas that are not in an Excluded Texas County, and in any other Assets that are associated therewith.

(s) "Designated Affiliates" has the meaning set forth in Section 10.1(a).

(t) "Designated Employees" has the meaning set forth in Section 10.1(b).

(u) "DNG I, LP" means Dominion Natural Gas I, LP, a limited partnership organized under the Laws of Texas.

(v) "DOTEPI Texas Beneficial Interests" means all of the interests of DNG I, LP in the Additional Properties located in Texas that are not in an Excluded Texas County, and in any other Assets that are associated therewith.

(w) "DRI" means Dominion Resources, Inc., a corporation organized under the Laws of Virginia.

(x) "E&P Business" means the business and operations conducted with the Assets by the Companies, Wholly-Owned Subsidiaries, DEPI, DOTEPI and Reserves.

(y) "Effective Date" means 11:59 p.m. Central Time on June 30, 2007.

(z) "Employee Plans" means employee benefit and compensation plans, agreements, contracts, policies and programs, including, without limitation, (i) all retirement, savings and other pension plans; (ii) all health, severance, insurance, disability and other employee welfare plans; and (iii) all employment, incentive, perquisites, vacation and other similar plans, programs or practices whether or not subject to ERISA and whether covering one person or more than one person, that are maintained by Seller or any Affiliate, including an ERISA Affiliate, with respect to Company Onshore Employees or to which any Seller or any Affiliate, including an ERISA Affiliate, contributes on behalf of Company Onshore Employees.

(aa) “Environmental Liabilities” shall mean any and all environmental response costs, costs to cure (including the costs of any necessary pollution control equipment), restoration costs, costs of remediation or removal, natural resource damages, settlements, penalties, fines, attorneys’ fees and other Damages, including any such matters incurred or imposed pursuant to any claim or cause of action by a Governmental Authority or other Person, attributable to an Adverse Environmental Condition occurring with respect to the Assets.

(bb) “Equipment” means Company Equipment and Additional Equipment.

(cc) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

(dd) “ERISA Affiliate” means any other Person that is required to be treated as a single employer with Sellers or any Company or Subsidiary that is an Affiliate of Sellers under Section 414 of the Code or Section 4001(a)(14) of ERISA.

(ee) “Excluded Employees” means the Executives and Managing Directors listed on Schedule 1.2.

(ff) **[RESERVED]**

(gg) “Excluded New Mexico Counties” means all counties in the state of New Mexico other than (i) Chavez, Eddy, Lea and Roosevelt counties, and (ii), with respect to overriding royalty interests only, San Juan and Rio Arriba Counties, and “Excluded New Mexico County” means any of them.

(hh) “Excluded Onshore Areas” means Arkansas, Colorado, Illinois, Kansas, Louisiana, North Dakota, Nebraska, Oklahoma, South Dakota, Utah, Wyoming, Montana, the Excluded New Mexico Counties and the Excluded Texas Counties.

(ii) “Excluded Records” means the Company Excluded Records and the Additional Excluded Records.

(jj) “Excluded Texas Counties” means all counties in the state of Texas other than those counties identified on Schedule 1.2(jj), and “Excluded Texas County” means any of them.

(kk) “Executives” means the individuals listed on Schedule 1.2, Part I.

(ll) “Governmental Authority” means any national government and/or government of any political subdivision, and departments, courts, arbitrator, arbitral tribunals, commissions, boards, bureaus, ministries, agencies or other instrumentalities of any of them.

(mm) “Hart-Scott-Rodino Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(nn) “Hazardous Substances” shall mean any substance defined or regulated as a “pollutant,” “contaminant,” “solid waste,” “hazardous substance,” “toxic substance” or “hazardous waste” under any Environmental Laws.

(oo) “Key Employees” means the individuals listed on Schedule 1.2, Part III.

(pp) “Laws” means all laws, statutes, rules, regulations, ordinances, orders, decrees, requirements, authoritative interpretations, judgments and codes of Governmental Authorities.

(qq) “Leases” means Company Leases and Additional Leases.

(rr) “Leadership Team” has the meaning set forth in Section 10.1(f).

(ss) “Managing Directors” means the individuals listed on Schedule 1.2, Part II.

(tt) “Material Contract” means any Contract (i) which can reasonably be expected in the case of (A) below to generate gross revenue per year for the owner of the Assets in excess of Ten Million dollars ($10,000,000) or (ii) which in the case of (D), (E), (F), (G) or (H) below can reasonably be expected to require expenditures per year chargeable to the owner of the Assets in excess of Five Million dollars ($5,000,000) (other than, in the case of (G), expenditures associated with transfer or re-licensing fees) or (iii) which in the case of (B) and (C) below can reasonably be expected to require expenditures per year chargeable to the owner of the Assets in excess of Five Million dollars ($5,000,000) or (iv) which satisfies the description in (I) or (J) below, and is of one or more of the following types:

(A) contracts for the purchase, sale or exchange of oil, gas or other hydrocarbons;

(B) contracts for the gathering, treatment, processing, handling, storage or transportation of oil, gas or other hydrocarbons;

(C) contracts for the use or sharing of drilling rigs;

(D) purchase agreements, farmin and farmout agreements, exploration agreements, participation agreements and similar agreements providing for the earning of an equity interest;

(E) partnership agreements, joint venture agreements and similar agreements;

(F) operating agreements, unit agreements and unit operating agreements;

(G) seismic licenses and contracts;

(H) leases not constituting Oil and Gas leases;

(I) contracts for the construction and installation of Equipment with guaranteed production throughput requirements where amounts owed if the guaranteed throughput is not delivered exceed Five Million dollars ($5,000,000); and

(J) all contracts between any Company (or Subsidiary) on the one hand and any Seller or any of its Affiliates (other than any Company or Subsidiary) on the other hand that will remain binding on any Company or Subsidiary, or will become binding on Purchaser, after the Closing (other than as expressly contemplated by this Agreement).

(uu) "Midstream Assets" means the Company Midstream Assets and the Additional Midstream Assets.

(vv) "Multiemployer Plan" means a multiemployer plan, as defined in Sections 3(37) and 4001(a)(3) of ERISA.

(ww) "Offshore Package Areas" means the Outer Continental Shelf and the state waters of Texas, Louisiana, Mississippi or Alabama in the Gulf of Mexico.

(xx) "PBGC" means the Pension Benefit Guaranty Corporation.

(yy) "Person" means any individual, corporation, partnership, limited liability company, trust, estate, Governmental Authority or any other entity.

(zz) "Properties" means Company Properties and Additional Properties.

(aaa) "Property Costs" means (without duplication) all operating expenses (including without limitation costs of insurance, rentals, shut-in payments, royalty payments, title examination and curative actions, and production and similar Taxes measured by units of production, and severance Taxes, attributable to production of oil and gas from the Assets, but excluding any Seller's, Company's or Subsidiary's other Taxes) and capital expenditures (including without limitation bonuses, broker fees, and other lease acquisition costs, costs of drilling and completing wells and costs of acquiring equipment) incurred in the ownership and operation of the Assets in the ordinary course of business, general and administrative costs with respect to the E&P Business, and overhead costs charged to the Assets under the applicable operating agreement or if none, charged to the Assets on the same basis as charged on the date of this Agreement, but excluding without limitation liabilities, losses, costs, and expenses attributable to:

(i) claims, investigations, administrative proceedings, arbitration or litigation directly or indirectly arising out of or resulting from actual or claimed personal injury, illness or death; property damage; environmental damage or contamination; other torts; private rights of action given under any Law; or violation of any Law,

(ii) obligations to plug wells, dismantle facilities, close pits and clear the site and/or restore the surface or seabed around such wells, facilities and pits,

(iii) obligations to remediate actual or claimed contamination of groundwater, surface water, soil or Equipment,

(iv) title claims (including claims that Leases have terminated),

(v) claims of improper calculation or payment of royalties (including overriding royalties and other burdens on production) related to deduction of post-production costs or use of posted or index prices or prices paid by affiliates,

(vi) gas balancing and other production balancing obligations,

(vii) casualty and condemnation,

(viii) any claims for indemnification, contribution or reimbursement from any third Person with respect to liabilities, losses, costs and expenses of the type described in preceding clauses (i) through (vii), whether such claims are made pursuant to contract or otherwise; and

(ix) non-cash accounting entries such as depletion, depreciation and amortization incurred with respect to the Assets.

Notwithstanding anything to the contrary, Property Costs does not include any costs incurred by any Seller in connection with any obligation of such Seller to pay, reimburse or indemnify the Purchaser hereunder, which costs shall be the sole obligation of such Seller.

(bbb) "Purchaser U.S. Employee Plans" has the meaning set forth in Section 10.4(a).

(ccc) "Records" means Company Records and Additional Records.

(ddd) "Selected Employees" has the meaning set forth in Section 10.1(c).

(eee) "Seller Employment Indemnified Persons" has the meaning set forth in Section 10.1(f).

(fff) "Subsidiary" means any of the entities described on Exhibit C, which are direct or indirect wholly or partially-owned subsidiaries of one or more of the Companies.

(ggg) "Tax" means (i) all taxes, assessments, unclaimed property and escheat obligations, fees and other governmental charges imposed by any Governmental Authority, including any foreign, federal, state or local income tax, surtax, remittance tax, presumptive tax, net worth tax, special contribution, production tax, pipeline transportation tax, freehold mineral tax, value added tax, withholding tax, gross receipts tax, windfall profits tax, profits tax, severance tax, personal property tax, ad valorem tax, real property tax (including assessments, fees or other charges imposed by a Governmental Authority which are based on the use or ownership of real property), sales tax, goods and services tax, service tax, transfer tax, use tax, excise tax, premium tax, stamp tax, motor vehicle tax, entertainment tax, insurance tax, capital stock tax, franchise tax, occupation tax, payroll tax, employment tax, unemployment tax, disability tax, alternative or add-on minimum tax and estimated tax, (ii) any interest, fine, additions to tax or penalty imposed by any Governmental Authority in connection with any item described in clause (i), and (iii) any liability in respect of any item described in clauses (i) or (ii) above, that arises by reason of a contract, assumption, transferee or successor liability, operation of law, Treasury Regulation Section 1.1502-6 (or any predecessor or successor thereof or any analogous provision under state, local or other law) or otherwise.

(hhh) "Tax Expenses" means any costs, expenses, losses or damages, including reasonable expenses of investigation and attorneys' and accountants' fees and expenses, incurred in connection with the determination, assessment or collection of Taxes.

(iii) "Title IV Plan" has the meaning set forth in Section 4.2(j)(iv).

(jjj) "Transferred Derivatives" means the physical derivatives contracts listed on Schedule 4.8.

(kkk) "Trust Agreement" means the Trust Agreement of Dominion Resources Black Warrior Trust among Dominion Black Warrior Basin, Inc., Dominion Resources, Inc., Mellon Bank (DE) National Association and Nationsbank of Texas, N.A., dated May 31, 1994, as amended from time to time.

(lll) "U.S. Temporary Employees" means those individuals providing services with respect to the Assets as either "co ops," "interns" or contract workers through CoreStaff.

(mmm) "Units" means Company Units and Additional Units.

(nnn) "WARN Act" has the meaning set forth in Section 10.10(a).

(ooo) "Wells" means Company Wells and Additional Wells.

(ppp) **[RESERVED]**

(qqq) "Wholly-Owned Subsidiary" means any Subsidiary in which all issued and outstanding equity interests are owned, directly or indirectly, by one or more Sellers and Companies.

Section 1.3 **Excluded Assets**. Notwithstanding anything to the contrary in Section 1.2 or elsewhere in this Agreement, the "Additional Assets," "Company Assets," "Shares" and "Interests" shall not include any rights with respect to the Excluded Assets, which, if owned by any Company or Wholly-Owned Subsidiary, Sellers shall be entitled to cause such Company or Wholly-Owned Subsidiary to transfer or distribute to Sellers, or their Affiliates, or one or more third parties, via one or more steps, prior to Closing; provided that (i) such transfer shall not involve any representation, warranty or indemnity provided by the transferor other than a special warranty of title with respect to the Excluded Utah Interests, the Excluded Midcontinent Pipeline Interests and any other real property interests and (ii) the transferee shall assume all obligations and liabilities (known and unknown) with respect to such Excluded Asset. "Excluded Assets" shall mean the following:

(i) the Excluded Records;

(ii) copies of other Records retained by Sellers pursuant to Section 13.6;

(iii) contracts, agreements and instruments, whose change in ownership in connection with a sale of equity ownership (if owned by the Companies or Subsidiaries) or transfer (if owned by DEPI, DOTEPI or Reserves) is prohibited or subjected to payment of a fee or other consideration by an agreement with a Person other than an Affiliate of Sellers, or by applicable Law, and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration, as applicable;

(iv) Permits and other appurtenances for which change in ownership in connection with a sale of equity ownership (if owned by the Companies or Subsidiaries) or transfer (if owned by DEPI, DOTEPI or Reserves) is prohibited or subjected to payment of a fee or other consideration by an agreement with a Person other than an Affiliate of Seller, or by applicable Law, and for which no consent to transfer has been received or for which Purchaser has not agreed in writing to pay the fee or other consideration, as applicable;

(v) all claims against insurers and other third parties pending on or prior to the Effective Date other than the actions, suits and proceedings being assumed by Purchaser pursuant to Section 12.1 and any claims against Persons other than Sellers and their Affiliates with respect to those actions, suits and proceedings;

(vi) assets of or which relate to Sellers' and their Affiliates' Employee Plans or worker's compensation insurance and programs;

(vii) all trademarks and trade names containing "Dominion" or any variant thereof;

(viii) all futures, options, swaps and other derivatives except the Transferred Derivatives, and all software used for trading, hedging and credit analysis;

(ix) the Clearinghouse and Castlewood Road records storage facilities located in Richmond, Virginia;

(x) the portion of the approximately 60,000 sq. ft. office lease of space located at 16800 Greenspoint Park Drive, Houston, Texas, that is not described on Exhibit D-4, Part II, the DEPI office lease for space located at 1250 Poydras Street, New Orleans, Louisiana, the portion of the 123,000 sq. ft. office lease of space located at 14000 Quail Springs Parkway, Oklahoma City, Oklahoma that is not described on Exhibit D-4, Part II, and the approximately 136,000 sq. ft. office lease of space located at Wedge International Tower, 1415 Louisiana Street, Houston, Texas, and the furniture, fixtures and equipment associated with such excluded office space, less furniture, fixture and equipment assigned to any employee of Sellers or their Affiliates presently located in that space who becomes a Company Onshore Employee in the same building;

(xi) any leased equipment and other leased personal property which is not purchased prior to Closing pursuant to Section 6.13 (except to the extent the lease is transferable without payment of a fee or other consideration which Purchaser has not agreed in writing to pay);

(xii) all office equipment, computers, cell phones, pagers and other hardware, personal property and equipment that: (A) relate primarily to any Seller's business generally, or to the Appalachian Business, or to Seller's business with respect to the Excluded Onshore Areas, or the Offshore Package Areas, or in Canada, or other business of any Seller and its Affiliates (except the E&P Business), or (B) are set forth on Schedule 1.3;

(xiii) the contracts used for both the Assets and other assets of DEPI, DOTEPI, Reserves and their Affiliates described on Schedule 1.3;

(xiv) any Tax refund (whether by payment, credit, offset or otherwise, and together with any interest thereon) in respect of any Taxes for which DEPI is liable for payment or required to indemnify Purchaser under Section 9.1;

(xv) refunds received prior to the Cut-Off Date and relating to severance Tax abatements with respect to all taxable periods or portions thereof ending on or prior to the Effective Date;

(xvi) all indemnities and other claims against Persons (other than the Sellers and/or their Affiliates) for Taxes for which DEPI is liable for payment or required to indemnify Purchaser under Section 9.1;

(xvii) claims against insurers under policies held by Sellers or their Affiliates (other than the Companies and Subsidiaries);

(xviii) amounts to which Sellers are entitled pursuant to Section 2.4(a), and Property Costs and revenues associated with all joint interest audits and other audits of Property Costs to the extent covering periods on or prior to the Effective Date, which amounts are paid or received prior to the Cut-Off Date;

(xix) the CO_2 membrane unit, associated equipment and lease and rights-of-way for locating and accessing such unit and associated equipment as further described on Schedule 1.3;

(xx) all of the partnership interests in DNG I, LP, subject to the terms of Section 6.14;

(xxi) all of the interest of Dominion Midwest Energy, Inc. in and to those leases and other rights to oil and gas in place described on Schedule 1.3, Part II, and the contracts, equipment, data and records and other assets used or held for use in connection therewith (the "Excluded Utah Interests");

(xxii) all of the interest of Stonewater Pipeline Company, L.P. in and to the gathering systems, pipelines and other mid-stream equipment described on Schedule 1.3, Part III, and the contracts, equipment, data and records and other assets used or held for use in connection therewith (the "Excluded Midcontinent Pipeline Interests"); and

(xxiii) any other assets, contracts or rights described on Schedule 1.3.

Section 1.4 Transfer of Certain Assets Not Held by Sellers. Sellers shall, at Closing, cause Dominion Resources Services, Inc. to assign to Purchaser certain personal property described on Schedule 1.4. EXCEPT AS EXPRESSLY SET FORTH IN ARTICLE IV OR THE CERTIFICATE REFERRED TO IN SECTION 8.2(J), EACH ASSIGNMENT OF SUCH PERSONAL PROPERTY SHALL BE "AS IS, WHERE IS" WITH ALL FAULTS, AND ALL REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF CONDITION, QUALITY, AIRWORTHINESS, SUITABILITY, DESIGN, MARKETABILITY, TITLE, INFRINGEMENT, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS ARE HEREBY DISCLAIMED. Such personal property shall be considered "Additional Assets" for purposes of this Agreement with the benefit of the representations, warranties, and other provisions of this Agreement related to the Assets. Without limiting any obligations of their other Affiliates under Section 6.3 of this Agreement, Sellers shall also cause Dominion Resources Services, Inc. to comply with the various covenants contained in Sections 6.1 and 6.4, to the extent applicable to the property described on Schedule 1.4, prior to Closing.

ARTICLE 2.
PURCHASE PRICE

Section 2.1 **Purchase Price**. The purchase price for the Interests (the "Purchase Price") shall be Four Billion Twenty-Five Million dollars ($4,025,000,000.00) (the "Unadjusted Purchase Price"), adjusted as provided in Section 2.3.

Section 2.2 **<u>Allocation of Purchase Price</u>**.

(a) The Unadjusted Purchase Price shall be allocated to the Shares of each Company and to the DEPI Additional Assets, the DOTEPI Additional Assets and the Reserves Additional Assets as set forth on Schedule 2.2 (each an "<u>Interest Unadjusted Purchase Price</u>"). The adjustments to the Unadjusted Purchase Price under Section 2.3 shall be applied to the Interest Unadjusted Purchase Price for the Shares of each Company, the DEPI Additional Assets, the DOTEPI Additional Assets and the Reserves Additional Assets based upon the owner of the specific Lease, Well or other asset to which the adjustment relates, if determinable. Any adjustments to the Unadjusted Purchase Price under Section 2.3 that are not specific to any Company or Additional Asset group (for example, general and administrative expense of the E&P Business under Section 2.3(h)(ii)) shall be applied pro rata to the Interest Unadjusted Purchase Price for the Shares of each Company, the DEPI Additional Assets, the DOTEPI Additional Assets, and the Reserves Additional Assets, as previously adjusted, in proportion to the amount of each. Each Interest Unadjusted Purchase Price, as so adjusted, shall be referred to herein as the "<u>Interest Purchase Price</u>."

(b) Each Seller shall be entitled to the portion of the Purchase Price equal to the Interest Purchase Price for the various Interests it is selling.

(c) At least thirty (30) days prior to the Target Closing Date, Seller shall prepare and deliver to Purchaser, using and based upon the best information available to Sellers, a schedule setting forth the following items:

(i) the portion of the Unadjusted Purchase Price as set forth in Schedule 2.2 allocated to Interests other than the Additional Assets;

(ii) the liabilities of the Companies and the Subsidiaries as of the Closing (as required for the allocations under clause (iii));

(iii) an allocation of the sum of the Unadjusted Purchase Price under clause (i) and the aggregate amount of such liabilities under clause (ii) that are part of the adjusted grossed-up basis within the meaning of Treasury Regulation § 1.338-5 among the classes of assets of the Companies and any Subsidiary (other than any Company or Subsidiary that is not a member of a selling consolidated group within the meaning of Treasury Regulations § 1.338(h)(10)-1(b)(2)) as of the Closing, which allocations shall be made in accordance with Section 338(b)(5) and (h)(10) of the Code and the Treasury Regulations thereunder and shall be consistent with the allocations under Section 2.2(a) and the Allocated Values established pursuant to Section 3.4;

(iv) the portion of the Unadjusted Purchase Price as set forth in Schedule 2.2 allocated to the Additional Assets;

(v) the liabilities associated with the Additional Assets as of the Closing (as required for the allocations under clause (vi)); and

(vi) an allocation of the sum of the Unadjusted Purchase Price under clause (iv) and the aggregate amount of such liabilities under clause (v) that are includable in the Purchaser's tax basis in the Additional Assets among the classes of the Additional Assets as of the Closing, which allocations shall be made in accordance with Section 1060 of the Code and the Treasury Regulations thereunder and shall be consistent with the allocations under Section 2.2(a) and the Allocated Values established pursuant to Section 3.4.

Sellers shall at Purchaser's request make reasonable documentation available to support the proposed allocation. As soon as reasonably practicable, but not later than fifteen (15) days following receipt of Sellers' proposed allocation schedule, Purchaser shall deliver to DEPI a written report containing any changes that Purchaser proposes to be made in such schedule (and specifying the reasons therefor in reasonable detail). The Parties shall undertake to agree on a final schedule no later than six (6) Business Days prior to the Closing Date. In the event the Parties cannot reach agreement by that date, the Sellers' allocation, as adjusted to reflect Purchaser's suggested changes to which Sellers agree, shall be used pending adjustment under the following paragraph.

Within thirty (30) days after the determination of the Purchase Price under Section 8.4(b), but no later than thirty (30) days prior to the due date (after extension) of filing the Tax return for the period beginning on or after the Closing Date, the schedule described above in this Section 2.2(c) shall be amended by Sellers and delivered to Purchaser to reflect the Purchase Price following final adjustments. Purchaser shall cooperate with Sellers in the preparation of the amended schedule in a manner consistent with the provisions of Section 9.4. If neither the Preliminary Section 2.2(c) Schedule nor the Sellers' amendments to it to reflect the Purchase Price following final adjustments is objected to by Purchaser (by written notice to DEPI specifying the reasons therefor in reasonable detail) within thirty (30) days after delivery of Sellers' adjustments to the schedule, it shall be deemed agreed upon by the Parties and shall constitute the "Final Section 2.2(c) Schedule" (herein so called). In the event that the Parties cannot reach an agreement within twenty (20) days after Seller receives notice of any objection by Purchaser, then, any Party may refer the matters in dispute to PricewaterhouseCoopers or another mutually acceptable independent appraiser (the "Independent Appraiser") to assist in determining the matters in dispute with respect to the allocation of the Purchase Price as finally adjusted among the separate classes of Company Assets or Additional Assets, as the case may be, for the purposes of the allocation described in this Section 2.2(c). Should PricewaterhouseCoopers fail or refuse to agree to serve as Independent Appraiser within twenty (20) days after written request from any Party to serve, and the Parties fail to agree in writing on a replacement Independent Appraiser within ten (10) days after the end of that twenty (20) day period, or should no replacement Independent Appraiser agree to serve within forty-five (45) days after the original written request pursuant to this sentence, the Independent Appraiser shall be appointed by the Houston office of the American Arbitration Association. The Independent Appraiser shall be instructed to deliver to Purchaser and Sellers a written determination of any revisions to the Section 2.2(c) Schedule within thirty (30) days after the date of referral thereof to the Independent Appraiser. Purchaser and Sellers agree to accept the Independent Appraiser's determinations as to the matters in dispute and the appropriate adjustments to the schedule to reflect those determinations, which as so adjusted shall constitute the Final Section 2.2(c) Schedule. The Independent Appraiser may determine the issues in dispute following such procedures, consistent with Schedule 2.2, the provisions of this Agreement and the Allocated Values, as it reasonably deems appropriate in the circumstances, and with reference to the amounts in issue. The Parties do not intend to impose any particular procedures upon the Independent Appraiser, it being the desire and direction of the Parties that any such disagreement shall be resolved as expeditiously and inexpensively as reasonably practicable. The Independent Appraiser shall act as an expert for the limited purpose of determining the specific disputed aspects of the allocation schedule submitted by any Party and may not award damages, interest, or penalties to any Party with respect to any matter. Each Seller and Purchaser shall bear its own legal fees and costs of presenting its case. DEPI shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the Independent Appraiser.

The allocations set forth in the Final Section 2.2(c) Schedule shall be used by Sellers, Purchaser, the Companies and the Subsidiaries as the basis for reporting asset values and other items, including the determination of the deemed sale price and the adjusted grossed-up basis of the assets of the applicable Companies and Subsidiaries in accordance with Treasury Regulation § 1.338-5 or similar applicable law, for purposes of all Tax Returns (including Internal Revenue Service Forms 8023 and 8883 (or any successor forms)). The allocations set forth in the Final Section 2.2(c) Schedule shall also be used by Sellers and Purchaser in preparing Internal Revenue Service Form 8594, Asset Acquisition Statement (which Form 8594 shall be completed, executed and delivered by such parties as soon as practicable after the Closing but in no event later than 15 days prior to the date such form is required to be filed). Sellers and Purchaser agree not to assert, and will cause their Affiliates not to assert, in connection with any audit or other proceeding with respect to Taxes, any asset values or other items inconsistent with the amounts set forth in Final Section 2.2(c) Schedule unless otherwise required by applicable Laws.

Section 2.3 **Adjustments to Purchase Price**. The Interest Unadjusted Purchase Price shall be adjusted with respect to the Shares of each Company, the DEPI Additional Assets, the DOTEPI Additional Assets and the Reserves Additional Assets as follows, but only with respect to matters (i) in the case of Section 2.3(a), for which notice is given on or before the Title Claim Date, (ii) in the case of Sections 2.3(b), (c), (d), (e), (f) or (g), identified on or before the 180th day following Closing (the "Cut-Off Date") and (iii) in the case of Section 2.3(h), received or paid on or before the Cut-Off Date:

(a) Increased or decreased, as appropriate, in accordance with Section 3.5;

(b) Decreased as a consequence of Assets excluded from this transaction as a consequence of the exercise of preferential rights to purchase, as described in Section 3.6;

(c) Decreased by the amount of royalty, overriding royalty and other burdens payable out of production of oil or gas from the Leases and Units or the proceeds thereof to third Persons but held in suspense by any Seller, Company or Wholly-Owned Subsidiary at the Closing, and any interest accrued in escrow accounts for such suspended funds, to the extent such funds are not transferred to Purchaser's control at the Closing;

(d) Increased by the amount of the Computer/Vehicle Buy-Out Costs in accordance with Section 6.13, such increase not to exceed Three Million Nine Hundred Eighty Thousand dollars ($3,980,000);

(e) Adjusted for production, plant and transportation gas imbalances and inventory on the Effective Date as follows:

(i) Decreased by the sum of the amount of each production, plant and transportation gas imbalance owed by DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of imbalances owed by Subsidiaries other than Wholly-Owned Subsidiaries) to third Persons at the Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a Company or a Wholly-Owned Subsidiary, as reported on the most recent imbalance statement as of a date closest to the Effective Date), in Mmbtu, multiplied by (A) the FOM Index Price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such FOM Index Price shown on Schedule 2.3(e).

(ii) Increased by the sum of the amount of each production, plant and transportation gas imbalance owed by third Persons to DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity share of imbalances owed to Subsidiaries other than Wholly-Owned Subsidiaries) at the Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a Company or a Wholly-Owned Subsidiary, as reported on the most recent imbalance statement as of a date closest to the Effective Date), in Mmbtu, multiplied by (A) the FOM Index Price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such FOM Index Price shown on Schedule 2.3(e).

(iii) Decreased by the sum of the amount of each scrubber liquid overlift owed by DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of overlifts owed by Subsidiaries other than Wholly-Owned Subsidiaries) at the Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a Company or a Wholly-Owned Subsidiary, as reported on the most recent statement received as of a date closest to the Effective Date), in Barrels, multiplied by (A) the index price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(iv) Decreased by the sum of the amount of each ethane, propane, iso-butane, nor-butane and gasoline overlift owed by DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of overlifts owed by Subsidiaries other than Wholly-Owned Subsidiaries) at the

Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a Company or a Wholly-Owned Subsidiary, as reported on the most recent statement received as of a date closest to the Effective Date), in gallons, multiplied by (A) the index price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(v) Increased by the sum of the amount of each oil, condensate and scrubber liquid inventory from the Properties in storage at the end of the Effective Date and produced for the account of DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of such amounts produced for the account of Subsidiaries other than Wholly-Owned Subsidiaries) on or prior to the Effective Date, in Barrels, multiplied by (A) the index price for the point designated with respect to the location of the inventory on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(vi) Increased by the sum of the amount of each ethane, propane, iso-butane, nor-butane and gasoline inventory from the Properties in storage at the end of the Effective Date and produced for the account of DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of such amounts produced for the account of Subsidiaries other than Wholly-Owned Subsidiaries) on or prior to the Effective Date, in gallons, multiplied by (A) the index price for the point designated with respect to the location of the inventory on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(vii) Decreased by the sum of the amount of each oil transportation and production imbalance owed by DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries to third Persons (and their equity interest share of overlifts owed by Subsidiaries other than Wholly-Owned Subsidiaries to third Persons) at the Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a Company or a Wholly-Owned Subsidiary, as reported on the most recent statement received as of a date closest to the Effective Date), in Barrels, multiplied by (A) the index price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(viii) Increased by the sum of the amount of each oil transportation imbalance owed by third Persons to DEPI, DOTEPI, Reserves, the Companies and Wholly-Owned Subsidiaries (and their equity interest share of such imbalances owed by third Persons to Subsidiaries other than Wholly-Owned Subsidiaries) at the Effective Date with respect to production from the Properties (or, in the case of Properties not operated by DEPI, DOTEPI, Reserves, a

Company or a Wholly-Owned Subsidiary, as reported on the most recent statement received as of a date closest to the Effective Date), in Barrels, multiplied by (A) the index price for the point designated with respect to such source of the imbalance on Schedule 2.3(e) on the first day of the month after the month of the Effective Date less (B) the adjustments to such index price shown on Schedule 2.3(e).

(f) Increased by the net amount of (i) all prepaid expenses (including prepaid Taxes, bonuses, rentals, cash calls to third Person operators) to the extent applying to the ownership and operation of the Assets or applying to the Companies or Wholly-Owned Subsidiaries (or their equity interest share of such amounts prepaid for the account of Subsidiaries other than Wholly-Owned Subsidiaries) after the Closing Date (provided that prepaid expenses with respect to any asset not transferred to Purchaser at Closing shall not increase the Purchase Price) less (ii) all third Person cash call payments received by DEPI, DOTEPI, Reserves, the Companies or Wholly-Owned Subsidiaries as operators to the extent applying to the operation of the Assets after the Closing Date;

(g) Increased by the amount of cash and cash equivalents in lock boxes or otherwise in the possession of any Company or any of its direct or indirect Wholly-Owned Subsidiaries (and their equity interest share of cash and cash equivalents in the possession of Subsidiaries other than Wholly-Owned Subsidiaries) at the end of the Closing Date; and

(h) Without prejudice to either Party's rights under Article 12, adjusted for proceeds and other income attributable to the Assets, Property Costs and certain other costs attributable to the Assets, and interest as follows:

(i) Decreased by an amount equal to the aggregate amount of the following proceeds received by any Seller, Company or Wholly-Owned Subsidiary, or any of their Affiliates, on or prior to the Closing Date, or by any Seller or any remaining Affiliate of Sellers after the Closing Date:

(A) amounts earned from the sale, during the period from but excluding the Effective Date through and including the Closing Date (such period being referred to as the "Adjustment Period"), of oil, gas and other hydrocarbons produced from or attributable to the Properties (net of any (x) royalties, overriding royalties and other burdens payable out of production of oil, gas or other hydrocarbons or the proceeds thereof that are not included in Property Costs, (y) gathering, processing and transportation costs paid in connection with sales of oil, gas or other hydrocarbons that are not included as Property Costs under Section 2.3(h)(ii) and (z) production Taxes, other Taxes measured by units of production, severance Taxes and any other Property Costs, that in any such case are deducted by the purchaser of production, and excluding the effects of any futures, options, swaps or other derivatives other than the Transferred Derivatives), and

(B) other income earned with respect to the Assets during the Adjustment Period (provided that for purposes of this Section, no adjustment shall be made for funds received by any Seller, Company or Wholly-Owned Subsidiary for the account of third Persons and to which Seller does not become entitled prior to the Cut-Off Date, and excluding any income earned from futures, options, swaps or other derivatives other than the Transferred Derivatives) and (without duplication) proceeds of the sale of any Asset (other than sales of oil, gas and other hydrocarbons);

(ii) Increased by an amount equal to the amount of all Property Costs, and other amounts expressly excluded from the definition of Property Costs, which are incurred in the ownership and operation of the Assets during the Adjustment Period but (A) paid by or on behalf of any Seller, Company or Wholly-Owned Subsidiary, or any of their Affiliates, through and including the Closing Date, or by any Seller or any remaining Affiliate of Sellers after the Closing Date but prior to the Cut-Off Date, or (B) without duplication, payable by any Company or Wholly-Owned Subsidiary to DEPI, DOTEPI, Reserves or any other Affiliate (except another Company or Subsidiary) with respect to the provision of goods, services, employment-related costs, and other ordinary course of business expenses with respect to the E&P Business and remaining unpaid at the end of the Closing Date, except in each case (x) any costs already deducted in the determination of proceeds in Section 2.3(h)(i) or otherwise taken into account as an increase in the Interest Unadjusted Purchase Price pursuant to any other provision of this Agreement, (y) Taxes (other than production Taxes and other Taxes measured by units of production and severance Taxes), which are addressed in Section 9.1(e), and (z) costs attributable to futures, options, swaps or other derivatives, or the elimination of the same pursuant to Section 6.12, other than costs attributable to the Transferred Derivatives, and provided that overhead costs charged with respect to development and production operations shall not exceed the amounts chargeable to the Properties under the applicable operating agreement or, if for any Property there is none, the amounts charged for that Property on the same basis as charged on the date of this Agreement;

(iii) Increased (without duplication) by an amount equal to all amounts reimbursable to DEPI and its Affiliates under Section 6.16 with respect to the Post-Closing transition of the E&P Business to Purchaser that have not already been reimbursed to DEPI pursuant to Section Section 6.16(c); and

(iv) Increased by the amount that would be calculated on the Interest Unadjusted Purchase Price (as adjusted under clauses (a), (b), (c), (d), (e), (f), (h)(i), (h)(ii) and (h)(iii) above), at the Agreed Rate, for the period from but excluding the Target Closing Date through and including the Closing Date; as used herein, the term "Agreed Rate" shall mean the lesser of (y) the one month London Inter-Bank Offered Rate, as published on Telerate Page 3750 on the last Business Day prior to the Effective Date, plus two percentage points (LIBOR +2%) and (z) the maximum rate allowed by applicable Laws.

For the avoidance of doubt, the Purchase Price shall be increased with respect to amounts owed by any Wholly-Owned Subsidiary or Company to any Seller or any of its Affiliates only to the extent the obligation is satisfied by such Purchase Price increase.

The amount of each adjustment to the Interest Unadjusted Purchase Price described in Section 2.3(f) and Section 2.3(h) shall be determined in accordance with the United States generally accepted accounting principles consistently applied (the "Accounting Principles") or, if the Accounting Principles are silent, then in accordance with the Council of Petroleum Accountants Society (COPAS) standards.

Section 2.4 **Ordinary Course Pre-Effective Date Costs Paid and Revenues Received Post-Closing.**

(a) With respect to any revenues earned or Property Costs incurred with respect to the Assets on or prior to the Effective Date but received or paid after the Effective Date:

(i) Sellers shall be entitled to all amounts earned from the sale, during the period up to and including the Effective Date, of oil, gas and other hydrocarbons produced from or attributable to the Properties, which amounts are received on or before the Cut-Off Date (net of any (A) royalties, overriding royalties and other burdens payable out of production of oil, gas or other hydrocarbons or the proceeds thereof that are not included in Property Costs, (B) gathering, processing and transportation costs paid in connection with sales of oil, gas and other hydrocarbons that are not included as Property Costs under Section 2.4(a)(ii) and (C) production Taxes, other Taxes measured by units of production, severance Taxes, and other Property Costs that in any such case are deducted by the purchaser of production), and to all other income earned with respect to the Assets through and including the Effective Date and received on or before the Cut-Off Date; and

(ii) Sellers shall be responsible for (and entitled to any refunds and indemnities with respect to) all Property Costs incurred through and including the Effective Date that are paid after the Effective Date but on or before the Cut-Off Date.

"Earned" and "incurred," as used in this Section and Section 2.3, shall be interpreted in accordance with accounting recognition guidance under the Accounting Principles and shall be consistent with Sellers' current accounting recognition practices, or, if the Accounting Principles are silent, in accordance with COPAS standards. For purposes of this Section 2.4(a), determination of whether Property Costs are attributable to the period before or after the Effective Date shall be based on when services are rendered, when the goods are delivered, or when the work is performed.

(b) Should Purchaser, the Companies, the Wholly-Owned Subsidiaries or their Affiliates receive after Closing any proceeds or other income to which Sellers are entitled under Section 2.4(a), Purchaser (on behalf of the Companies, the Wholly-Owned

Subsidiaries or their Affiliates, as applicable) shall fully disclose, account for and promptly remit the same to DEPI on behalf of Sellers. If, after Closing, Sellers or their Affiliates (other than a Company or a Subsidiary) receive any proceeds or other income with respect to the Assets to which such party is not entitled under Section 2.4(a), DEPI shall fully disclose, account for and promptly remit same to Purchaser.

(c) Should Purchaser, the Companies, the Wholly-Owned Subsidiaries or their Affiliates pay after Closing any Property Costs for which Sellers are responsible under Section 2.4(a), DEPI shall reimburse Purchaser (on behalf of the Companies, the Wholly-Owned Subsidiaries or their Affiliates, as applicable) promptly after receipt of such Person’s invoice, accompanied by copies of the relevant vendor or other invoice and proof of payment. Within forty-five (45) days following Closing, Sellers shall provide notice to their vendors related to the E&P Business to send promptly any pre-Effective Date invoices. Should Sellers or any of their Affiliates (other than a Company or Subsidiary) pay after Closing any Property Costs for which Sellers are not responsible under Section 2.4(a), except to the extent such amounts are accounted for pursuant to Section 2.3(h), Purchaser shall reimburse DEPI (on behalf of Sellers) promptly after receipt of such Person’s invoices, accompanied by copies of the relevant vendor or other invoice and proof of payment.

(d) Sellers shall have no further entitlement to amounts earned from the sale of oil, gas and other hydrocarbons produced from or attributable to the Properties and other income earned with respect to the Assets (except any applicable Excluded Assets), and no further responsibility for Property Costs incurred with respect to the Assets, to the extent such amounts have not been received or paid, respectively, on or before the Cut-Off Date.

Section 2.5 **Procedures**.

(a) For purposes of allocating production (and accounts receivable with respect thereto), under Section 2.3 and Section 2.4, (i) liquid hydrocarbons shall be deemed to be “from or attributable to” the Properties when they pass through the pipeline flange connecting into the storage facilities located on the lands subject to the applicable Lease or Unit or, if there are no such storage facilities, when they pass through the LACT meters or similar meters at the point of entry into the pipelines through which they are transported from those lands, and (ii) gaseous hydrocarbons shall be deemed to be “from or attributable to” the Properties when they pass through the delivery point sales meters or similar meters at the point of entry into the pipelines through which they are transported from the lands subject to the applicable Lease or Unit. Sellers shall utilize reasonable interpolative procedures to arrive at an allocation of production when exact meter readings or gauging or strapping data are not available.

Surface use fees, insurance premiums and other Property Costs that are paid periodically shall be prorated based on the number of days in the applicable period falling on or before, or after, the Effective Date, or the Closing Date, as applicable. Production Taxes and similar Taxes measured by units of production, and severance Taxes, shall be prorated based on the amount of hydrocarbons actually produced, purchased or sold, as applicable, on or before, and after, the Effective Date**,** or the Closing Date, as applicable.

(b) After Closing, Purchaser shall handle (and Sellers shall cooperate with the handling of) all joint interest audits and other audits of Property Costs with respect to the Assets, including those covering periods on or prior to the Effective Date, provided that Purchaser shall not agree to any adjustments to previously assessed costs for which Sellers are liable, or any compromise of any audit claims to which Sellers would be entitled, without the prior written consent of DEPI, such consent not to be unreasonably withheld or delayed. Purchaser shall provide DEPI with a copy of all applicable audit reports and written audit agreements received by Purchaser or any Company or Wholly-Owned Subsidiary and relating in whole or in part to periods on or prior to the Effective Date.

ARTICLE 3.
TITLE MATTERS

Section 3.1 **Company's Title**. DEPI represents and warrants to Purchaser that the Sellers', Companies', and the Wholly-Owned Subsidiaries' (as applicable) title to the Units and Wells shown on Exhibit B-2 and Exhibit D-2, as of the date hereof is, and as of the Closing Date shall be, Defensible Title as defined in Section 3.2. This representation and warranty, the provisions of this Article 3 and the special warranties in the Conveyances provide Purchaser's exclusive remedy with respect to any Title Defects. For the purposes of the foregoing representation, as of the date hereof, DEPI shall be deemed to hold all DEPI Texas Beneficial Interests then held by DEPI I, LP relating to the Units and Wells shown on Exhibit B-2 and Exhibit D-2, and DOTEPI shall be deemed to hold all DOTEPI Texas Beneficial Interests then held by DNG I, LP relating to the Units and Wells shown on Exhibit B-2 and Exhibit D-2.

Section 3.2 **Definition of Defensible Title**.

(a) As used in this Agreement, the term "Defensible Title" means that title of each Seller, Company or Wholly-Owned Subsidiary, as applicable, which, subject to Permitted Encumbrances:

(i) Entitles the Seller or Company or Wholly-Owned Subsidiary, as applicable, to receive throughout the duration of the productive life of any Unit or Well (after satisfaction of all royalties, overriding royalties, nonparticipating royalties, net profits interests and other similar burdens on or measured by production of oil and gas), not less than the "net revenue interest" share shown in Exhibits B-2 and D-2 of all oil, gas and other minerals produced, saved and marketed from such Unit or Well, except (A) decreases in connection with those operations in which the Seller or the Company or Wholly-Owned Subsidiary may elect after the date hereof to be a nonconsenting co-owner, (B) decreases resulting from reversion of interest to co-owners with respect to operations in which such co-owners elect, after the date hereof, not to consent, (C) decreases resulting from the establishment or amendment, after the date hereof, of pools or units, (D) decreases required to allow other working interest owners to make up past underproduction or pipelines to make up past under deliveries and (E) as otherwise expressly stated in Exhibit B-2 or D-2;

(ii) Obligates the Seller, Company or Wholly-Owned Subsidiary, as applicable, to bear a percentage of the costs and expenses for the maintenance and development of, and operations relating to, any Unit or Well not greater than the "working interest" shown in Exhibits B-2 and D-2 without increase throughout the productive life of such Unit or Well, except as stated in Exhibits B-2 and D-2 and except increases resulting from contribution requirements with respect to defaulting co-owners under applicable operating agreements or applicable Law and increases that are accompanied by at least a proportionate increase in the Seller's, Company's or Wholly-Owned Subsidiary's (as applicable) net revenue interest; and

(iii) Is free and clear of liens, encumbrances, obligations or defects, other than Permitted Encumbrances.

(b) As used in this Agreement, the term "Title Defect" means any lien, charge, encumbrance, obligation or defect including without limitation a discrepancy in net revenue interest or working interest that causes a breach of DEPI's representation and warranty in Section 3.1. As used in this Agreement, the term "Title Benefit" shall mean any right, circumstance or condition that operates to increase the net revenue interest of a Seller or Company or Wholly-Owned Subsidiary in any Unit or Well above that shown on Exhibits B-2 and D-2, without causing a greater than proportionate increase in such Seller's, Company's or Wholly-Owned Subsidiary's working interest above that shown in Exhibits B-2 and D-2.

Section 3.3 **Definition of Permitted Encumbrances**. As used herein, the term "Permitted Encumbrances" means any or all of the following:

(a) Lessors' royalties and any overriding royalties, reversionary interests and other burdens to the extent that they do not, individually or in the aggregate, reduce a Seller's, Company's or Wholly-Owned Subsidiary's net revenue interests below that shown in Exhibits B-2 and D-2 or increase a Seller's, Company's or Wholly-Owned Subsidiary's working interests above that shown in Exhibits B-2 and D-2 without a corresponding increase in the net revenue interest;

(b) All leases, unit agreements, pooling agreements, operating agreements, production sales contracts, division orders and other contracts, agreements and instruments applicable to the Assets, including provisions for penalties, suspensions or forfeitures contained therein, to the extent that they do not, individually or in the aggregate, reduce a Seller's, Company's or Wholly-Owned Subsidiary's net revenue interests below that shown in Exhibits B-2 and D-2 or increase a Seller's, Company's or Wholly-Owned Subsidiary's working interests above that shown in Exhibits B-2 and D-2 without a corresponding increase in the net revenue interest;

(c) Rights of first refusal, preferential purchase rights and similar rights with respect to the Assets;

(d) Third-party consent requirements and similar restrictions which are not applicable to the sale of the Interests contemplated by this Agreement or with respect to which waivers or consents are obtained from the appropriate Persons prior to the Closing Date or the appropriate time period for asserting the right has expired or which need not be satisfied prior to a transfer;

(e) Liens for Taxes or assessments not yet delinquent or, if delinquent, being contested in good faith by appropriate actions;

(f) Materialman's, mechanic's, repairman's, employee's, contractor's, operator's and other similar liens or charges arising in the ordinary course of business for amounts not yet delinquent (including any amounts being withheld as provided by Law), or if delinquent, being contested in good faith by appropriate actions;

(g) All rights to consent, by required notices to, filings with, or other actions by Governmental Authorities in connection with the sale or conveyance of oil and gas leases or rights or interests therein if they are customarily obtained subsequent to the sale or conveyance;

(h) Rights of reassignment arising upon final intention to abandon or release the Assets, or any of them;

(i) Easements, rights-of-way, covenants, servitudes, permits, surface leases and other rights in respect of surface operations to the extent they, individually or in the aggregate, neither (i) reduce a Seller's, Company's or Wholly-Owned Subsidiary's net revenue interest below that shown on Exhibit A-2 or increase a Seller's, Company's or Wholly-Owned Subsidiary's working interest beyond that shown on Exhibit A-2 without a corresponding increase in net revenue interest nor (ii) detract in any material respect from the value of, or interfere in any material respect with the use, ownership or operation of, the Assets subject thereto or affected thereby (as currently used, owned or operated) and which would be acceptable by a reasonably prudent operator engaged in the business of owning and operating oil and gas properties;

(j) Calls on production under: (i) existing Contracts that provide that the holder of such call on production must pay an index-based price for any production purchased by virtue of such call on production; and (ii) those Contracts identified on Schedule 3.3(j);

(k) Any termination of any Seller's, Company's or Wholly-Owned Subsidiary's title to any mineral servitude or any Property held by production as a consequence of the failure to conduct operations, cessation of production or insufficient production over any period except to the extent DEPI has knowledge thereof as of the date hereof;

(l) All rights reserved to or vested in any Governmental Authorities to control or regulate any of the Assets in any manner or to assess Tax with respect to the Assets, the ownership, use or operation thereof, or revenue, income or capital gains with respect thereto, and all obligations and duties under all applicable Laws of any such Governmental Authority or under any franchise, grant, license or permit issued by any Governmental Authority;

(m) Any lien, charge or other encumbrance on or affecting the Assets which is expressly waived, assumed, bonded or paid by Purchaser at or prior to Closing or which is discharged by Sellers, any Company or any Wholly-Owned Subsidiary at or prior to Closing;

(n) any lien or trust arising in connection with workers' compensation, unemployment insurance, pension or employment laws or regulations;

(o) The matters described in Schedule 4.4;

(p) Any matters shown on Exhibits B-2 and D-2; and

(q) Any other liens, charges, encumbrances, defects or irregularities, which do not, individually or in the aggregate, materially detract from the value of or materially interfere with the use or ownership of the Assets subject thereto or affected thereby (as currently used or owned) including, without limitation, (i) the absence of any lease amendment or consent by any royalty interest or mineral interest holder authorizing the pooling of any leasehold interest, royalty interest or mineral interest and (ii) the failure of Exhibits B-1, B-2, D-1 and D-2 to reflect any lease or any unleased mineral interest where the owner thereof was treated as a non-participating co-tenant during the drilling of any well, which would be accepted by a reasonably prudent purchaser engaged in the business of owning and operating oil and gas properties.

Section 3.4 **Allocated Values**. Schedule 3.4 sets forth the agreed allocation of the Unadjusted Purchase Price among the Assets for purposes of DEPI's title representation in this Article 3, consistent with the allocations among the Shares for each Company, the DEPI Additional Assets, the DOTEPI Additional Assets and the Reserves Additional Assets under Section 2.2(a). The "Allocated Value" for any Well or Unit equals the portion of the Interest Unadjusted Purchase Price for the Company Shares or Additional Asset group to which such Well or Unit is related that is allocated to such Well or Unit on Schedule 3.4, increased or decreased by a share of each adjustment to the Interest Unadjusted Purchase Price under Sections 2.3(c), (d), (e), (f), (g) and (h). The share of each adjustment allocated to a particular Well or Unit shall be obtained by taking the portion of that adjustment allocated under Section 2.2(a) to the Shares or Additional Asset group to which the Well or Unit is related and further allocating that portion among the various Assets related to such Shares or Additional Asset group on a pro rata basis in proportion to the Interest Unadjusted Purchase Price allocated to each such Asset. Sellers have accepted such Allocated Values for purposes of this Agreement and the transactions contemplated hereby, but otherwise make no representation or warranty as to the accuracy of such values.

Section 3.5 **<u>Notice of Title Defects; Defect Adjustments</u>**.

(a) To assert a claim arising out of a breach of Section 3.1, Purchaser must deliver a claim notice or notices to DEPI on or before a date which is at least ten (10) Business Days prior to the Closing Date (the "<u>Title Claim Date</u>"). Each such notice shall be in writing and shall include:

(i) a description of the alleged Title Defect(s);

(ii) the Units or Wells affected;

(iii) the Allocated Values of the Units or Wells subject to the alleged Title Defect(s);

(iv) supporting documents reasonably necessary for Sellers (as well as any title attorney or examiner hired by Sellers) to verify the existence of the alleged Title Defect(s); and

(v) the amount by which Purchaser reasonably believes the Allocated Values of those Units or Wells are reduced by the alleged Title Defect(s) and the computations and information upon which Purchaser's belief is based.

Purchaser shall be deemed to have waived all breaches of Section 3.1 of which Sellers have not been given notice on or before the Title Claim Date.

(b) Should Purchaser discover any Title Benefit on or before the Title Claim Date, Purchaser shall as soon as practicable, but in any case by the Title Claim Date, deliver to DEPI a notice including:

(i) a description of the Title Benefit;

(ii) the Units or Wells affected;

(iii) the Allocated Values of the Units or Wells subject to such Title Benefit; and

(iv) the amount by which the Purchaser reasonably believes the Allocated Value of those Units or Wells is increased by the Title Benefit, and the computations and information upon which Purchaser's belief is based.

Sellers shall have the right, but not the obligation, to deliver to Purchaser a similar notice on or before the Title Claim Date with respect to each Title Benefit discovered by Sellers. Sellers shall be deemed to have waived all Title Benefits of which no Party has given notice on or before the Title Claim Date, except to the extent Purchaser has failed to give a notice which it was obligated to give under this Section 3.5(b).

(c) Sellers shall have the right, but not the obligation, to attempt, at Sellers' sole cost, to cure or remove on or before sixty (60) days after the Closing Date any Title

Defects of which Sellers have been advised by Purchaser. No reduction shall be made in the Unadjusted Purchase Price with respect to a Title Defect for purposes of Closing if DEPI has provided notice at least six (6) Business Days prior to the Closing Date of Sellers' intent to attempt to cure the Title Defect. If the Title Defect is not cured as agreed by Sellers and Purchaser or if Sellers and Purchaser cannot agree, and it is determined by the Title Arbitrator that such Title Defect is not cured at the end of the sixty (60) day post-Closing period, the adjustment required under this Article 3 shall be made pursuant to Section 8.4(b). Sellers' election to attempt to cure a Title Defect shall not constitute a waiver of Sellers' right to dispute the existence, nature or value of, or cost to cure, the Title Defect.

(d) With respect to each Unit or Well affected by Title Defects reported under Section 3.5(a), the Unit or Well shall, if an Additional Asset, be assigned at Closing or, if held by a Company or Wholly-Owned Subsidiary, remain in the Company or Wholly-Owned Subsidiary, subject in each case to all uncured Title Defects, and (subject to Section 3.5(c) and the remainder of Section 3.5(d)) the Unadjusted Purchase Price shall be reduced by an amount (the "Title Defect Amount") equal to the reduction in the Allocated Value for such Unit or Well caused by such Title Defects, as determined pursuant to Section 3.5(g). Notwithstanding the foregoing provisions of this Section 3.5(d), no reduction shall be made in the Unadjusted Purchase Price with respect to any Title Defect that is (i) older than ten (10) years old and, except for unreleased production payments or similar interests or other unreleased encumbrances, a Title Defect Amount of less than Twenty-Five Million Dollars ($25,000,000), (ii) involves a counterparty no longer in existence or in bankruptcy or receivership or (iii) consists of an alleged defect in the authorization, execution, delivery, acknowledgement, or approval in a Seller's, Company's or Wholly-Owned Subsidiary's chain of title for which DEPI at its election executes and delivers to Purchaser a separate written indemnity agreement, in form and substance reasonably satisfactory to Purchaser, under which DEPI agrees to fully, unconditionally and irrevocably indemnify and hold harmless Purchaser and its successors and assigns from any and all Damages arising out of or resulting from such Title Defect.

(e) With respect to each Unit or Well affected by Title Benefits reported under Section 3.5(b) (or which Purchaser should have reported under Section 3.5(b)), the Unadjusted Purchase Price shall be increased by an amount (the "Title Benefit Amount") equal to the increase in the Allocated Value for such Unit or Well caused by such Title Benefits, as determined pursuant to Section 3.5(h), but in no event will the aggregate adjustments to the Unadjusted Purchase Price as a result of Title Benefits exceed the aggregate adjustments to the Unadjusted Purchase Price due to Title Defects.

(f) This Article 3 shall, to the fullest extent permitted by applicable Law, be the exclusive right and remedy of Purchaser with respect to DEPI's breach of its warranty and representation in Section 3.1. Except as provided in this Article 3, Section 4.13(b) and the Conveyances, Purchaser releases, remises and forever discharges Sellers and their Affiliates and all such parties' stockholders, officers, directors, employees, agents, advisors and representatives from any and all suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest or causes of action whatsoever, in law or in equity, known or unknown, which Purchaser might now or subsequently may have, based on, relating to or arising out of, any Title Defect or other deficiency in title to any Asset.

(g) The Title Defect Amount resulting from a Title Defect shall be determined as follows:

(i) if Purchaser and Sellers agree on the Title Defect Amount, that amount shall be the Title Defect Amount;

(ii) if the Title Defect is a lien, encumbrance or other charge which is undisputed and liquidated in amount, then the Title Defect Amount shall be the amount necessary to be paid to remove the Title Defect from the appropriate Seller's, Company's or Wholly-Owned Subsidiary's interest in the affected Unit or Well;

(iii) if the Title Defect represents a discrepancy between (A) the net revenue interest for any Unit or Well and (B) the net revenue interest or percentage stated on Exhibit B-2 or D-2 (as appropriate), then the Title Defect Amount shall be the product of the Allocated Value of such Unit or Well multiplied by a fraction, the numerator of which is the net revenue interest or percentage ownership decrease and the denominator of which is the net revenue interest or percentage ownership stated on Exhibit B-2 or D-2, provided that if the Title Defect does not affect the Unit or Well throughout its entire productive life, the Title Defect Amount determined under this Section 3.5(g)(iii) shall be reduced to take into account the applicable time period only;

(iv) if the Title Defect represents an obligation, encumbrance, burden or charge upon or other defect in title to the affected Unit or Well of a type not described in subsections (i), (ii) or (iii) above, the Title Defect Amount shall be determined by taking into account the Allocated Value of the Unit or Well so affected, the portion of the respective Seller's, Company's or Wholly-Owned Subsidiary's interest in the Unit or Well affected by the Title Defect, the legal effect of the Title Defect, the potential economic effect of the Title Defect over the life of the affected Unit or Well, the values placed upon the Title Defect by Purchaser and Sellers and such other factors as are necessary to make a proper evaluation;

(v) notwithstanding anything to the contrary in this Article 3, (A) an individual claim for a Title Defect for which a claim notice is given prior to the Title Claim Date shall only generate an adjustment to the Unadjusted Purchase Price under this Article 3 if the Title Defect Amount with respect thereto exceeds One Million dollars ($1,000,000), (B) the aggregate Title Defect Amounts attributable to the effects of all Title Defects upon any given Unit or Well shall not exceed the Allocated Value of such Unit or Well and (C) there shall be no adjustment to the Unadjusted Purchase Price for Title Defects unless and until the aggregate Title Defect Amounts that are entitled to an adjustment under

Section 3.5(g)(v)(A) and for which Claim Notices were timely delivered exceed Twenty-Five Million dollars ($25,000,000), and then only to the extent that such aggregate Title Defect Amounts exceed Twenty-Five Million dollars ($25,000,000);

(vi) if a Title Defect is reasonably susceptible of being cured, the Title Defect Amount determined under subsections (iii) or (iv) above shall not be greater than the amount that can reasonably be shown to be the reasonable cost and expense of curing such Title Defect; and

(vii) the Title Defect Amount with respect to a Title Defect shall be determined without duplication of any costs or losses included in another Title Defect Amount hereunder, or for which Purchaser otherwise receives credit in the calculation of the Purchase Price.

(h) The Title Benefit Amount for any Title Benefit shall be the product of the Allocated Value of the affected Unit or Well multiplied by a fraction, the numerator of which is the net revenue interest increase and the denominator of which is the net revenue interest stated on Exhibit B-2 or D-2, provided that if the Title Benefit does not affect a Unit or Well throughout the entire life of the Unit or Well, the Title Benefit Amount determined under this Section 3.5(h) shall be reduced to take into account the applicable time period only. Notwithstanding anything to the contrary in this Article 3, an individual claim for a Title Benefit which is reported under Section 3.5(b) (or which Purchaser should have reported under Section 3.5(b)) prior to the Title Claim Date shall only generate an adjustment to the Unadjusted Purchase Price under this Article 3 if the Title Benefit Amount with respect thereto exceeds One Million dollars ($1,000,000).

(i) Sellers and Purchaser shall attempt to agree on all Title Defect Amounts and Title Benefit Amounts by five (5) Business Days prior to the Closing Date. If Sellers and Purchaser are unable to agree by that date, then subject to Section 3.5(c), Sellers' good faith estimate shall be used to determine the Closing Payment pursuant to Section 8.4(a), and the Title Defect Amounts and Title Benefit Amounts in dispute shall be exclusively and finally resolved by arbitration pursuant to this Section 3.5(i). During the 10-day period following the Closing Date, Title Defect Amounts and Title Benefit Amounts in dispute shall be submitted to a title attorney with at least 10 years' experience in oil and gas titles in the state in which the Units or Wells (or majority of Units and Wells) in question are located as selected by mutual agreement of Purchaser and DEPI on behalf of Sellers or absent such agreement during the 10-day period, by the Houston office of the American Arbitration Association (the "Title Arbitrator"). Likewise, if by the end of the sixty (60) day post-Closing cure period under Section 3.5(c), Sellers and Purchaser have been unable to agree upon whether any Title Defects have been cured, or Sellers have failed to cure any Title Defects which they provided notice that they would attempt to cure, and Sellers and Purchaser have been unable to agree on the Title Defect Amounts for such Title Defects, the cure and/or Title Defect Amounts in dispute shall be submitted to the Title Arbitrator. The Title Arbitrator shall not have worked as an employee or outside counsel for either Party or its Affiliates during the five (5) year period preceding the arbitration or have any financial interest in the dispute. The arbitration proceeding shall be held in Houston, Texas and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent such rules do not conflict with the terms of this Section. The Title Arbitrator's determination shall be made within 45 days after submission of the matters in dispute and shall be final and binding upon the Parties, without right of appeal. In making his determination, the Title Arbitrator shall be bound by the rules set forth in Section 3.5(g) and 3.5(h) and may consider such other matters as in the opinion of the Title Arbitrator are necessary or helpful to make a proper determination. Additionally, the Title Arbitrator may consult with and engage disinterested third Persons to advise the arbitrator, including title attorneys from other states and petroleum engineers. The Title Arbitrator shall act as an expert for the limited purpose of determining the specific disputed Title Defect cures and Title Defect Amounts and Title Benefit Amounts submitted by any Party and may not award damages, interest or penalties to any Party with respect to any matter. Each Seller and Purchaser shall bear its own legal fees and other costs of presenting its case. Purchaser shall bear one-half of the costs and expenses of the Title Arbitrator, and DEPI shall be responsible for the remaining one-half of the costs and expenses.

Section 3.6 **Consents to Assignment and Preferential Rights to Purchase**.

(a) Promptly after the date hereof, Sellers shall prepare and send (i) notices to the holders of any required consents to assignment that are set forth on Schedule 4.11 requesting consents to the transactions contemplated by this Agreement and (ii) notices to the holders of any applicable preferential rights to purchase or similar rights that are set forth on Schedule 4.11 in compliance with the terms of such rights and requesting waivers of such rights. Any preferential purchase right must be exercised subject to all terms and conditions set forth in this Agreement, including the successful Closing of this Agreement pursuant to Article 8. The consideration payable under this Agreement for any particular Asset for purposes of preferential purchase right notices shall be the Allocated Value for such Asset. Sellers shall use commercially reasonable efforts to cause such consents to assignment and waivers of preferential rights to purchase or similar rights (or the exercise thereof) to be obtained and delivered prior to Closing, provided that Sellers shall not be required to make payments or undertake obligations to or for the benefit of the holders of such rights in order to obtain the required consents and waivers. Purchaser shall cooperate, and after Closing shall cause the Companies and Wholly-Owned Subsidiaries to cooperate, with Sellers in seeking to obtain such consents to assignment and waivers of preferential rights.

(b) In no event shall there be transferred at Closing any Asset for which a consent requirement has not been satisfied and for which transfer is prohibited or a fee is payable (unless the same has been paid by Purchaser) without the consent. In cases in which the Asset subject to such a requirement is a Contract and Purchaser is assigned the Lease(s) to which the Contract relates, but the Contract is not transferred to Purchaser due to the unwaived consent requirement, Purchaser shall continue after Closing to use commercially reasonable efforts to obtain the consent so that such Contract can be transferred to Purchaser upon receipt of the consent, the Contract shall be held by Sellers for the benefit of Purchaser, Purchaser shall pay all amounts due thereunder, and

Purchaser shall be responsible for the performance of any obligations under such Contract to the extent that Purchaser has been transferred the Assets necessary to perform under such Contract until such consent is obtained. In cases in which the Asset subject to such a requirement is a Lease and the third Person consent to the transfer of the Lease is not obtained by Closing, Purchaser may elect to treat the unsatisfied consent requirements as a Title Defect and receive the appropriate adjustment to the Unadjusted Purchase Price under Section 2.3 by giving DEPI written notice thereof in accordance with Section 3.5(a), except that such notice may be given up to six (6) Business Days prior to the Closing Date. If an unsatisfied consent requirement with respect to which an adjustment to the Unadjusted Purchase Price is made under Section 3.5 is subsequently satisfied prior to the date of the final adjustment to the Unadjusted Purchase Price under Section 8.4(b), Sellers shall be reimbursed in that final adjustment for the amount of any previous deduction from the Unadjusted Purchase Price, the Lease, if not previously transferred to Purchaser under the first sentence of this Section 3.6(b), shall be transferred, and the provisions of this Section 3.6 shall no longer apply to such consent requirement.

(c) If any preferential right to purchase any Assets is exercised prior to Closing, the Purchase Price shall be decreased by the Allocated Value for such Assets, the affected Assets shall not be transferred at Closing if owned by DEPI, DOTEPI or Reserves, and the affected Assets shall be deemed to be deleted from Exhibits B and/or D to this Agreement, as applicable, for all purposes.

(d) Should a third Person fail to exercise or waive its preferential right to purchase as to any portion of the Assets prior to Closing and the time for exercise or waiver has not yet expired, then subject to the remaining provisions of this Section 3.6, such Assets shall be included in the transaction at Closing, there shall be no adjustment to the Purchase Price at Closing with respect to such preferential right to purchase, and Sellers shall, at their sole expense, continue to use commercially reasonable efforts to obtain the waiver of the preferential purchase rights and shall continue to be responsible for the compliance therewith.

(e) Should the holder of the preferential purchase right validly exercise the same (whether before or after Closing), then:

(i) If the affected Assets are owned by DEPI, DOTEPI or Reserves, DEPI, DOTEPI or Reserves shall convey them to the holder on the terms and provisions set out in the applicable preferential right provision. If the affected Assets were previously transferred to Purchaser at Closing, Purchaser agrees to transfer the affected Assets back to the applicable Seller on the terms and provisions set out herein to permit such Seller to comply with this obligation (or, if the applicable Seller so requests, shall transfer the affected Assets directly to the holder on the terms and provisions set out in the applicable preferential purchase right provision);

(ii) If the affected Assets are owned by a Company or Wholly-Owned Subsidiary, the Company or Subsidiary shall transfer them to the holder on the terms and provisions set out in the applicable preferential purchase right provision. If Closing has already occurred, Purchaser shall cause the Company or Subsidiary to perform this obligation;

(iii) Pursuant to Section 2.3(b), the applicable Seller(s) shall credit Purchaser with the Allocated Value of any Asset transferred pursuant to Section 3.6(e)(i) or (e)(ii) (or, if the transfer of the Asset occurs after the Cut-Off Date, Sellers shall promptly refund to Purchaser the lesser of the Allocated Value in respect of such Asset or the amount the applicable Seller receives from the transferee of such Asset);

(iv) Such Seller(s) shall be entitled to the consideration paid by such holder (which shall, if received by a Company or Subsidiary after Closing, be paid to such Seller(s) by such Company or Subsidiary or by Purchaser as agent for and on behalf of such Company or Subsidiary);

(v) If the affected Assets were owned by DEPI, DOTEPI or Reserves and were previously transferred to Purchaser at Closing, Purchase Price adjustments calculated in the same manner as the adjustments in Section 2.3(h) shall be calculated for the period from the Closing Date to the date of the reconveyance and the net amount of such adjustment, if positive, shall be paid by Purchaser to such Seller and, if negative, by such Seller to Purchaser;

(vi) If the affected Assets were owned by DEPI, DOTEPI or Reserves and were previously transferred to Purchaser at Closing, DEPI, DOTEPI or Reserves, as applicable, shall assume all obligations assumed by Purchaser with respect to such Assets under Section 12.1, and shall indemnify, defend and hold harmless Purchaser from all Damages incurred by Purchaser caused by or arising out of or resulting from the ownership, use or operation of such Asset from the Closing Date to the date of the reconveyance, excluding, however, any such Damages resulting from any violation of any Law caused by the actions of, or implementation of policies or procedures of, Purchaser or any Company or Wholly-Owned Subsidiary after Closing, breach of any contract by Purchaser or any Company or Wholly-Owned Subsidiary after Closing, or gross negligence or willful misconduct of any Purchaser or any Company or Wholly-Owned Subsidiary after Closing; and

(vii) In the event that the value of any Property operated by any Seller, Company or Wholly-Owned Subsidiary is materially impaired by the exercise of a preferential purchase right with respect to a Property also operated by such Seller, Company or Wholly-Owned Subsidiary on which infrastructure is used by the first Property without the benefit of an agreement for such use which would survive the transfer of title to the third party preferential purchase right holder, Purchaser may claim such material impairment as a Title Defect.

Section 3.7 **Limitations on Applicability**. The representation and warranty in Section 3.1 shall terminate as of the Title Claim Date and shall have no further force and effect thereafter, provided there shall be no termination of Purchaser's or Sellers' rights under Section 3.5 with respect to any bona fide Title Defect or Title Benefit claim properly reported on or before the Title Claim Date or under the Conveyances.

ARTICLE 4.
REPRESENTATIONS AND WARRANTIES OF SELLERS

Subject to the provisions of this Article 4, and the other terms and conditions of this Agreement, DEPI represents and warrants to Purchaser the matters set out in Sections 4.1 through 4.19, and Sections 4.21 and 4.22.

Section 4.1 **Sellers**.

(a) Existence and Qualification. Each Seller is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of the state where it is incorporated or organized (as set forth in the preamble).

(b) Power. Each Seller has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by that Seller at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

(c) Authorization and Enforceability. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by each Seller at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of such Seller. This Agreement has been duly executed and delivered by each Seller (and all documents required to be executed and delivered by each Seller at Closing shall be duly executed and delivered by such Seller) and this Agreement constitutes, and at the Closing such documents shall constitute, the valid and binding obligations of each Seller, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Agreement by each Seller, and the consummation of the transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws (or equivalent governing instruments) of such Seller, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which such Seller is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to the Assets or such Seller as a party in interest or (iv) violate any Laws applicable to such

Seller, except any matters described in clauses (ii), (iii), or (iv) above which would not have a Material Adverse Effect.

Section 4.2 **The Companies**.

(a) Existence and Qualification. Each Company other than the Survivor LPs is a corporation, duly organized, validly existing and in good standing under the Laws of its respective jurisdiction of incorporation or formation as described in Exhibit A attached hereto, and each is duly qualified to do business as a foreign corporation in each jurisdiction where its Company Assets are located, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect. As of the Closing, each Survivor LP will be a partnership, duly organized, validly existing and in good standing under the Laws of its respective jurisdiction of incorporation or formation as described in Exhibit A attached hereto and will be duly qualified to do business as a foreign limited partnership in each jurisdiction where its Company Assets are located, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Power. Each Company other than the Survivor LPs has the corporate power and authority to own, lease or otherwise hold its Assets and conduct its business in the manner consistent with recent practice. As of the Closing, each Survivor LP will have the partnership power and authority to own, lease or otherwise hold its Assets and conduct its business in the manner consistent with recent practice of the E&P Business.

(c) No Conflicts. The consummation of transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws (or equivalent governing instruments) of any Company, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which any Company is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to any Company as a party in interest, or (iv) violate any Laws applicable to any Company, or any of its Company Assets, except any matters described in clauses (ii), (iii), or (iv) above which would not have a Material Adverse Effect.

(d) Certificate of Incorporation and Bylaws. Sellers have delivered to Purchaser true and complete copies of the certificate of incorporation and by-laws (or equivalent governing instruments), each as amended to date, of the Companies other than the Survivor LPs and have made available to Purchaser for inspection the stock certificates and transfer books, and the minute books, of the Companies other than the Survivor LPs. Prior to the Closing, Seller shall deliver to Purchaser true and complete copies of the certificate of incorporation and by-laws (or equivalent governing instruments), each as amended as of such date, of the Survivor LPs and make available to Purchaser for inspection the partnership books, of the Survivor LPs.

(e) Title to Shares. Sellers have good and valid title to the Shares of the Companies other than the Survivor LPs, and as of the Closing, will have good and valid title to the Shares of the Survivor LPs, in each case, free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind other than restrictions on transfer that may be imposed by applicable federal or state securities laws or in the applicable Company's governing instruments. Other than this Agreement, and, in the case of the Survivor LPs, their respective partnership agreements, the Shares are not subject to any voting agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to the voting, dividend rights or disposition of the Shares.

(f) The Shares. The entire issued and outstanding capital stock of the Companies that are not Survivor LPs are their Shares, consisting of the numbers set forth on Exhibit A attached hereto, and the entire equity ownership interest in the Survivor LPs will at Closing be their Shares. In each case, all the Shares of the Companies that are not Survivor LPs are, and the Shares of the Survivor LPs at Closing will be, duly authorized and validly issued and outstanding, fully paid, non-assessable and not issued in violation of any preemptive rights. Except for the Shares, there are no outstanding shares of capital stock or other equity interests in any Company, or any contractual arrangements giving any Person a right to receive any benefits or rights similar to the rights enjoyed by or accruing to the holders of any Shares of any Company. Other than pursuant to this Agreement, there are no outstanding warrants, options, rights, convertible or exchangeable securities or other commitments pursuant to which any Seller or a Company is or may be required to issue equity interests in such Company.

(g) Balance Sheets and Income Statements. The combined, unaudited balance sheets of the Consolidated Onshore E&P Business as of December 31, 2005, and December 31, 2006 (the "Balance Sheets"), and the income statements of the Consolidated Onshore E&P Business for the year ended December 31, 2005, and for the year ended December 31, 2006 (the "Income Statements") attached hereto as Schedule 4.2(g) have been prepared from the books and records of the Sellers, Companies and Subsidiaries, in conformity with the Accounting Principles and fairly present the financial position of the Consolidated Onshore E&P Business as of the dates thereof and the results of operations of the Consolidated Onshore E&P Business for the periods then ended, including the allocations of general and administrative expense, shared assets and other items that have been made as indicated in Schedule 4.2(g), except for the following:

(i) normal period end adjustments, including but not limited to subsequent events;

(ii) the absence of notes required by the Accounting Principles; and

(iii) the exclusion of cash and short-term investments, Affiliate accounts receivable and payable, margin assets and liabilities, goodwill, debt and interest to be eliminated pursuant to Section 6.9, Affiliate debt and interest to be eliminated pursuant to Section 6.8, retirement and other employee benefits, financing fees, the effects of hedging and other derivatives to be eliminated pursuant to Section 6.12, income taxes, and stock compensation.

Parent’s net investment (equity) is included in the Balance Sheets, however no representation is made regarding these balances.

(h) Subsidiaries. No Company or Wholly-Owned Subsidiary directly or indirectly owns any capital stock or other equity interest in any Person except in Subsidiaries as set forth in Exhibit C and excluding, for the avoidance of doubt, any tax partnerships entered into with respect to the Assets.

(i) Labor Matters.

(i) No Company or Wholly-Owned Subsidiary has any employees other than the Company Onshore Employees, Excluded Employees, Key Employees and U.S. Temporary Employees.

(ii) Other than for Excluded Employees, Key Employees, U.S. Temporary Employees or consultants, there are no employment agreements with any individuals who are (x) employed by DEPI, DOTEPI or Reserves who are rendering services primarily with respect to the Assets or (y) employed by Dominion Resources Services, Inc. and who are rendering services primarily with respect to the Assets or (z) employed by a Company or Wholly-Owned Subsidiary.

(iii) DEPI, DOTEPI, Reserves, the Companies and the Wholly-Owned Subsidiaries have no collective bargaining agreements relating to the Assets. To the knowledge of DEPI: (A) no labor organization or group of employees of the Companies or the Wholly-Owned Subsidiary has made a demand for recognition or certification as a union or other labor organization, and (B) there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened in writing to be brought or filed with the National Labor Relations Board or any labor relations tribunal or authority. To DEPI’s knowledge, there are no organizing activities involving the Companies or the Wholly-Owned Subsidiaries relating to the Assets.

(j) Employee Benefits.

(i) Schedule 4.2(j)(i) lists all of the Employee Plans.

(ii) All Employee Plans subject to ERISA and the Code comply in all material respects with ERISA, the Code and all applicable Laws, except as set forth on Schedule 4.2(j)(i).

(iii) All Employee Plans contributed to by the Sellers, Companies, Wholly-Owned Subsidiaries or any ERISA Affiliate intended to be qualified under Section 401 of the Code have filed for or received favorable determination letters with respect to such qualified status from the Internal Revenue Service. The determination letter for each such Employee Plan remains in effect, and, to DEPI’s knowledge, any amendment made, or event relating to such an Employee

Plan subsequent to the date of such determination letter, has not materially and adversely affected the qualified status of the Employee Plan.

(iv) No Employee Plan that is subject to Title IV of ERISA (a "Title IV Plan") or Section 412 of the Code has incurred an accumulated funding deficiency, whether or not waived, within the meaning of Section 412 of the Code or Section 302 of ERISA, and to DEPI's knowledge, no condition exists which would be expected to result in an accumulated funding deficiency as of the last day of the current plan year of any Title IV Plan or other Employee Plan subject to Section 412 of the Code. The PBGC has not instituted proceedings to terminate any Title IV Plan, and no other event or condition has occurred which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Title IV Plan.

(v) No Employee Plan covering Company Onshore Employees is subject to the Laws of any jurisdiction outside the United States.

(vi) None of Sellers, the Companies, the Wholly-Owned Subsidiaries, any other Affiliate of Sellers or any ERISA Affiliate has incurred or reasonably expects to incur any liability under Title IV of ERISA, including, without limitation, any liability (including secondary liability) for withdrawal from a Multiemployer Plan, any liability under Section 412, 4975 or 4980B of the Code, or any liability under Section 502 of ERISA.

Section 4.3 **The Subsidiaries**.

(a) Existence and Qualification. The Wholly-Owned Subsidiary is a limited partnership duly organized and validly existing under the Laws of its respective jurisdiction of incorporation or formation as described in Exhibit C and is duly qualified to do business as a foreign corporation, limited liability company, or general or limited partnership, as applicable, in each jurisdiction where its Assets are located, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Power. The Wholly-Owned Subsidiary has the partnership power and authority to own, lease or otherwise hold its Assets and conduct its business in the manner consistent with recent practice.

(c) No Conflicts. The consummation of transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or the by-laws (or equivalent certificates and governing instruments) of the Wholly-Owned Subsidiary, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which the Wholly-Owned Subsidiary is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to the Wholly-Owned Subsidiary as a party in interest, or (iv) violate any Laws applicable to the Wholly-

Owned Subsidiary, or any of its Assets, except any matters described in clauses (ii), (iii), or (iv) above which would not have a Material Adverse Effect.

(d) Certificate of Incorporation and Bylaws. Sellers have delivered to Purchaser true and complete copies of the partnership agreements, each as amended to date, of each Subsidiary (other than those certificates of partnership agreements for Frederick HOF Limited Partnership and Wilderness Energy Services Limited Partnership subject to confidentiality restrictions for which Sellers were unable to obtain all required consents for disclosure) and has made available to Purchaser for inspection the partnership books of the Wholly-Owned Subsidiary. Sellers will continue after the date hereof using commercially reasonable efforts to obtain the necessary consents to disclose the governing instruments for the Frederick HOF Limited Partnership and Wilderness Energy Services Partnership, provided that Sellers shall not be required to make payments or undertake obligations to or for the benefit of the holders of such consent rights.

(e) Title to Equity Interests of the Subsidiaries. The issued and outstanding shares, partnership interests or membership interests, as appropriate, in each Subsidiary are owned of record as described in Exhibit C. In the case of such issued and outstanding shares, partnership interests or membership interests owned of record by a Seller, Company or Subsidiary as shown on Exhibit C (the "Equity Interests"), such shares or interest are also owned beneficially and free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind other than restrictions on transfers that may be imposed by applicable federal or state securities laws, or in the applicable Subsidiary's governing instruments. Other than this Agreement and, in the case of Subsidiaries that are limited liability companies or general or limited partnerships, their respective ownership agreements, the Equity Interests are not subject to any voting agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to the voting, dividend rights or disposition of the Equity Interests.

(f) The Equity Interests. The entire issued and outstanding capital stock of each Subsidiary that is a corporation consists of the numbers set forth on Exhibit C attached hereto, and the entire equity ownership of each Subsidiary that is a limited liability company or general or limited partnership consists of the partnership interests or membership interests as set forth in Exhibit C attached hereto. In each case, all the Equity Interests are duly authorized and validly issued and outstanding, fully paid, non-assessable (except, in the case of Subsidiaries that are limited liability companies or general or limited partnerships, as expressly authorized by the terms of the applicable operating agreements or partnership agreements of the Subsidiaries and except for any obligation to return distributions under the Laws applicable to each Subsidiary and have not been issued in violation of any preemptive rights. Except for the shares, partnership interests or membership interests shown on Exhibit C, there are no outstanding shares, units or other equity interests in any Subsidiary, or any contractual arrangements giving any Person a right to receive any benefits or rights similar to the rights enjoyed by or accruing to the holders of any Equity Interests of any Subsidiary. Other than pursuant to this Agreement, there are no outstanding warrants, options, rights, convertible or exchangeable securities or other commitments pursuant to which any Company or any Subsidiary is or may become obligated to issue or sell any capital stock or other equity interests in such Subsidiary.

Section 4.4 **Litigation**. Except as disclosed on Schedule 4.4, there are no actions, suits or proceedings pending, or to DEPI's knowledge threatened in writing, before any Governmental Authority or arbitrator with respect to the E&P Business or against any Company or Wholly-Owned Subsidiary. There are no actions, suits or proceedings pending, or to DEPI's knowledge, threatened in writing, before any Governmental Authority or arbitrator against any Seller, Company or Wholly-Owned Subsidiary, or any Affiliate of any of them, which are reasonably likely to impair or delay materially Sellers' ability to perform their obligations under this Agreement.

Section 4.5 **Taxes and Assessments**. Except as disclosed on Schedule 4.5,

(a) To the knowledge of DEPI, each Company and Subsidiary has filed all material Tax Returns (as defined in Section 9.2(a)) required to be filed by it, and timely paid all material Taxes that were due and payable by it, except those for which adequate reserves have been provided;

(b) To the knowledge of DEPI, no Company or Subsidiary has received written notice of any pending claim against it (which remains outstanding) from any applicable Governmental Authority for assessment of material Taxes, and to the knowledge of DEPI, no such claim has been threatened;

(c) To the knowledge of DEPI, each Seller has filed all material Tax Returns (as defined in Section 9.2(a)) required to be filed by it and paid all material Taxes (except those for which adequate reserves have been provided) with respect to the Additional Assets;

(d) To the knowledge of DEPI, no Seller has received written notice of any pending claim against it (which remains outstanding) from any applicable Governmental Authority for assessment of material Taxes with respect to the Additional Assets, and to the knowledge of DEPI, no such claim has been threatened;

(e) Schedule 4.5 sets forth all of the Assets that are deemed by agreement or applicable law to be held by a partnership for federal tax purposes, and, to the extent any of the Assets are deemed by agreement or applicable law to be held by a partnership for federal tax purposes, any such partnerships shall have in effect an election under Section 754 of the Code that will apply with respect to such portion of the Assets being sold and purchased under this Agreement and that are deemed owned by such partnerships;

(f) Schedule 4.5(f) lists each Company and Subsidiary and indicates whether each such Company and Subsidiary (to DEPI's knowledge in the case of Subsidiaries other than Wholly-Owned Subsidiaries) is treated as a C corporation, partnership, or entity disregarded as separate from its owner for United States federal income tax purposes;

(g) None of the Companies or Wholly-Owned Subsidiaries has, during the period such Companies or Wholly-Owned Subsidiaries have been part of the Consolidated Group, and to the knowledge of DEPI, none of the other Subsidiaries has, (i) participated, within the meaning of Treasury Regulation Section 1.6011-4(c), in any “listed transaction” or any other “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4, (ii) engaged in any transaction that gives rise to (x) a registration obligation under Section 6111 of the Code and the Treasury Regulations thereunder, or (y) a list maintenance obligation under Section 6112 of the Code and the Treasury Regulations thereunder, or (iii) taken any position on any Tax Return which could give rise to a substantial underpayment of Tax under Section 6662 of the Code or any similar provision of state, local or foreign Tax law;

(h) To the knowledge of DEPI, (i) no audit, litigation or other proceeding with respect to material Taxes has been commenced or is presently pending with respect to any of the Companies or the Subsidiaries, or with respect to the Additional Assets; and (ii) each of the Companies and Subsidiaries has withheld and paid all material Taxes required to have been withheld and paid by them, including in connection with amounts paid or owing to any employee, independent contractor, creditor, member, stockholder, or other third party; and

(i) To the knowledge of DEPI, none of the Companies or Subsidiaries has been a member of a consolidated, combined or unitary group, except for a Consolidated Group.

Section 4.6 **Environmental Laws**. Except as disclosed on Schedule 4.6, to DEPI’s knowledge, each Company’s and Wholly-Owned Subsidiary’s, and DEPI’s, DOTEPI’s and Reserves’, ownership and operation of its respective Assets is in compliance with all applicable Environmental Laws, except such failures to comply as, individually or in the aggregate, would not have a Material Adverse Effect. Except as disclosed on Schedule 4.6, and except for contamination that would not, individually or in the aggregate, have a Material Adverse Effect, to DEPI’s knowledge there has been no pollution or contamination of groundwater, surface water, soil, subsurface strata or seabed on the Properties resulting from hydrocarbon or related activities on such Properties which was required to be remediated under applicable Environmental Laws on or before the date of this Agreement for which any Company or Wholly-Owned Subsidiary or the owner of the Additional Assets would be liable but which has not been remediated. Except as disclosed on Schedule 4.4 or Schedule 4.6, to DEPI’s knowledge, none of the Sellers has received any unresolved written notice from any Person or Governmental Authority asserting or alleging that the Companies or the Properties are or may be in violation of Environmental Laws, are or may be the subject of any investigation pursuant to Environmental Laws or are or may be subject to Environmental Liabilities. Notwithstanding anything to the contrary in this Section or elsewhere in this Agreement, DEPI makes no, and disclaims any, representation or warranty, express or implied, with respect to the presence or absence of naturally occurring radioactive material (“NORM”), asbestos, mercury, drilling fluids and chemicals, and produced waters and hydrocarbons in or on the Properties or Equipment in quantities typical for oilfield operations in the areas in which the Properties and Equipment are located. For purposes of this Agreement, “Environmental Laws” means, as the same have been amended to the date hereof, the Comprehensive Environmental Response, Compensation and

Liability Act, 42 U.S.C. § 9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 et seq.; the Clean Air Act, 42 U.S.C. § 7401 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. § 1471 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 through 2629; the Oil Pollution Act, 33 U.S.C. § 2701 et seq.; the Emergency Planning and Community Right to Know Act, 42 U.S.C. § 11001 et seq.; and the Safe Drinking Water Act, 42 U.S.C. §§ 300f through 300j, in each case as amended to the date hereof, and all similar Laws as of the date hereof of any Governmental Authority having jurisdiction over the property in question addressing pollution or protection of the environment or biological or cultural resources, remediation of contamination, restoration of environmental quality, Hazardous Substances and all regulations implementing the foregoing.

Section 4.7 **Compliance with Laws**. Except with respect to Environmental Laws, which are addressed in Section 4.6 and except as disclosed on Schedule 4.7, to DEPI's knowledge, the Companies and the Wholly-Owned Subsidiaries are in compliance with, and DEPI's, DOTEPI's and Reserves' ownership, use and operation of the Additional Assets are in compliance with, all applicable Laws, except such failures to comply as would not, individually or in the aggregate, have a Material Adverse Effect. Except as set forth on Schedule 4.7, Sellers and the Companies and Wholly-Owned Subsidiaries have all material permits, licenses and other governmental authorizations (collectively, the "Permits") necessary to own, lease or otherwise hold their respective properties and assets and to conduct the E&P Business as currently conducted except where the failure to have any Permit does not result in a Material Adverse Effect.

Section 4.8 **Contracts**. Schedule 4.8 lists all Material Contracts. To DEPI's knowledge, none of the Sellers, the Companies or the Wholly-Owned Subsidiaries, nor to the knowledge of DEPI, any other Person, is (or will be with due notice, lapse of time or both) in default under any Material Contract except as disclosed on Schedule 4.8 and except such defaults as would not, individually or in the aggregate, have a Material Adverse Effect. To DEPI's knowledge, all Material Contracts are in full force and effect. Except as disclosed on Schedule 4.8, there are no Contracts with Affiliates of Sellers (other than the Companies and Subsidiaries) that will be binding on any Company or Wholly-Owned Subsidiary or the Assets after Closing. Except as disclosed on Schedule 4.8, there are no futures, options, swaps or other derivatives with respect to the sale of production that will be binding on any Company or Wholly-Owned Subsidiary or the Assets after Closing. Except as disclosed on Schedule 4.8, as of the date identified on such Schedule, there were no contracts for the purchase, sale or exchange of oil, gas or other hydrocarbons produced from or attributable to the Properties that will be binding on Purchaser, the Companies, the Wholly-Owned Subsidiary or the Assets after Closing that Purchaser (or the applicable Company or Wholly-Owned Subsidiary) will not be entitled to terminate at will (without penalty) on 90 days notice or less. No notice of default or breach has been received or delivered by any Seller, Company or Wholly-Owned Subsidiary under any Material Contract, the resolution of which is currently outstanding, and no currently effective notices have been received by any Seller, Company or Wholly-Owned Subsidiary of the exercise of any premature termination, price redetermination, market-out or curtailment of any Material Contract.

Section 4.9 **Payments for Production**. Except as disclosed on Schedule 4.9 and subject to the covenant in Section 6.11, none of the Sellers, the Companies or the Wholly-Owned Subsidiaries are obligated by virtue of a take or pay payment, advance payment or other similar payment (other than royalties, overriding royalties and similar arrangements established in the Leases or reflected on Exhibit B-1, Exhibit B-2, Exhibit D-1 or Exhibit D-2), to deliver oil or gas, or proceeds from the sale thereof, attributable to the Sellers', Company's or Wholly-Owned Subsidiary's interest in the Properties at some future time without receiving payment therefor at or after the time of delivery.

Section 4.10 **Production Imbalances**. Except with respect to Properties and in the amounts set forth on Schedule 4.10, as of the dates set forth on such Schedule, there were no imbalances with respect to the Properties arising from overproduction or underproduction or overdeliveries or underdeliveries or other imbalance arising at the wellhead, pipeline, gathering system, transportation system, processing plant or other location, including, without limitation, any imbalances under gas balancing or similar agreements, or imbalances under processing agreements and imbalances under gathering or transportation agreements.

Section 4.11 **Consents and Preferential Purchase Rights**. As of the date hereof, there are no preferential rights to purchase or required third Person consents to assignment, which may be applicable or necessary for the valid execution, delivery and performance by Sellers of this Agreement (including to the sale of Shares and Additional Assets by Sellers as contemplated by this Agreement), except for consents and approvals of Governmental Authorities that are customarily obtained after Closing, those approvals described in Section 6.7, and as set forth on Schedule 4.11.

Section 4.12 **Liability for Brokers' Fees**. Purchaser, the Companies and the Subsidiaries shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Sellers, the Companies or the Subsidiaries prior to Closing, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

Section 4.13 **Equipment and Personal Property**.

(a) Except as set forth on Schedule 4.13(a), all currently producing Wells and Equipment are in an operable state of repair adequate to maintain normal operations in accordance with past practices, ordinary wear and tear excepted. DEPI, DOTEPI, Reserves, each Company and the Wholly-Owned Subsidiary have all material easements, rights of way, licenses and authorizations, from Governmental Authorities necessary to access, construct, operate, maintain and repair the Wells and Equipment in the ordinary course of business as currently conducted by such Persons and in material compliance with all Laws, except such failures as would not individually or in the aggregate have a Material Adverse Effect.

(b) With respect to Equipment, hydrocarbon production and inventory, DEPI's, DOTEPI's, Reserves', and each Company's and Wholly-Owned Subsidiary's title as of the date hereof is, and as of the Closing Date, shall be transferred to Purchaser, free and clear of liens and encumbrances other than Permitted Encumbrances. To DEPI's knowledge, the Sellers (and/or the Companies and Wholly-Owned Subsidiary) have such title to the Midstream Assets as would be deemed adequate by a reasonable and prudent owner of assets similar to the Midstream Assets.

Section 4.14 **Non-Consent Operations**. No Seller, Company or Wholly-Owned Subsidiary has elected not to participate in any operation or activity proposed with respect to the Assets which could result in any of such Person's interest in any Assets becoming subject to a penalty or forfeiture as a result of such election not to participate in such operation or activity, except to the extent reflected in the Net Revenue Interest and Working Interest set forth in Exhibit B-2 or Exhibit D-2.

Section 4.15 **Wells**. To DEPI's knowledge, all Wells have been drilled and completed within the limits permitted by all applicable Leases, contracts, and pooling or unit agreements. To DEPI's knowledge, no Well is subject to penalties on allowables after the Effective Date because of any overproduction or any other violation of Laws.

Section 4.16 **Outstanding Capital Commitments**. As of the date of this Agreement, there are no outstanding AFEs or other commitments for capital expenditures (except as expressly set forth in the terms of a contract) which are binding on any Seller, Company or Wholly-Owned Subsidiary with respect to the Assets or E&P Business and which DEPI reasonably anticipates will individually require expenditures by the owner of the Assets after the Effective Date in excess of Two Million dollars ($2,000,000), other than those shown on Schedule 4.16.

Section 4.17 **Insurance**. Schedule 4.17 lists all the insurance policies maintained by Sellers, the Companies and the Wholly-Owned Subsidiary with respect to the Assets.

Section 4.18 **Absence of Certain Changes**. Since December 31, 2006, and except as set forth on Schedule 4.18, (a) there has not been any reduction in the rate of production of oil, gas or condensate from the Properties which would constitute a Material Adverse Effect, (b) there has not been any reduction or write-down in the reserves estimated for the Properties (which reduction or write-down is not reflected in the Reserve Report) that would constitute a Material Adverse Effect, (c) there has not been any damage, destruction or loss with respect to the Assets that would constitute a Material Adverse Effect that is not addressed by the terms of Section 12.4, or (d) the Assets have not become subject to any obligation or liability that would be required to be reflected as an extraordinary item separately listed on an income statement for the E&P Business prepared in accordance with the Accounting Principles.

Section 4.19 **Assets of the E&P Business**. Except as described in Section 1.3 and except for those vehicles, computers and software leased for use in the operation of the E&P Business that are not purchased by Seller or Affiliates of Seller pursuant to Section 6.13, (a) the Assets include all material equipment, materials, contracts, data, records, software and other property owned or leased by Sellers, the Companies, the Wholly-Owned Subsidiaries and their Affiliates necessary for the conduct of the E&P Business in a manner consistent with recent practices; (b) since December 31, 2006, the Assets have been operated only in the ordinary course of business consistent with past practices of DEPI, DOTEPI, Reserves, the Companies and the Wholly-Owned Subsidiaries; and (c) no property material to the conduct of the E&P

Business is being retained by any Seller or Affiliate of Sellers (other that the Companies and Subsidiaries).

Section 4.20 **Limitations**.

(a) Except as and to the extent expressly set forth in Article 3, this Article 4 or in the certificate of Sellers to be delivered pursuant to Section 8.2(j), or DEPI's, DOTEPI's or Reserves' special warranty of title in the Conveyances, (i) Sellers make no representations or warranties, express or implied, and (ii) Sellers expressly disclaim all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser or any of its Affiliates, employees, agents, consultants or representatives (including, without limitation, any opinion, information, projection or advice that may have been provided to Purchaser by any officer, director, employee, agent, consultant, representative or advisor of Sellers or any of their Affiliates).

(b) EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN ARTICLE 3, THIS ARTICLE 4, IN THE CERTIFICATE OF SELLERS TO BE DELIVERED AT CLOSING PURSUANT TO SECTION 8.2(J), OR DEPI'S, DOTEPI'S OR RESERVES' SPECIAL WARRANTY OF TITLE IN THE CONVEYANCES, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLERS (1) MAKE NO AND EXPRESSLY DISCLAIM ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) TITLE TO ANY OF THE ASSETS, (II) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (III) THE QUANTITY, QUALITY OR RECOVERABILITY OF PETROLEUM SUBSTANCES IN OR FROM THE ASSETS, (IV) THE EXISTENCE OF ANY PROSPECT, RECOMPLETION, INFILL OR STEP-OUT DRILLING OPPORTUNITIES, (V) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (VI) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS, OR IN PAYING QUANTITIES, OR ANY PRODUCTION OR DECLINE RATES, (VII) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS, (VIII) INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT, OR (IX) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO PURCHASER OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, AND (2) FURTHER DISCLAIM ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY EQUIPMENT, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THE ASSETS ARE BEING TRANSFERRED

"AS IS, WHERE IS," WITH ALL FAULTS AND DEFECTS, AND THAT PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

(c) Any representation "to the knowledge of DEPI" or "to DEPI's knowledge" is limited to matters within the actual knowledge of the individuals identified on Schedule 4.20(c). Actual knowledge only includes information actually personally known by such individual.

(d) Inclusion of a matter on a schedule attached hereto with respect to a representation or warranty that addresses matters having a Material Adverse Effect shall not be deemed an indication that such matter does, or may, have a Material Adverse Effect. Schedules may include matters not required by the terms of the Agreement to be listed on the Schedule, which additional matters are disclosed for purposes of information only, and inclusion of any such matter does not mean that all such matters are included. As used herein, "Material Adverse Effect" means a material adverse effect on the ownership, operation or financial condition of the E&P Business, taken as a whole; provided, however, that Material Adverse Effect shall not include material adverse effects resulting from general changes in oil and gas prices; general changes in industry, economic or political conditions, or markets; changes in condition or developments generally applicable to the oil and gas industry in any area or areas where the Assets are located; acts of God, including hurricanes and storms; acts or failures to act of Governmental Authorities (where not caused by the willful or negligent acts of Sellers, the Companies or Subsidiaries); civil unrest or similar disorder; terrorist acts; changes in Laws; effects or changes that are cured or no longer exist by the earlier of the Closing and the termination of this Agreement pursuant to Article 11; and changes resulting from the announcement of the transactions contemplated hereby or the performance of the covenants set forth in Article 6 hereof.

(e) A matter scheduled as an exception for any representation shall be deemed to be an exception to all representations for which it is relevant, except that the Contracts listed on Schedule 4.11 do not modify the Material Contracts List in Schedule 4.8.

Section 4.21 **Production Allowables**. Except as provided on Schedule 4.21, to DEPI's knowledge, no Seller or any Company or Wholly-Owned Subsidiary has received written notice that there has been any change proposed in the production allowables for any Wells listed on Exhibit B-2 or D-2 except where a proposed change (if adopted or approved) would not have a Material Adverse Effect.

Section 4.22 **Accuracy of Data**. The historical factual information, excluding title information, supplied by Sellers or its Affiliates to Ryder Scott & Co. in the preparation of its report dated as of December 31, 2006 (the "Reserve Report") of the Assets is accurate and complete in all material respects. The historical production data titled:

(a) "YE2006_Product" in EBU_YE2006_Aries_database in the data room folder 2.1.2.1.3.1, as updated by "EBU Production Update thru 1_2007" in the data room folder 2.1.2.1.3.4.2; and

(b) "YE2006_Product" in WBU_YE2006_Aries_database in the data room folder 2.1.2.2.3.1, as updated by "WBU Production Update thru 1_2007" in the data room folder 2.1.2.2.3.4.2,

(DVDs of which have been provided to Purchaser in connection with the signing of this Agreement and identified by Sellers and Purchaser), to the extent relating to the Assets, is accurate and complete in all material respects.

ARTICLE 5.
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Sellers the following:

Section 5.1 **Existence and Qualification**. Purchaser is a corporation organized, validly existing and in good standing under the laws of Delaware.

Section 5.2 **Power**. Purchaser has the corporate power to enter into and perform its obligations under this Agreement (and all documents required to be executed and delivered by Purchaser at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

Section 5.3 **Authorization and Enforceability**. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Purchaser at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser (and all documents required to be executed and delivered by Purchaser at Closing will be duly executed and delivered by Purchaser) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Purchaser, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.4 **No Conflicts**. The execution, delivery and performance of this Agreement by Purchaser, and the consummation of the transactions contemplated by this Agreement, will not (i) violate any provision of the certificate of incorporation or bylaws (or other governing instruments) of Purchaser, (ii) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which Purchaser is a party or by which it is bound, (iii) violate any judgment, order, ruling, or regulation applicable to Purchaser as a party in interest or (iv) violate any Law applicable to Purchaser, except any matters described in clauses (ii), (iii) or (iv) above which would not have a material adverse effect on Purchaser or its properties.

Section 5.5 **Consents, Approvals or Waivers**. The execution, delivery and performance of this Agreement by Purchaser will not be subject to any consent, approval or waiver from any Governmental Authority or other third Person except, as set forth on Schedule 5.5.

Section 5.6 **Litigation**. There are no actions, suits or proceedings pending, or to Purchaser's knowledge, threatened in writing before any Governmental Authority or arbitrator against Purchaser or any Affiliate of Purchaser which are reasonably likely to impair or delay materially Purchaser's ability to perform its obligations under this Agreement.

Section 5.7 **Financing**. Purchaser has sufficient cash, available lines of credit or other sources of immediately available funds (in United States dollars) to enable it to pay the Closing Payment to Sellers at the Closing.

Section 5.8 **Investment Intent**. Purchaser is acquiring the Interests for its own account and not with a view to their sale or distribution in violation of the Securities Act of 1933, as amended, the rules and regulations thereunder, any applicable state blue sky Laws, or any other applicable securities Laws.

Section 5.9 **Independent Investigation**. Purchaser is (or its advisors are) experienced and knowledgeable in the oil and gas business and aware of the risks of that business. Purchaser acknowledges and affirms that (i) as of the date hereof, it has made all such independent investigation, verification, analysis and evaluation of the Companies, the Subsidiaries and the Assets as it deems necessary or appropriate to enter into this Agreement, and (ii) it has made all such reviews and inspections of the Assets and the business, books and records, results of operations, conditions (financial or otherwise) and prospects of the Companies and the Subsidiaries as it has deemed necessary or appropriate to execute and deliver this Agreement and (iii) prior to Closing, it will make further independent investigations, inspections and evaluations of the Assets as it deems necessary or appropriate to consummate the transactions contemplated hereby. Except for the representations and warranties expressly made by DEPI in Articles 3 and 4 of this Agreement, or in the certificate to be delivered to Purchaser pursuant to Section 8.2(j) of this Agreement or the Conveyances, Purchaser acknowledges that there are no representations or warranties, express or implied, as to the financial condition, Assets, liabilities, equity, operations, business or prospects of the Companies, the Subsidiaries or the Additional Assets and that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, Purchaser has relied solely upon its own independent investigation, verification, analysis and evaluation.

Section 5.10 **Liability for Brokers' Fees**. Sellers, and, prior to Closing, the Companies and the Subsidiaries, shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Purchaser, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

Section 5.11 **Qualification**. Purchaser is or as of the Closing will be qualified under applicable Laws to hold Leases, rights of way and other rights issued by the U.S. government, and by other Governmental Authorities, which are included in the Assets.

ARTICLE 6.
COVENANTS OF THE PARTIES

Section 6.1 **Access**. Upon execution of this Agreement, Sellers will give Purchaser and its representatives access to the Assets (and to personnel and representatives of Sellers responsible for the Assets at such periodic meetings as Purchaser may reasonably request and arrange in advance through DEPI subject to the consent of DEPI, which consent shall not be withheld or delayed unreasonably) and access to and the right to copy, at Purchaser's expense, the Records in Sellers' possession, for the purpose of conducting a confirmatory review of the E&P Business and for transition planning purposes, but only to the extent that Sellers may do so without (i) violating applicable Laws, including the HSR Act, or (ii) violating any obligations to any third Person and to the extent that Sellers have authority to grant such access without breaching any restriction binding on Sellers. Sellers shall use reasonable efforts to obtain permission for Purchaser to gain access to third-party operated Properties to inspect the condition of same. Such access by Purchaser shall be limited to Sellers' normal business hours, and Purchaser's investigation shall be conducted in a manner that minimizes interference with the operation of the E&P Business or the business of Sellers. Purchaser shall be entitled to conduct a Phase I or similar environmental assessment and may conduct visual inspections, record reviews, and interviews relating to the Properties, including their condition and their compliance with Environmental Laws (collectively, the "Phase I Investigation"), subject to the receipt of the necessary permission as described above. Purchaser's right of access shall not entitle Purchaser to operate Equipment or conduct intrusive testing or sampling. All information obtained by Purchaser and its representatives under this Section 6.1 shall be subject to the terms of that certain confidentiality agreement between Dominion Resources, Inc. and Purchaser dated December 13, 2006 (the "Confidentiality Agreement") and any applicable privacy laws regarding personal information.

Section 6.2 **Notification of Breaches**. Until the Closing,

(a) Purchaser shall notify Sellers promptly after Purchaser obtains actual knowledge that any representation or warranty of DEPI contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Sellers prior to or on the Closing Date has not been so performed or observed in any material respect; and

(b) Sellers shall notify Purchaser promptly after any Seller obtains actual knowledge that any representation or warranty of Purchaser contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Purchaser prior to or on the Closing Date has not been so performed or observed in a material respect.

If any of Purchaser's or DEPI's representations or warranties is untrue or shall become untrue in any material respect between the date of execution of this Agreement and the Closing Date, or if any of Purchaser's or Sellers' covenants or agreements to be performed or observed prior to or on the Closing Date shall not have been so performed or observed in any material respect, but if such breach of representation, warranty, covenant or agreement shall (if curable) be cured by the

Closing (or, if the Closing does not occur, by the date set forth in Section 11.1), then such breach shall be considered not to have occurred for all purposes of this Agreement.

Section 6.3 **Press Releases**. Until the Closing, neither Sellers nor Purchaser, nor any Affiliate of any of them, shall make any press release regarding the existence of this Agreement, the contents hereof or the transactions contemplated hereby without the prior written consent of the Purchaser (in the case of announcements by Sellers or their Affiliates) or DEPI (in the case of announcements by Purchaser or its Affiliates); provided, however, the foregoing shall not restrict disclosures by Purchaser or Sellers or any of their Affiliates (i) to the extent that such disclosures are required by applicable securities or other Laws or the applicable rules of any stock exchange having jurisdiction over the disclosing Party or its Affiliates or (ii) to Governmental Authorities and third Persons holding preferential rights to purchase, rights of consent or other rights that may be applicable to the transactions contemplated by this Agreement, as reasonably necessary to provide notices, seek waivers. amendments or terminations of such rights, or seek such consents. Sellers and Purchaser shall each be liable for the compliance of their or its respective Affiliates with the terms of this Section.

Section 6.4 **Operation of Business**. Except as provided in the 2007 business and budget plan document attached hereto as Schedule 6.4 (the "2007 Plan"), or as may be required in connection with Sections 6.8, 6.9, 6.11, 6.12, 6.13, 6.14 and 6.16, until the Closing DEPI, DOTEPI and Reserves each shall, and the applicable Sellers shall cause the Companies and their Wholly-Owned Subsidiaries to each, operate its business with respect to the Assets in the ordinary course, and, without limiting the generality of the preceding, shall:

(a) not transfer, sell, farmout, hypothecate, encumber or otherwise dispose of any of the Assets, except for (A) sales and dispositions of oil and gas in the ordinary course of business (but not including any volumetric production payments other than as provided in Section 6.11); (B) sales and dispositions of equipment and materials that are surplus, obsolete or replaced; (C) the sale or other disposition of the Excluded Utah Interests and the Excluded Midcontinent Pipeline Interests; and (D) other sales and dispositions of (in the ordinary course of business) Assets individually or in the aggregate not exceeding Ten Million dollars ($10,000,000); and

(b) where it operates Leases or Units, produce oil, gas and/or other hydrocarbons from those Leases or Units consistent in the aggregate with the 2007 Plan, utilizing prudent oilfield practices as if Sellers were going to continue to own the E&P Business after the Closing Date and without regard to the existence of this Agreement, subject to the terms of the applicable Leases and Contracts, applicable Laws and requirements of Governmental Authorities and interruptions resulting from force majeure, mechanical breakdown and planned maintenance;

(c) not terminate, materially amend, execute or extend any contracts reasonably expected to generate gross revenues per year for the owner of the Assets or to require expenditures per year chargeable to the owner of the Assets in excess of Ten Million dollars ($10,000,0000), or any Material Contracts reasonably expected to generate gross revenues per year for the owner of the Assets or to require expenditures per year chargeable to the owner of the Assets in excess of Five Million dollars

($5,000,000), other than the execution or extension of a contract for the sale or exchange of oil, gas and/or other hydrocarbons terminable on ninety (90) days or shorter notice;

(d) maintain insurance coverage on the Assets in the amounts and of the types currently in force;

(e) use commercially reasonable efforts to maintain in full force and effect all Leases, that are capable of producing in paying quantities; and

(f) maintain all material governmental permits, licenses, authorizations and approvals affecting the Assets.

Requests for approval of any action restricted by this Section 6.4 shall be delivered to either of the following individuals, each of whom shall have full authority to grant or deny such requests for approval on behalf of Purchaser:

Jonathan Nathanson
E-Mail: jnathanson@loews.com
Phone: (212) 521-2135
Fax: (212) 521-2136

Kenneth J. Zinghini
E-Mail: kzinghini@loews.com
Phone: (212) 521-2953
Fax: (212) 521-2053

Purchaser's approval of any action restricted by this Section 6.4 shall not be unreasonably withheld or delayed and shall be considered granted within ten (10) days (unless a shorter time is reasonably required by the circumstances and such shorter time is specified in Sellers' notice) of Sellers' notice to Purchaser requesting such consent unless Purchaser notifies Sellers to the contrary during that period. Notwithstanding the foregoing provisions of this Section 6.4, in the event of an emergency, Sellers may take such action as reasonably necessary and shall notify Purchaser of such action promptly thereafter.

Section 6.5 **Conduct of the Companies and Wholly-Owned Subsidiaries**. Except as provided in the Balance Sheets attached hereto as Schedule 4.2(g), or in the 2007 Plan, or on Schedule 6.5, or as may be required in connection with Sections 6.8, 6.9, 6.11, 6.12, 6.13 and 6.14, until the Closing, the applicable Sellers shall not permit any Company or Wholly-Owned Subsidiary to do any of the following without the prior written consent of Purchaser:

(a) amend its charter, by-laws or equivalent governing instruments;

(b) issue, redeem or otherwise acquire any shares of its capital stock or issue any option, warrant or right relating to its capital stock or any securities convertible into or exchangeable for any shares of capital stock, declare or pay any stock-split, or declare or pay any dividend or make any other payment or distribution to any Seller or other Affiliate except cash and Excluded Assets; provided, however, that capital stock may be issued in conjunction with the capitalization of Company or Wholly-Owned Subsidiary debt pursuant to Section 6.8, in which event such additional stock shall become part of the Shares delivered at Closing;

(c) incur or assume any indebtedness for borrowed money (a "Loan") or guarantee any such indebtedness (excluding, for the avoidance of doubt, contractual or statutory joint and several liability obligations for joint operations, accounts payable incurred in the ordinary course of business and indebtedness to or guarantees for another Company or Subsidiary), which Loan or guaranty will remain in effect after Closing;

(d) make an equity investment in any other Person (except investments in another Company or Subsidiary);

(e) make any change in any method of accounting or accounting principles other than those required by the Accounting Principles;

(f) acquire by merger or consolidation or purchase of equity interests any corporation, partnership, association or other business organization or division thereof;

(g) with respect to any Taxes for which Purchaser may have liability under Article 9 or any item that is likely to materially affect the Tax liability of Purchaser or any Affiliate in any Post-Closing Period, make, revoke or amend any material Tax election, enter into any settlement of any material issue with respect to any assessment or audit or other administrative or judicial proceeding, or execute or consent to any waivers extending the statutory period of limitations with respect to the collection or assessment of any material Taxes or file or amend any material Tax Return;

(h) make any Loan (excluding, for the avoidance of doubt, (i) accounts receivable in the ordinary course of business, (ii) advances or cash call payments to the operator as required under applicable operating agreements, (iii) advances as operator on behalf of co-owners for costs under applicable operating agreements, (iv) Loans to another Company or Subsidiary or (v) other loans in the ordinary course of business, such as Loans to employees for the purchase of computers and natural gas appliances) to any Person;

(i) terminate or voluntarily relinquish any permit, license or other authorization from any Governmental Authority necessary for the conduct of the E&P Business except in the ordinary course of business;

(j) grant any bonus or increase in salary to any employee of any Company or Wholly-Owned Subsidiary, except (i) as required by existing employment contracts, plans or arrangements, (ii) normal annual adjustments and bonuses consistent with recent practice, and (iii) any extraordinary adjustments required for retention purposes consistent with industry practice at the time;

(k) establish, materially amend or terminate any Employee Plan for employees of such Company or Wholly-Owned Subsidiary, except changes generally affecting plans covering both employees of such Company or Wholly-Owned Subsidiary and employees of its Affiliates, or consistent with then-current industry practice; or

(l) agree to do any of the foregoing.

Requests for approval of any action restricted by this Section 6.5 shall be delivered to either of the following individuals, each of whom shall have full authority to grant or deny such requests for approval on behalf of Purchaser:

Jonathan Nathanson			Kenneth J. Zinghini	
E-Mail:	jnathanson@loews.com		E-Mail:	kzinghini@loews.com
Phone:	(212) 521-2135		Phone:	(212) 521-2953
Fax:	(212) 521-2136		Fax:	(212) 521-2053

Purchaser's approval of any action restricted by this Section 6.5 shall not be unreasonably withheld or delayed and shall be considered granted within 10 days (unless a shorter time is reasonably required by the circumstances and such shorter time is specified in Sellers' notice) of Sellers' notice to Purchaser requesting such consent unless Purchaser notifies Sellers to the contrary during that period.

Section 6.6 **Indemnity Regarding Access**. Purchaser agrees to indemnify, defend and hold harmless Sellers, its Affiliates (including until Closing the Companies and Subsidiaries), the other owners of interests in the Properties, and all such Persons' directors, officers, employees, agents and representatives from and against any and all claims, liabilities, losses, costs and expenses (including court costs and reasonable attorneys' fees), including claims, liabilities, losses, costs and expenses attributable to personal injury, death, or property damage, arising out of or relating to access to the Assets prior to the Closing by Purchaser, its Affiliates, or its or their directors, officers, employees, agents or representatives, **even if caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any indemnified Person.**

Section 6.7 **Governmental Reviews**. Sellers and Purchaser shall each in a timely manner make (or cause its applicable Affiliate to make) (i) all required filings, including filings required under the Hart-Scott-Rodino Act, and prepare applications to and conduct negotiations with, each Governmental Authority as to which such filings, applications or negotiations are necessary or appropriate in the consummation of the transactions contemplated hereby and (ii) provide such information as the other may reasonably request in order to make such filings, prepare such applications and conduct such negotiations. Each Party shall cooperate with and use all reasonable efforts to assist the other with respect to such filings, applications and negotiations. Purchaser shall bear the cost of all filing or application fees payable to any Governmental Authority with respect to the transactions contemplated by this Agreement, regardless of whether Purchaser, any Seller, any Company, any Subsidiary, or any Affiliate of any of them is required to make the payment.

Without limiting the generality of the preceding, prior to Closing, Purchaser shall take all such actions as are required to qualify to hold government Leases, rights-of-way and other rights included in the Assets and to meet any other requirements to receive and hold such Assets. Promptly after Closing, Purchaser and Sellers shall make all required filings with the U.S. Bureau of Land Management, U.S. Bureau of Indian Affairs, and other Governmental Authorities to properly assign and transfer government leases, operating rights and right of ways and any other related Additional Assets. Purchaser shall make all other required filings with any

Governmental Authorities after Closing with respect to the transactions contemplated by this Agreement, including filing all required operator registration and change in operator, designation of operator and designation of applicant forms, and shall send all statutorily required notices with respect to Properties presently operated by DEPI, DOTEPI or Reserves. Purchaser shall also arrange for all bonds, letters of credit and guarantees required with respect to the ownership or operation of the Assets to be posted on or before Closing, to the extent and as described in Section 13.5.

Section 6.8 **Intercompany Indebtedness**. At or prior to Closing, Sellers and their Affiliates (other than the Companies and Subsidiaries) shall (i) either capitalize or cause each Company and Wholly-Owned Subsidiary to settle by cash payment any net indebtedness of such Company or Wholly-Owned Subsidiary to Sellers or to any other Affiliates (other than the Companies or Subsidiaries) and (ii) repay any net indebtedness of Sellers or any such Affiliate to each Company and Wholly-Owned Subsidiary, excluding, however, accounts payable (but only to the extent not taken into account in increasing the Purchase Price under Section 2.3) for the purchase of goods or services, or employment-related costs, or other ordinary course of business expenses owing to any Affiliate with respect to any period after the Effective Date which are subject to adjustment pursuant to Section 2.3(h).

Section 6.9 **Third Person Indebtedness**. At or prior to Closing, Sellers shall have satisfied or caused the Companies and Wholly-Owned Subsidiaries to satisfy all outstanding indebtedness owing by the Companies and Wholly-Owned Subsidiaries pursuant to third Person Loans (and shall by such time cause all liens and mortgages securing such indebtedness to be released pursuant to a release that is in form and substance reasonably acceptable to Purchaser), including Loans described on Schedule 6.9, excluding, for the avoidance of doubt, accounts payable in the ordinary course of business and Loans from another Company or Subsidiary.

Section 6.10 **Operatorship**. Within thirty (30) days after execution of this Agreement, DEPI, DOTEPI and Reserves shall each send notices (in form and substance reasonably acceptable to Purchaser) to all co-owners of the Additional Properties that it currently operates indicating that it is resigning as operator contingent upon and effective at Closing, and nominating and recommending Purchaser (or its designee) as successor operator following the Closing. DEPI, DOTEPI and Reserves make no representation or warranty as to Purchaser's ability to succeed to operatorship of these Additional Properties, but Sellers shall at the request of Purchaser use commercially reasonable efforts to assist Purchaser (or its designee) to succeed the applicable Seller as operator of any Wells.

Section 6.11 **Volumetric Production Payments**. On or prior to the Effective Date, the volumetric production payment contracts identified on Schedule 4.9 shall be purchased by Sellers or their Affiliates and replaced effective at the end of the Effective Date with new volumetric production payments on the terms set forth on Schedule 6.11, which volumetric production payments shall burden the Assets at Closing.

Section 6.12 **Hedges**. At or prior to Closing, Sellers and their Affiliates shall eliminate or cause the Companies and Wholly-Owned Subsidiaries to eliminate all futures, options, swaps and other derivatives, except the Transferred Derivatives, with respect to the sale of production from the Assets that are currently binding on any Company or Wholly-Owned Subsidiary or the Assets.

Section 6.13 **Vehicles and Equipment**. At or prior to the Closing, Sellers or Affiliates of Sellers will exercise available options under applicable lease agreements to terminate such agreements and to purchase certain vehicles, computers, and software leased thereunder by or on behalf of the Companies or Wholly-Owned Subsidiaries or otherwise for use in the operation of the E&P Business, expending up to the amount specified in Section 2.3(d), which vehicles, computers and software shall then be included in the Assets at Closing. At Closing, Purchaser shall reimburse Sellers for such purchase costs and any other costs or expenses related thereto (the "Computer/Vehicle Buy-Out Costs"), as an adjustment to the Interest Unadjusted Purchase Price in accordance with Section 2.3(d).

Section 6.14 **Certain Beneficial Interests**.

(a) Except as provided in Section 6.14(c) below, until the Closing, DEPI shall not permit DEPI I, LP to assign, transfer, encumber or otherwise dispose of all or any part of the DEPI Texas Beneficial Interests in the possession of DEPI I, LP as of the date hereof, except to the extent that such assignment, transfer, encumbrance or other disposition is made in conjunction with an assignment, transfer, encumbrance or other disposition by DEPI of a corresponding interest in the Additional Asset associated with such DEPI Texas Beneficial Interests that is allowed by the terms and conditions of Sections 6.4 and 6.5.

(b) Except as provided in Section 6.14(c) below, until the Closing, DOTEPI shall not permit DNG I, LP to assign, transfer, encumber or otherwise dispose of all or any part of the DOTEPI Texas Beneficial Interests in the possession of DNG I, LP as of the date hereof, except to the extent that such assignment, transfer, encumbrance or other disposition is made in conjunction with an assignment, transfer, encumbrance or other disposition by DOTEPI of a corresponding interest in the Additional Asset associated with such DOTEPI Texas Beneficial Interests that is allowed by the terms and conditions of Sections 6.4 and 6.5.

(c) Prior to the Closing, DEPI shall cause DEPI I, LP to undergo a multi-survivor merger under which DEPI I, LP is survived by two or more limited partnerships, each with the same ownership as DEPI I, LP, and one of which holds the DEPI Texas Beneficial Interests ("DEPI Survivor LP"). The issued and outstanding partnership interests of DEPI Survivor LP shall then become Shares for all purposes of this Agreement and shall be transferred to two Delaware limited liability companies (the "Purchaser Subs"), each of which is wholly-owned by an Affiliate of Purchaser that is directly or indirectly wholly-owned by Purchaser ("Purchaser Holdco"), as part of the Interests at Closing. Prior to Closing, DOTEPI shall cause DNG I, LP to undergo a multi-survivor merger under which DNG I, LP is survived by two or more limited partnerships, each with the same ownership as DNG I, LP, and one of which holds the DOTEPI Texas Beneficial Interests ("DOTEPI Survivor LP", and, together with DEPI Survivor LP, the "Survivor LPs"). The issued and outstanding partnership interests of DOTEPI Survivor LP shall then become Shares for all purposes of this Agreement and shall be transferred to the Purchaser Subs as part of the Interests at Closing. DEPI shall bear and shall indemnify and hold harmless Purchaser and the Companies and the Wholly-Owned Subsidiaries from and against all costs incurred in connection with the multi-survivor mergers described in this Section.

(d) **[RESERVED]**

(e) Within 10 days following the Closing Date, Purchaser will cause each of the Purchaser Subs to merge with and into Purchaser Holdco.

(f) Notwithstanding Sections 6.14(c) and 6.14(d), the Sellers may in their sole discretion cause the Survivor LPs and Stonewater LP to sell their respective assets directly to Purchaser Holdco in lieu of consummating the transactions described in Sections 6.14(c) and 6.14(d).

Section 6.15 **Further Assurances**. After Closing, Sellers and Purchaser each agrees to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

Section 6.16 **DEPI/Purchaser Transition Services Agreement**.

(a) Prior to Closing, Sellers and Purchaser agree to cooperate in good faith to design and implement a mutually agreeable transition plan with respect to the services listed on the schedules to the DEPI/Purchaser Transition Services Agreement. Purchaser shall bear all costs of work prior to Closing with respect to post-Closing transition of the E&P Business to Purchaser, including any costs of performance of DEPI Services (as defined in the DEPI/Purchaser Transition Services Agreement), on the basis set forth in Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement where applicable and, if not otherwise described in Schedule 1.1 or this Section 6.16, shall reimburse DEPI in an amount equal to (i) 1.7 multiplied by the Hourly Labor Costs (as defined in the DEPI/Purchaser Transition Services Agreement) of the personnel of DEPI and its Affiliates providing the service multiplied by the number of hours in a relevant month such personnel spent providing such services plus (ii) all other out-of-pocket, third party or AFE costs incurred by DEPI or its Affiliates in providing the services described in this Section.

(b) Without limiting the generality of Section 6.16(a), after the date hereof, Sellers and Purchaser shall work together to begin the activities described as “Master Contract Services” in part (C)(3) of Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement and the activities described as “Dual Contracts Services” in part (C)(4) of Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement. DEPI and its Affiliates shall be entitled to reimbursement for any such work on the basis set forth in Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement.

(c) Subject to the priorities described in Section (B)(1)(3)(c) of Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement, after the date hereof, Sellers, Purchaser and consultants designated by Purchaser shall work together to determine the information technology personnel, equipment and software that will need to be acquired by Purchaser to replace information technology functions provided to the E&P Business by Sellers and their Affiliates (other than the Companies and Subsidiaries), including financial management systems, human resource systems and IT infrastructure. Subject to the priorities described in Section (B)(1)(3)(c) of Schedule 1.1 to the DEPI/Purchaser Transition Services Agreement, Sellers shall, at the written instruction of Purchaser, use commercially reasonable efforts to acquire such information technology personnel, equipment and software for the E&P Business. Any personnel hired as employees of Sellers pursuant to this Section shall be included among the Company Onshore Employees to whom Purchaser or its Designated Affiliate must offer employment under Section 10.1, but shall not count toward any minimum or maximum numbers of employees under Section 10.1. Equipment acquired by Sellers pursuant to this Section shall be included among the Equipment transferred at Closing. Software acquired by Sellers pursuant to this Section shall be acquired with a right to transfer to Purchaser or its wholly-owned Affiliate and shall be included in the Assets transferred at Closing, notwithstanding Sections 1.1(a)(xi)(D) and 1.3. Purchaser shall bear all costs incurred in connection with the undertakings described in this Section 6.16(c) and shall reimburse DEPI for an amount equal to (i) 1.7 multiplied by the Hourly Labor Costs (as defined in the DEPI/Purchaser Transition Services Agreement) of the personnel providing the service multiplied by the number of hours in a relevant month such personnel spent providing such services plus (ii) all costs of hiring and employing information technology personnel who are newly hired pursuant to this Section, which costs shall be deemed for purposes of this Section to equal the amount of any hiring bonus, moving expense and similar hiring costs plus 1.7 times their annual base salary, allocated pro rata to the period between the date of hiring and Closing or termination of this Agreement plus (iii) all costs of acquiring equipment and software pursuant to this Section plus (iv) all other out-of-pocket, third party or AFE costs incurred by DEPI or its Affiliates in providing the services described in this Section.

(d) Purchaser shall reimburse DEPI for amounts paid by Sellers or their Affiliates but for which Purchaser is responsible under the terms of this Section no later than seven (7) calendar days after the Purchaser's receipt of an invoice from DEPI stating Purchaser's liability therefor. The terms of Sections 1.3 and 8.1 of the DEPI/Purchaser Transition Services Agreement shall apply to the services performed under this Section and shall be incorporated herein by reference as if set out herein in full.

Section 6.17 **Dominion Resources Black Warrior Trust**. On or prior to Closing, Purchaser shall take all actions necessary to terminate the DRI obligations under Article X of the Trust Agreement as of Closing, in accordance with the terms of Section 10.03 thereof and shall, as of Closing, assume the obligations of DRI under the Administrative Services Agreement and under Article X of the Trust Agreement. In addition, to the extent there are any continuing obligations of DRI under the Trust Agreement, Purchaser shall, as of Closing, indemnify and hold DRI harmless therefrom in accordance with the indemnity provisions of Article 12.

Section 6.18 **Financial Statements**.

(a) Sellers shall use their commercially reasonable efforts to prepare, as soon as practicable after the date of this Agreement and at the sole cost and expense of Purchaser, the statements of revenues and direct operating expenses for the E&P Business for the most recent three (3) fiscal years ending prior to the Closing Date and all notes thereto that would be required of Purchaser or any of its Affiliates were they required to file a Form 8-K with the Securities and Exchange Commission (the "SEC") pursuant to the Exchange Act related to the transactions contemplated by this Agreement (collectively, the "Statements of Revenues and Expenses"), in such form that such statements and the notes thereto can be audited. Sellers shall further use their commercially reasonable efforts to prepare, no later than five (5) days prior to the Target Closing Date, the first quarter 2007 statements of revenues and direct operating expenses for the E&P Business that would be required for such a Form 8-K filing in such form that such statements and the notes thereto can be audited.

(b) Promptly after the date of this Agreement, Sellers shall request Deloitte & Touche LLP, Seller's external auditor ("Deloitte"), to (i) perform an audit of the Statements of Revenues and Expenses and to issue its opinion with respect to the Statements of Revenues and Expenses (the Statements of Revenues and Expenses and related audit opinions being hereinafter referred to as the "Audited Statements of Revenue and Expenses") and (ii) provide its written consent for the use of its audit reports with respect to Statements of Revenues and Expenses in reports filed by Purchaser or any of its Affiliates under the Exchange Act or the Securities Act, as required by such Laws. Both DEPI, DRI or one of their Affiliates and Purchaser shall sign an engagement letter for Deloitte and provide such information as may be reasonably requested from time to time by Deloitte. Purchaser shall bear all fees charged by Deloitte pursuant to such engagement. Sellers and Purchaser shall reasonably cooperate in the completion of such audit and delivery of the Audited Statements of Revenue and Expenses to Purchaser or any of its Affiliates as soon as reasonably practicable, but no later than five (5) days prior to the Target Closing Date, including by providing and causing their respective officers or Affiliates to provide, such certifications, representation letters or similar items as Deloitte shall reasonably request in connection with its audit of the Statements of Revenue and Expenses. Sellers shall keep Purchaser reasonably informed regarding the progress of such audit.

(c) Sellers and Purchaser will cooperate with each other and use commercially reasonable efforts to, within one hundred twenty (120) days following the Closing Date, (i) prepare financial statements compliant with rules 3-01 and 3-12 of Regulation S-X as would be required in connection with the preparation and filing by Purchaser of a Registration Statement on Form S-1 or otherwise in connection with a financing or public offering of securities with respect to the E&P Business (the "S-1 Financial Statements"), and (ii) with respect to those of the S-1 Financial Statements which are for a full year period or as of the end of a year, have such statements audited by Deloitte (the "Audited S-1 Financial Statements"), including the issuance by Deloitte of its opinion with respect thereto and its written consent for the use of its audit reports with respect to the S-1 Financial Statements in reports filed by Purchaser or any of its Affiliates under the

Exchange Act or the Securities Act, as required by such Laws. Both DEPI, DRI or one of their Affiliates and Purchaser shall sign an engagement letter for Deloitte and provide such information as may be reasonably requested from time to time by Deloitte. Sellers, Purchaser and their Affiliates shall (A) provide each other and Deloitte with reasonable access to their respective records and personnel, including in the case of Dominion, records necessary to prepare and audit the allocations of general and administrative expenses and similar items from Dominion's exploration and production business as a whole to the E&P Business, as may be reasonably required in connection with the preparation of the S-1 Financial Statements and the audit of the Audited S-1 Financial Statements, and (B) provide and cause their respective officers or Affiliates to provide, such certifications, representation letters or similar items as Deloitte shall reasonably request in connection with its audit of the Audited S-1 Financial Statements. Purchaser will pay all costs and expenses associated with the preparation and audit of the financial statements described in this Section 6.18(c).

Purchaser shall promptly reimburse DEPI on behalf of Sellers and their Affiliates for all internal and external expenses incurred by Sellers and their Affiliates pursuant to this Section 6.18.

Section 6.19 **Carlsbad Royalties; CoEnergy Contract**.

(a) The Parties agree that all of DEPI's, DOTEPI's and Reserves' right, title and interest in overriding royalties located in San Juan and Rio Arriba Counties, New Mexico (the "Carlsbad Royalties") are to be transferred to Purchaser at Closing as part of the Additional Leases. Sellers were not able to complete the entries necessary to include the Carlsbad Royalties on Exhibit D-1 prior to the date hereof, so Sellers agree to deliver to Purchaser, within fifteen (15) Business Days after the date hereof, a supplement to Exhibit D-1 listing all Carlsbad Royalties not already on Exhibit D-1. Such supplement shall be deemed to be a part of Exhibit D-1 for all purposes of this Agreement and the Carlsbad Royalties shall be Additional Leases for all purposes of this Agreement.

(b) Prior to the Closing, DEI shall transfer to Dominion Midwest Energy, Inc. all of its right, title and interest in the GISB gas sales contract between DEI and CoEnergy Trading Company dated September 1, 1999.

ARTICLE 7.
CONDITIONS TO CLOSING

Section 7.1 **Conditions of Sellers to Closing**. The obligations of Sellers to consummate the transactions contemplated by this Agreement are subject, at the option of Sellers, to the satisfaction on or prior to Closing of each of the following conditions:

(a) Representations. The representations and warranties of Purchaser set forth in Article 5 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date;

(b) Performance. Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date;

(c) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting substantial damages in connection therewith, shall have been issued and remain in force, and no suit, action, or other proceeding (excluding any such matter initiated by Sellers or any of its Affiliates) shall be pending before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain or otherwise prohibit the consummation of the transactions contemplated by this Agreement or recover substantial damages from Sellers or any Affiliate of Sellers resulting therefrom; and

(d) Governmental Consents. All material consents and approvals of any Governmental Authority required for the transfer of the Interests from Sellers to Purchaser as contemplated under this Agreement, except consents and approvals of assignments by Governmental Authorities that are customarily obtained after closing, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted.

Section 7.2 **Conditions of Purchaser to Closing**. The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject, at the option of Purchaser, to the satisfaction on or prior to Closing of each of the following conditions:

(a) Representations. The representations and warranties of DEPI set forth in Article 4 shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for such breaches, if any, as would not individually or in the aggregate have a Material Adverse Effect (except to the extent such representation or warranty is qualified by its terms by materiality, Material Adverse Effect or other similar words, such qualification in its terms shall be inapplicable for purposes of this Section);

(b) Performance. Sellers shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by them under this Agreement prior to or on the Closing Date except, in the case of breaches of Sections 6.4 and 6.5 and 6.10, for such breaches, if any, as would not have a Material Adverse Effect (except to the extent such covenant or agreement is qualified by its terms by materiality or Material Adverse Effect, such qualification in its terms shall be inapplicable for purposes of this Section);

(c) No Action. On the Closing Date, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, or granting substantial damages in connection therewith, shall have been issued and remain in force, and no suit, action, or other proceeding (excluding any such matter initiated by Purchaser or any of its Affiliates) shall be pending before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain or otherwise prohibit the consummation of the transactions contemplated by this Agreement or recover substantial damages from Purchaser or any Affiliate of Purchaser resulting therefrom; and

(d) Governmental Consents. All material consents and approvals of any Governmental Authority required for the transfer of the Interests from Sellers to Purchaser as contemplated under this Agreement, except consents and approvals of assignments by Governmental Authorities that are customarily obtained after closing, shall have been granted or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted.

ARTICLE 8.
CLOSING

Section 8.1 **Time and Place of Closing**. The consummation of the purchase and sale of the Interests contemplated by this Agreement (the "Closing") shall, unless otherwise agreed to in writing by Purchaser and Sellers, take place at the offices of Baker Botts L.L.P. located at 910 Louisiana St., Houston, Texas, at 10:00 a.m., local time, on August 2, 2007 (the "Target Closing Date"), or if all conditions in Article 7 to be satisfied prior to Closing have not yet been satisfied or waived, as soon thereafter as such conditions have been satisfied or waived, subject to the provisions of Article 11. The date on which the Closing occurs is referred to herein as the "Closing Date."

Section 8.2 **Obligations of Sellers at Closing**. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Purchaser of its obligations pursuant to Section 8.3, Sellers shall deliver or cause to be delivered to Purchaser (or its Wholly-Owned Affiliates that (i) have been designated in writing by Purchaser to DEPI at least fifteen (15) days prior to Closing and (ii) satisfy the requirements of Section 5.11) among other things, the following:

(a) Certificate(s) (or lost certificate affidavit(s)) representing the Shares, duly endorsed (or accompanied by duly endorsed stock powers) for transfer to Purchaser, together with instruments of assignment of the non-certificated Shares to Purchaser, duly executed by the applicable Sellers;

(b) Resignations of the directors and officers of the Companies and the Wholly-Owned Subsidiaries, effective on or before the Closing;

(c) Terminations of powers of attorney granted by the Companies or Wholly-Owned Subsidiaries as may be requested in a written notice to Sellers by Purchaser delivered at least ten (10) days prior to the Closing Date.

(d) Conveyances of the Additional Assets (other than the DEPI Texas Beneficial Interests and DOTEPI Texas Beneficial Interests, which are transferred pursuant to Section 8.2(a)) in the form attached hereto as Exhibit E (the "Conveyances"), duly executed by DEPI, DOTEPI or Reserves, as applicable, in sufficient duplicate originals to allow recording in all appropriate jurisdictions and offices;

(e) Assignments in form required by federal, state or tribal agencies for the assignment of any federal, state or tribal Additional Properties, duly executed by DEPI, DOTEPI or Reserves, as applicable, in sufficient duplicate originals to allow recording in all appropriate offices;

(f) Executed certificates described in Treasury Regulation § 1.1445-2(b)(2) certifying that each Seller is not a foreign person within the meaning of the Code;

(g) Letters-in-lieu of transfer orders with respect to the Additional Properties duly executed by DEPI, DOTEPI or Reserves, as applicable;

(h) Titles to the vehicles acquired pursuant to Section 6.13;

(i) Assignments of the personal property described on Schedule 1.4;

(j) A certificate duly executed by an authorized corporate officer of DEPI, dated as of the Closing, certifying on behalf of each Seller that the conditions set forth in Sections 7.2(a) and 7.2(b) have been fulfilled;

(k) A certificate duly executed by the secretary or any assistant secretary of each Seller, dated as of the Closing, (i) attaching and certifying on behalf of Seller complete and correct copies of (A) the certificate of incorporation and the bylaws of Seller, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Seller authorizing the execution, delivery, and performance by such Seller of this Agreement and the transactions contemplated hereby, and (C) any required approval by the stockholders of Seller of this Agreement and the transactions contemplated hereby and (ii) certifying on behalf of Seller the incumbency of each officer of such Seller executing this Agreement or any document delivered in connection with the Closing;

(l) Where notices of approval are received by Sellers pursuant to a filing or application under Section 6.7, copies of those notices of approval;

(m) Counterparts of a transition services agreement between DEPI and Purchaser in the form attached hereto as Exhibit F (the "DEPI/Purchaser Transition Services Agreement"), duly executed by DEPI;

(n) Subleases of the office space located at 16800 Greenspoint Park Drive, Houston, Texas and 14000 Quail Springs Parkway, Oklahoma City, Oklahoma described on Exhibit D-4, each in substantially the same form and for the same consideration as the base lease, and for the same term, except that assignment shall not be permitted without the prior written consent of DEPI, such consent not to be unreasonably withheld (each, a "Sublease"), duly executed by the applicable Seller;

(o) The Forms required by Section 9.9 executed by DRI; and

(p) All other documents and instruments reasonably required from Sellers to transfer the Interests to Purchaser.

Section 8.3 **Obligations of Purchaser at Closing**. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Sellers of its obligations pursuant to Section 8.2, Purchaser shall deliver or cause to be delivered to Sellers, among other things, the following:

(a) A wire transfer of the Closing Payment in same-day funds;

(b) Conveyances, duly executed by Purchaser, in sufficient duplicate originals to allow recording on all appropriate jurisdictions and offices;

(c) Assignments in form required by federal, state or tribal agencies for the assignment of any federal, state or tribal Additional Properties, duly executed by Purchaser, in sufficient duplicate originals to allow recording in all appropriate offices;

(d) A certificate by an authorized corporate officer of Purchaser, dated as of the Closing, certifying on behalf of Purchaser that the conditions set forth in Sections 7.1(a) and 7.1(b) have been fulfilled;

(e) A certificate duly executed by the secretary or any assistant secretary of Purchaser, dated as of the Closing, (i) attaching and certifying on behalf of Purchaser complete and correct copies of (A) the certificate of incorporation and the bylaws of Purchaser, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Purchaser authorizing the execution, delivery, and performance by Purchaser of this Agreement and the transactions contemplated hereby, and (C) any required approval by the stockholders of Purchaser of this Agreement and the transactions contemplated hereby and (ii) certifying on behalf of Purchaser the incumbency of each officer of Purchaser executing this Agreement or any document delivered in connection with the Closing;

(f) Where notices of approval are received by Purchaser pursuant to a filing or application under Section 6.7, copies of those notices of approval;

(g) Evidence of replacement bonds, guarantees, and letters of credit, pursuant to Section 13.5; and

(h) Counterparts of the DEPI/Purchaser Transition Services Agreement, duly executed by Purchaser; and

(i) Each Sublease, duly executed by Purchaser.

Section 8.4 **Closing Payment and Post-Closing Purchase Price Adjustments**.

(a) Not later than five (5) Business Days prior to the Closing Date, Sellers shall prepare and deliver to Purchaser, using and based upon the best information available to Sellers, a preliminary settlement statement estimating the Interest Purchase Price for the Interests and showing the portions thereof to which each Seller is entitled after giving effect to all adjustments set forth in Section 2.3. Purchaser shall have the opportunity to review and discuss such statement with Sellers. The estimates delivered in accordance with this Section 8.4(a) shall constitute the collective dollar amount to be payable by Purchaser to Sellers at the Closing (the "Closing Payment").

(b) As soon as reasonably practicable after the Closing but not later than the later of (i) the one hundred and twentieth (120th) day following the Closing Date and (ii) the date on which the parties or the Title Arbitrator, as applicable, finally determines all Title Defect Amounts and Title Benefit Amounts under Section 3.5(i), Sellers shall prepare and deliver to Purchaser a draft statement setting forth the final calculation of the Interest Purchase Prices and showing the calculation of each adjustment under Section 2.3, based on the most recent actual figures for each adjustment. Sellers shall at Purchaser's request make reasonable documentation available to Purchaser and its representatives to support the final figures (including supporting schedules, analyses, workpapers and underlying records and documentation as are reasonably necessary or helpful in Purchaser's review of such statement). Sellers shall reasonably cooperate with Purchaser and its representatives in such examination. As soon as reasonably practicable but not later than the sixtieth (60th) day following receipt of Sellers' statement hereunder, Purchaser shall deliver to DEPI a written report containing any changes that Purchaser proposes be made in such statement. Sellers may deliver a written report to Purchaser during this same period reflecting any changes that Sellers propose to be made in such statement as a result of additional information received after the statement was prepared. The Parties shall undertake to agree on the final statement of the Purchase Price no later than ninety (90) days after delivery of Seller's statement. In the event that the Parties cannot reach agreement within such period of time, any Party may refer the items of adjustment which are in dispute to PricewaterhouseCoopers or another nationally-recognized independent accounting firm or consulting firm mutually acceptable to Purchaser and Sellers (the "Accounting Arbitrator"), for review and final determination by arbitration. Should PricewaterhouseCoopers fail or refuse to agree to serve as Accounting Arbitrator within twenty (20) days after written request from any Party to serve, and the Parties fail to agree in writing on a replacement Accounting Arbitrator within ten (10) days after the end of that twenty (20) day period, or should no replacement Accounting Arbitrator agree to serve within forty-five (45) days after the original written request pursuant to this sentence, the Accounting Arbitrator shall be appointed by the Houston office of the American Arbitration Association. The Accounting Arbitrator shall conduct the arbitration proceedings in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent such rules do not conflict with the terms of this Section. The Accounting Arbitrator's determination shall be made within forty-five (45) days after submission of the matters in dispute and shall be final and binding on all Parties, without right of appeal. In determining the proper amount of any adjustment to the Purchase Price, the Accounting Arbitrator shall be bound by the terms of Section 2.3 and may not increase the Purchase Price more than the increase proposed by Sellers nor decrease the Purchase Price more than the decrease proposed by Purchaser, as applicable. The Accounting Arbitrator shall act as an expert for the limited purpose of determining the specific disputed aspects of Purchase Price adjustments submitted by any Party and may not award damages, interest (except as expressly provided for in this Section) or penalties to any Party with respect to any matter. Each Seller and Purchaser shall bear its own legal fees and other costs of presenting its case. DEPI shall bear one-half and Purchaser shall bear one-half of the costs and expenses of the Accounting Arbitrator. Within ten (10) days after the earlier of (i) the expiration of Purchaser's sixty (60) day review period without delivery of any written report by Purchaser or (ii) the date on which the Parties or the Accounting Arbitrator finally determine the Interest Purchase Prices, (x) Purchaser shall pay to DEPI on behalf of each Seller the amount by which the portion of any Interest Purchase Price(s) to which that Seller is entitled exceeds the portion of the Closing Payment received by that Seller or (y) DEPI on behalf of each Seller shall pay to Purchaser the amount by which the portion of the Closing Payment received by that Seller exceeds portion of the any Interest Purchase Price(s) to which that Seller is entitled, as applicable. Any post-Closing payment pursuant to this Section 8.4 shall bear interest from the Closing Date to the date of payment at the Agreed Rate.

(c) Purchaser shall assist Sellers in preparation of the final statement of the Interest Purchase Prices under Section 8.4(b) by furnishing invoices, receipts, reasonable access to personnel and such other assistance as may be requested by Seller to facilitate such process post-Closing.

(d) All payments made or to be made under this Agreement to Sellers shall be made by electronic transfer of immediately available funds to Consolidated Natural Gas Company, acting as representative of Sellers, at the account set forth on Schedule 8.4(d), for the credit of the applicable Sellers, or to such other bank and account as may be specified by Sellers in writing. All payments made or to be made hereunder to Purchaser shall be by electronic transfer or immediately available funds to a bank and account specified by Purchaser in writing to Sellers, for the credit of Purchaser.

ARTICLE 9.
TAX MATTERS

Section 9.1 **Liability for Taxes**.

(a) Taxes with Respect to Additional Assets. Sellers shall be responsible for filing any Tax Return (as defined in Section 9.2(a)) with respect to Taxes attributable to the Additional Assets for a taxable period ending on or prior to the Closing Date, and, except with respect to Sellers' income, franchise or other Tax Returns required to be filed by Sellers, Purchaser shall be responsible for filing any other Tax Return with respect to the Additional Assets. Subject to Section 9.1(e) and Section 9.1(f), from and after Closing, DEPI shall be liable for, and shall indemnify and hold harmless the Purchaser Group (as defined in Section 12.2(b)) and the Companies and Wholly-Owned Subsidiaries from and against all Taxes and Tax Expenses with respect to the Additional Assets attributable to any taxable period ending on or prior to the Closing Date, including income Taxes arising as a result of any Seller's gain on the sale of the Additional Assets as contemplated by this Agreement. From and after Closing, Purchaser shall be liable for, and shall indemnify and hold harmless each Seller and its Affiliates from and against, all such Taxes and Tax Expenses attributable to any taxable period beginning after the Closing Date and shall reimburse Sellers or their Affiliates for any such money paid by Sellers or their Affiliates with respect to such Taxes no later than seven (7) calendar days after the Purchaser's receipt of notice and supporting work papers from DEPI of Purchaser's liability therefor. If a taxable period includes the Closing Date, any Taxes with respect to the Additional Assets allocable to the Pre-Closing Period (as defined in Section 9.1(b) and determined as described in Section 9.1(d)) shall be the liability of DEPI and any other Taxes with respect to the Additional Assets shall be the liability of Purchaser.

(b) Pre-Closing Taxes of Companies and Subsidiaries. Subject to Sections 9.1(e) and 9.1(f), from and after Closing, DEPI shall be liable for, and shall indemnify and hold harmless Purchaser and the Companies and Wholly-Owned Subsidiaries from and against, any Taxes and Tax Expenses imposed on or incurred by any Wholly-Owned Subsidiary or any Subsidiary which is not a Wholly-Owned Subsidiary to the extent of each Seller's allocable share of such Subsidiary immediately prior to Closing and attributable to any taxable period ending on or prior to the Closing Date, and the portion, determined as described in Section 9.1(d), of any such Taxes for any taxable period beginning on or prior to the Closing Date and ending after the Closing Date which is allocable to the portion of such period occurring on or prior to the Closing Date (the "Pre-Closing Period").

(c) Post-Closing Taxes of Companies and Subsidiaries. From and after Closing, Purchaser shall be liable for, and shall indemnify and hold harmless each Seller and its Affiliates from and against, any Taxes and Tax Expenses imposed on or incurred by a Company or Wholly-Owned Subsidiary or any Subsidiary which is not a Wholly-Owned Subsidiary to the extent of each Seller's allocable share of such Subsidiary immediately prior to Closing and attributable to any taxable period beginning after the Closing Date, and the portion, determined as described in Section 9.1(d), of any such Taxes for any taxable period beginning on or prior to the Closing Date and ending after the Closing Date which is allocable to the portion of such period occurring after the Closing Date (the "Post-Closing Period").

(d) Straddle Period Taxes. Whenever it is necessary for purposes of this Agreement to determine the portion of any Taxes or earnings and profits of or with respect to any Company or Subsidiary for a taxable period beginning on or prior to and ending after the Closing Date which is allocable to the Pre-Closing Period or the Post-Closing Period, (i) in the case of a Company or Wholly-Owned Subsidiary, the determination shall be made as if such Company or Wholly-Owned Subsidiary was not a member of its respective Seller's consolidated, affiliated, combined or unitary group for Tax purposes, and, (ii) any Taxes allocable to the Pre-Closing Period that are based on or related to income, gains or receipts will be computed (by an interim closing of the books) as if such taxable period ended as of the end of the Closing Date and any other Pre-Closing Period Taxes (except production Taxes and other Taxes measured by units of production, and severance Taxes) will be prorated based upon the number of days in the applicable period falling on or before, or after, the Closing Date. To the extent necessary, a Seller shall estimate Taxes based on the Seller's liability for Taxes with respect to the same or similar Tax Item (as defined in Section 9.2(a)) in the immediately preceding year. Notwithstanding anything to the contrary herein, (i) any franchise Tax paid or payable with respect to each Company or Subsidiary shall be allocated to the taxable period during which the income, operations, assets or capital comprising the base of such Tax is measured, regardless of whether the right to do business for another taxable period is obtained by the payment of such franchise Tax and (ii) any ad valorem or property Taxes paid or payable with respect to the Assets shall be allocated to the taxable period applicable to the ownership of the Assets regardless of when such Taxes are assessed. Sellers shall, within 60 days after the determination of the Purchase Price under Section 8.4(b), prepare for Purchaser's review a pro forma Tax Return for any taxable period beginning on or before, but ending after, the Closing Date, that shall include, pursuant to the method described in this Section 9.1(d), the income Tax liability associated with the Companies for the period beginning on the first day of such taxable period and ending on the Closing Date. Such pro forma Tax Return shall be used by Purchaser to prepare a Tax Return for such taxable period.

(e) Period After Effective Date. Notwithstanding anything to the contrary in this Agreement, in the event Closing occurs after the Effective Date, from and after Closing, Purchaser shall be liable for, and shall indemnify and hold harmless each Seller and its Affiliates from and against, any Taxes for which Purchaser would have been liable had the Closing Date occurred on the Effective Date (excluding production Taxes and other Taxes measured by units of production, and severance Taxes) that are allocable to the period from but excluding the Effective Date to and including the Closing Date, and shall reimburse any such Seller or Affiliate for any such amount paid by it (or paid prior to Closing by any Company or Subsidiary) no later than 7 calendar days after the Purchaser's receipt of notice and supporting work papers from DEPI of Purchaser's liability therefor; provided, however, that, except as provided in Section 13.3, Purchaser shall be indemnified by Sellers against, and shall not be obligated under this Section 9.1(e) for, any Taxes attributable to (i) a Seller's gain on the sale of Interests, (ii) a Company's or Subsidiary's transfer of Excluded Assets or transactions designed to achieve that purpose pursuant to Section 1.3 or the multi-survivor mergers and transfer of Equity Interests in the Survivor LPs pursuant to Section 6.14 hereof, (iii) the period prior to and through the Closing Date imposed or asserted pursuant to Treasury Regulations section 1.1502-6 or any analogous or similar state, local or foreign law or regulation, and (iv) the Section 338(h)(10) elections (as defined in Section 9.9) as contemplated by this Agreement. The amount of Taxes allocable to the time period described in the previous sentence will be determined in a manner similar to and consistent with the determination of Pre-Closing Period Taxes under Section 9.1(d).

(f) Production Taxes. Notwithstanding anything to the contrary in this Agreement, production Taxes and other Taxes measured by units of production, and severance Taxes, shall not be subject to Section 9.1 to the extent responsibility therefor and payment thereof is addressed by Sections 1.3(xv), 2.3, 2.4 and 8.4.

(g) Indemnity Regarding Basis Step-Ups. Sellers agree to indemnify, defend and hold harmless Purchaser and its Affiliates (including following Closing, the

Companies and Subsidiaries) from and against any and all Taxes, claims, liabilities, losses, costs, fees, and expenses (i) arising from any breach of the representation or warranty set forth in Section 4.5(e) or (ii) resulting from the failure of the Purchaser Holdco immediately following the merger of the Purchaser Subs into Purchaser Holdco to have a Tax basis in the assets held by the Survivor LPs and in the assets held by Stonewater LP for all applicable Tax purposes equal to the Tax basis that Purchaser Holdco would have obtained if Sellers had elected to effect the transaction pursuant to Section 6.14(f) unless such lower Tax basis arises from any act or omission of Purchaser, Purchaser Holdco, or its Affiliates, including the failure of Purchaser to cause the Purchaser Subs to timely merge with and into Purchaser Holdco as contemplated by Section 6.14(e).

Section 9.2 **Preparation and Filing of Company Tax Returns**.

(a) With respect to each Tax return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof (a "Tax Return") that is required to be filed for, by or with respect to a Company or Wholly-Owned Subsidiary with respect to a taxable period ending on or before the Closing Date, the Sellers shall cause such Tax Return to be prepared in accordance with applicable Laws, shall cause to be included in such Tax Return all items of income, gain, loss, deduction and credit or other items (collectively "Tax Items") required to be included therein and shall cause the Company or Wholly-Owned Subsidiary to timely file (assuming it has authority to do so) such Tax Return with the appropriate Governmental Authority and shall timely pay the amount of Taxes shown to be due on such Tax Return.

(b) With respect to each Tax Return that is required to be filed by a Company or Wholly-Owned Subsidiary with respect to a taxable period beginning on or before and ending after the Closing Date, Purchaser shall cause such Tax Return to be prepared in accordance with applicable Laws, shall cause to be included in such Tax Return all Tax Items required to be included therein, and shall cause each Company or Wholly-Owned Subsidiary to file timely such Tax Return with the appropriate Governmental Authority and shall pay timely the amount of Taxes shown to be due on such Tax Return.

(c) Except with respect to a federal income Tax Return, any Tax Return to be prepared pursuant to the provisions of this Article shall be prepared in a manner consistent with practices followed in prior years with respect to similar Tax Returns, except for changes required by changes in Law, unless, in the opinion of a partner of a nationally recognized law firm retained by a Party, complying with the terms of this paragraph would more likely than not result in noncompliance with applicable provisions of the Code or state, local or foreign Law.

(d) If either (i) DEPI or Purchaser may be liable for any material portion of the Tax payable in connection with any Tax Return to be filed or caused to be filed by the other (or, in the case of Purchaser, by any Seller) (or any Tax Item reported on such Tax Return is likely to materially affect the Tax liability of such Party) or (ii) in any case with respect to any taxable period beginning on or before but ending after the Closing Date, the Party responsible under this Agreement for filing such return or causing such return to be filed (the "Tax Return Preparer") shall prepare and deliver to the other Party (the "Tax Payor") a copy of such return and any schedules, work papers and other documentation then available that are relevant to the preparation of the portion of such return for which the Tax Payor is or may be liable under this Agreement not later than forty-five (45) days before the date on which the Tax Return is due to be filed (taking into account any valid extensions) (the "Due Date"). The Tax Return Preparer shall not file such return or cause such return to be filed until the earlier of either the receipt of written notice from the Tax Payor indicating the Tax Payor's consent thereto, or the Due Date. The Tax Payor shall have the option of providing to the Tax Return Preparer, at any time at least fifteen (15) days prior to the Due Date, written instructions as to how the Tax Payor wants any, or all, of the items for which it may be liable (or any item that is likely to affect the Tax liability of such party) reflected on such Tax Return. The Tax Return Preparer shall, in preparing such return, but subject to Section 9.2(c), cause the items for which the Tax Payor is liable under this Agreement to be reflected in accordance with the Tax Payor's instructions (unless, in the opinion of a partner of a nationally recognized law firm retained by the Tax Return Preparer, complying with the Tax Payor's instructions would more likely than not result in noncompliance with applicable provisions of the Code or state, local or foreign Law) and, in the absence of having received such instructions, in accordance with Section 9.2(c).

Section 9.3 **Allocation Arrangements**. Effective as of the Closing, any tax indemnity, sharing, allocation or similar agreement or arrangement (a "Tax Sharing Agreement") that may be in effect prior to the Closing Date between or among, a Company or Wholly-Owned Subsidiary, on the one hand, and its Seller or any of its Affiliates (other than the Companies and Wholly-Owned Subsidiaries), on the other hand, shall be extinguished in full as the Tax Sharing Agreement relates to such Company or Wholly-Owned Subsidiary, and any liabilities or rights existing under any such agreement or arrangement by or with respect to a Company or Wholly-Owned Subsidiary shall cease to exist and shall no longer be enforceable. The Companies and the Wholly-Owned Subsidiaries shall not have any obligation under any Tax Sharing Agreement with respect to Taxes attributable to the period after the Effective Date.

Section 9.4 **Access to Information**.

(a) From and after Closing, each Seller shall grant to Purchaser (or its designees) access at all reasonable times to all of the information, books and records relating to a Company or Subsidiary within the possession of the Seller (including without limitation work papers and correspondence with taxing authorities, but excluding work product of and attorney-client communications with any of Sellers' legal counsel and personnel files), and shall afford Purchaser (or its designees) the right (at Purchaser's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Purchaser (or its designees) to prepare Tax Returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(b) From and after Closing, Purchaser shall grant to Sellers (or Sellers' designees) access at all reasonable times to all of the information, books and records relating to the Companies or Subsidiaries within the possession of Purchaser or the Companies or Wholly-Owned Subsidiaries (including without limitation work papers and correspondence with taxing authorities, but excluding work product of and attorney-client communications with any of Purchaser's legal counsel and personnel files), and shall afford Sellers (or Sellers' designees) the right (at Sellers' expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Sellers (or Sellers' designees) to prepare Tax Returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(c) Each of the Parties hereto will preserve and retain all schedules, work papers and other documents within the possession of the Seller relating to any Tax Returns of or with respect to Taxes of the Companies or Subsidiaries or to any claims, audits or other proceedings affecting the Companies or Subsidiaries until the expiration of the statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

(d) At either Purchaser's or Sellers' request, the other Party shall provide reasonable access to Purchaser's or Sellers', as the case may be, and their respective Affiliates' (including the Companies' and Wholly-Owned Subsidiaries') personnel who have knowledge of the information described in this Section 9.4.

Section 9.5 **Contest Provisions**.

(a) Each of Purchaser, on the one hand, and Sellers, on the other hand (the "Tax Indemnified Person"), shall notify the chief tax officer (or other appropriate person) of DEPI or Purchaser, as the case may be (the "Tax Indemnifying Person"), in writing within twenty (20) days of receipt by the Tax Indemnified Person of written notice of any pending or threatened audits, adjustments, claims, examinations, assessments or other proceedings (a "Tax Audit") which are likely to affect the liability for Taxes of such other party. If the Tax Indemnified Person fails to give such timely notice to the other party, it shall not be entitled to indemnification for any Taxes arising in connection with such Tax Audit if such failure to give notice materially adversely affects the other party's right to participate in the Tax Audit.

(b) If such Tax Audit relates to any taxable period, or portion thereof, ending on or before the Closing Date or for any Taxes for which only DEPI would be liable to indemnify Purchaser under this Agreement, DEPI shall have the option, at its expense, to control the defense and settlement of such Tax Audit. If DEPI does not elect to control the defense and settlement of such Tax Audit, Purchaser may, at Purchaser's expense, control the defense and settlement of such Tax Audit, provided that DEPI shall pay any Tax for which it is otherwise liable under this Article 9. If such Tax Audit relates solely to any taxable period, or portion thereof, beginning after the Closing Date or for any Taxes for which only Purchaser would be liable under this Agreement, Purchaser shall, at its expense, control the defense and settlement of such Tax Audit.

(c) If such Tax Audit relates to Taxes for which both DEPI and Purchaser could be liable under this Agreement, to the extent practicable, such Tax Items will be distinguished and each Party will have the option to control the defense and settlement of those Taxes for which it is so liable. If such Tax Audit relates to a taxable period, or portion thereof, beginning on or before and ending after the Closing Date and any Tax Item cannot be identified as being a liability of only one party or cannot be separated from a Tax Item for which the other party is liable, DEPI, at its expense, shall have the option to control the defense and settlement of the Tax Audit, provided that such party defends the items as reported on the relevant Tax Return and provided further that no such matter shall be settled without the written consent of both parties, not to be unreasonably withheld. If DEPI does not elect to control the defense and settlement of such Tax Audit, Purchaser may, at Purchaser's expense, control the defense and settlement of such Tax Audit, provided that DEPI shall pay any Tax for which it is otherwise liable under this Article 9.

(d) Any party whose liability for Taxes may be affected by a Tax Audit shall be entitled to participate at its expense in such defense and to employ counsel of its choice at its expense and shall have the right to consent to any settlement of such Tax Audit (not to be unreasonably withheld) to the extent that such settlement would have an adverse effect with respect to a period for which that party is liable for Taxes, under this Agreement or otherwise.

Section 9.6 **Post-Closing Actions Which Affect Seller's Tax Liability**. Except with respect to federal income Taxes, Purchaser shall not and shall not permit its Affiliates, including the Companies and Wholly-Owned Subsidiaries, to take any action on or after the Closing Date which could reasonably be expected to materially increase any Seller's liability for Taxes (including any liability of DEPI to indemnify Purchaser for Taxes under this Agreement). Except to the extent required by applicable Laws, Purchaser shall not and shall not permit its Affiliates, including the Companies and Wholly-Owned Subsidiaries, to amend any Tax Return with respect to a taxable period for which DEPI may be liable to indemnify Purchaser for Taxes under Section 9.1.

Section 9.7 **Refunds**.

(a) Purchaser agrees to pay to DEPI any refund received (whether by payment, credit, offset or otherwise, and together with any interest thereon) after the Closing by Purchaser or its Affiliates, net of any Taxes imposed thereon, including the Companies and Wholly-Owned Subsidiaries, in respect of any Taxes for which DEPI is liable or required to indemnify Purchaser under Section 9.1. Purchaser shall provide reasonable cooperation to DEPI and DEPI's Affiliates at their expense in order to take all necessary steps to claim any such refund. Any such refund received by Purchaser or its Affiliates or the Companies or Wholly-Owned Subsidiaries shall be paid to DEPI, net of any Taxes imposed thereon, within thirty (30) days after such refund is received. Purchaser agrees to notify DEPI within ten (10) days following the discovery of a right to claim any such refund if such refund is material and upon receipt of any such refund. Purchaser agrees to claim any such refund as soon as possible after the discovery of a right to claim a refund and to furnish to DEPI all information, records and assistance necessary to verify the amount of the refund or overpayment.

(b) Purchaser shall not make, and shall not cause any Company or Wholly-Owned Subsidiary to file any carryback claims with respect to any Tax Item of such Company or Wholly-Owned Subsidiary arising in any taxable period beginning after the Closing Date with respect to a period prior to the Closing Date.

Section 9.8 **Conflict**. In the event of a conflict between the provisions of this Article 9 and any other provision of this Agreement, except Section 13.3 hereof, this Article 9 shall control.

Section 9.9 **Election Under Section 338(h)(10)**. Sellers and Purchaser agree that they shall make a joint election under Section 338(h)(10) of the Code and under any comparable provisions of state or local law with respect to the purchase of the Interests (other than Interests in any Company or Subsidiary that is not a member of a selling consolidated group within the meaning of Treasury Regulations § 1.338(h)(10)-1(b)(2)) (the "Section 338(h)(10) Elections". To facilitate such elections, at the Closing Purchaser shall deliver to DEPI on behalf of Sellers Internal Revenue Service Forms 8023 and any similar forms under applicable state, local or foreign income Tax law (the "Forms") with respect to Purchaser's purchase of the Interests, which Forms shall be duly executed by an authorized person for Sellers. Purchaser shall cause the Forms to be duly executed by an authorized person for Purchaser, shall provide a copy of the executed Forms to Seller, and shall duly and timely file the Forms as prescribed by Treasury Regulation 1.338(h)(10)-1 or the corresponding provisions of applicable state, local or foreign income Tax law. The Parties agree that the Purchase Price and the liabilities of the relevant Company and Subsidiaries (plus other relevant items) will be reported on Forms 8883 and otherwise for income Tax purposes, consistent with the Purchase Price Allocation as determined under Section 2.2. Except to the extent required by applicable Law, neither Sellers nor Purchaser shall take any action inconsistent with, or fail to take any action necessary for, the validity of the elections described in this Section 9.9.

Section 9.10 **Section 754 Election**. Each Seller shall obtain any consents required to facilitate the elections under Section 754 of the Code described in Section 4.5(e).

ARTICLE 10.
U.S. EMPLOYMENT MATTERS

Section 10.1 **Employees**.

(a) "Company Onshore Employees" shall mean all those individuals other than Excluded Employees (i) who are either Designated Employees or Selected Employees and (ii) who accept an offer of employment or continued employment with whichever of Purchaser or its Affiliates is designated by Purchaser in its sole discretion to make the offer of employment or continued employment ("Designated Affiliates") pursuant to Section 10.2.

(b) "Designated Employees" are those individuals (i) who, as of the Closing Date are (x) employed by DEPI, DOTEPI, Reserves, the Companies or Wholly-Owned Subsidiaries and are rendering services primarily with respect to the Assets or (y) employed by Dominion Resources Services, Inc. and are rendering services primarily with respect to the Assets or (z) employed pursuant to the college recruiting program of the Companies or their Affiliates with respect to the Assets and (ii) who are not U.S. Temporary Employees. Seller shall provide Purchaser and its Designated Affiliates not later than ten (10) days after the execution of this Agreement a list of Designated Employees to whom Purchaser or its Designated Affiliates must offer employment or continued employment in accordance with Section 10.2(a). In no event shall the number of employees on the list exceed three hundred thirty (330) unless Purchaser approves a higher number in writing.

(c) "Selected Employees" are no fewer than 270 individuals (i) who, as of the Closing Date are (x) employed by DEPI, DOTEPI, Reserves, the Companies or Wholly-Owned Subsidiaries and are rendering services with respect to the Assets or (y) employed by Dominion Resources Services, Inc. and are rendering services with respect to the Assets, (ii) who are not U.S. Temporary Employees and (iii) who are selected by the Leadership Team acting as agents for Purchaser and its Affiliates from a list provided to Purchaser and its Affiliates not later than fourteen (14) days after the execution of this Agreement as individuals to whom Purchaser or its Designated Affiliates must offer employment or continued employment in accordance with Section 10.2(a). The Leadership Team shall have until the date that is no later than thirty (30) days after the date the list of Selected Employees is provided to Purchaser and its Affiliates to designate and notify Sellers or their delegate which of the Selected Employees will receive offers in accordance with Section 10.2(a).

(d) From the date hereof through a date eighteen (18) months from the Closing Date, none of Purchaser, its Designated Affiliates, its wholly-owned Affiliates designated to receive Conveyances pursuant to Section 8.2, or any of its other Affiliates which have assisted Purchaser with or otherwise participated in the transactions that are the subject of this Agreement will, directly or indirectly, solicit (provided that in no event will general advertising be deemed solicitation for purposes of this Section 10.1(d)), or offer employment to any employee of any of Sellers or their Affiliates other than the Designated Employees listed pursuant to Section 10.2(b) and the Selected Employees listed pursuant to Section 10.1(c) without the prior written consent of DEPI. From the date hereof through a date eighteen (18) months from the Closing Date, neither Sellers nor any of their Affiliates engaged in the exploration and production business will, directly or indirectly, solicit or offer employment to any Company Onshore Employee without the prior written consent of Purchaser.

(e) Individuals who are otherwise Company Onshore Employees but who on the Closing Date are not actively at work due to a leave of absence covered by the Family and Medical Leave Act of 1993, or due to any other authorized leave of absence, shall nevertheless be treated as Company Onshore Employees; provided, however, that an individual shall not be considered a Company Onshore Employee if such individual as of the Closing Date is receiving benefits under the Dominion Resources, Inc. Long-Term Disability Plan.

(f) The Parties acknowledge that Purchaser intends to identify a leadership team, composed of employees of Sellers or their Affiliates (the "Leadership Team"), that will act as agents on behalf of Purchaser and its Affiliates with regard to the selection, staffing and hiring of Selected Employees. Purchaser shall indemnify, defend and hold harmless Sellers, their current and former Affiliates and the respective officers, directors, employees and agents of each of them (including the members of the Leadership Team) ("Seller Employment Indemnified Persons") from and against all liability, loss, cost, expense, claim, award, damage, fine, fee, penalty, interest, deficiency, or judgment, including court costs and fees and expenses of attorneys, incurred or suffered by any Seller Employment Indemnified Person resulting from, arising out of, or related to or in connection with any of the Leadership Team's, Purchaser's, its Affiliates', Sellers', their Affiliates' or any of their employees' or agents' acts or omissions related to the selection of the Selected Employees or Purchaser's staffing and hiring process for Selected Employees, **even if such liability is caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any Seller Employment Indemnified Person**.

Section 10.2 **Continued Employment**.

(a) Purchaser and its Designated Affiliates shall cause the Purchaser or its Affiliate who is the employer of each Company Onshore Employee to employ or continue the employment of such Company Onshore Employee, in the case of a Designated Employee, effective as of the Closing Date, and in the case of a Selected Employee, effective as of the date on or after the Closing Date designated by DEPI (which shall be no later than the date on which the Selected Employee ceases to perform transition services in connection with sales by Sellers and their Affiliates of assets and companies pursuant to DRI's sales process that commenced in the fall of 2006 and was announced pursuant to a press release dated November 1, 2006, including services pursuant to the DEPI/Purchaser Transition Service Agreement and services with respect to sales involving the Excluded Onshore Areas and the Offshore Package Areas), during the Comparability Period (i) at levels of total compensation (base pay and payroll practices) and benefits, including the amounts provided under Section 10.11, that are comparable, in the aggregate to the levels of total compensation (base pay and payroll practices) and benefits as noted under the Plans and Programs on Schedule 4.2(j)(i) in effect as of the Closing Date and (ii) at a work location no more than 50 miles from the individual's work location as of the Closing Date. "Comparability Period" shall mean (y) with respect to Company Onshore Employees who are Designated Employees, the twelve (12) month period beginning on the Closing Date and (z) with respect to each Company Onshore Employees who is a Selected Employee, the twelve (12) month period following the date such employee becomes an employee of Purchaser or its Affiliates. In determining comparability for the Comparability Period, in no event will the base pay and annual incentive bonus opportunity for each such employee be less than his or her base pay and annual incentive bonus opportunity with Seller as of the Closing Date. In determining comparability, any long term incentive opportunity, retention plans or retention programs, Six Sigma and Spot Cash Programs listed on Part II of Schedule 4.2(j)(i), Equity-Based Programs listed on Part III of Schedule 4.2(j)(i) and amounts paid or payable from the Success Pool listed on Part V of Schedule 4.2(j)(i) shall be excluded. Purchaser and its Designated Affiliates will provide to each Company Onshore Employee during the Comparability Period coverage and benefits under plans substantially identical (or providing equal or greater value in the aggregate) to the Company's U.S. Benefit Plans set out in Section 1 of Schedule 4.2(j)(i), except for Salaried Employees' Pension Plan, Retiree Medical Plan and Retiree Life Insurance Plan which Purchaser has no obligation to provide.

(b) Purchaser and its Designated Affiliates may offer to employ or continue the employment of any Excluded Employee effective as of the Closing Date; provided, however, that any offer to an Excluded Employee must include terms and conditions that are equal to or greater than those specified on Schedule 10.2(c)(ii) for Managing Directors or Schedule 10.2(d) for Executives, as appropriate for such Excluded Employee's position. Any such Excluded Employee who accepts such offer and becomes an employee of Purchaser or its Designated Affiliates shall be a Company Onshore Employee, and Purchaser will provide terms and conditions no less favorable to such Excluded Employee than those specified on Schedule 10.2(c)(ii) for any such Managing Director and Schedule 10.2(d) for any such Executive.

(c) If the employment of any Company Onshore Employee is involuntarily terminated by the Purchaser or its Designated Affiliates, other than for cause, under the severance plan on Schedule 10.2(c)(i) or resigns by reason of the relocation, without his or her consent, of his or her work location more than 50 miles from the individual's work location as of the Closing Date during the Comparability Period, Purchaser and its Designated Affiliates shall provide, or cause to be provided, the terminated Company Onshore Employee with whichever of the following results in the greater value to such Company Onshore Employee: (i) salary continuation and health benefits until the end of the Comparability Period, (ii) severance benefits which are comparable, in the aggregate, to the severance benefits set out on Schedule 10.2(c)(i) and which, with respect to salary continuation, health benefits, outplacement services and annual incentive plan payment are no less than the benefits set out on Schedule 10.2(c)(i), or (iii) for Key Employees, the severance benefits provided by the special award letters as set out in Schedule 10.2(c)(iii).

(d) If a Designated Employee or Selected Employee receives cash severance or other severance related compensation or benefits from DEPI or its Affiliates but is subsequently employed by Purchaser or its Designated Affiliates within twelve (12) months of, in the case of a Designated Employee, the Closing Date, or in the case of a Selected Employee, the date such Selected Employee would have otherwise been released by Seller to become an employee of Purchaser or its Designated Affiliates, then Purchaser or its Designated Affiliates shall pay promptly to Sellers an amount equal to the aggregate of the cash severance and other severance related compensation and benefits provided by Sellers and their Affiliates to such employee in connection with the termination of such employee's employment with Sellers and their Affiliates. If an Executive or Managing Director is employed by Purchaser or its Designated Affiliates within twenty four (24) months of the Closing Date, then Purchaser or its Designated Affiliates shall pay promptly to Sellers an amount equal to the aggregate of the cash severance and other severance related compensation and benefits provided to such Executive or Managing Director by Sellers and their Affiliates, if any, in connection with the termination of such Executive's or Managing Director's employment with Sellers.

Section 10.3 **Plan Participation**.

(a) (i) Effective as of the day after the Closing Date, the Companies, Subsidiaries, Companies and Wholly-Owned Subsidiaries shall cease to be participating employers in all Employee Plans sponsored by Sellers or any of their ERISA Affiliates ("Company's U.S. Benefit Plans"), all Company Onshore Employees that are Designated Employees shall cease to accrue additional benefits by reason of employment with Sellers or their Affiliates for any periods after the Closing Date, and Sellers shall, if applicable, provide all such Designated Employees with appropriate notice of such cessation of participation and accruals in accordance with Section 204(h) of ERISA and Code Section 4980F (and the related regulations), at least forty-five (45) days in advance of the Closing Date.

(ii) Effective as of the day after the Closing Date, Company Onshore Employees that are Designated Employees shall be entitled to such benefits, if any, from Company's U.S. Benefit Plans provided to similarly situated employees employed by an entity ceasing to be an ERISA Affiliate of Sellers (including continued benefits under flexible spending arrangements if applicable continuation coverage is elected).

(b) (i) All Company Onshore Employees that are Selected Employees shall continue to participate in Company's U.S. Benefit Plans until the earlier of the date such employee is employed by the Purchaser or its Designated Affiliates or such employee's employment with DEPI, DOTEPI, Reserves, the Companies or the Wholly-Owned Subsidiaries otherwise ceases.

(ii) Effective as of the date a Company Onshore Employee that is a Selected Employee is employed by the Purchaser or its Designated Affiliates, such Selected Employee shall cease to accrue additional benefits by reason of employment with Sellers or their Affiliates under the Company's U.S. Benefit Plans, and Sellers shall, if applicable, provide all such Selected Employees with appropriate notice of such cessation of participation and accruals in accordance with Section 204(h) of ERISA and Code Section 4980F (and the related regulations), at least forty-five (45) days in advance of the date such Selected Employee will be released by Seller to become an employee of Purchaser or its Designated Affiliates.

(iii) Effective as of the day after the date a Company Onshore Employee that is a Selected Employee is employed by the Purchaser or its Designated Affiliates, such Selected Employee shall be entitled to such benefits, if any, from Company's U.S. Benefit Plans provided to similarly situated employees employed by an entity ceasing to be an ERISA Affiliate of Sellers (including continued benefits under flexible spending arrangements if applicable continuation coverage is elected).

(c) Except as is set forth in this Section 10.3, Section 10.2, Section 10.4, Section 10.6 and Section 10.9, after the Closing Date, neither Purchaser and its Affiliates nor the Companies or Wholly-Owned Subsidiaries shall have any liability or obligations (i) with respect to, based upon or arising under any Company U.S. Benefit Plan or any other employee benefit plan of Seller or their Affiliates or (ii) with respect to any current or former employee of DRI, DEPI, DOTEPI, Reserves, the Companies or the Subsidiaries except Company Onshore Employees.

Section 10.4 **Participation in Purchaser Plans**.

(a) As of the day after the Closing Date, all Company Onshore Employees that are Designated Employees shall, if applicable, be eligible to participate in and, if elected, shall commence participation in the employee benefit plans (within the meaning of Section 3(3) of ERISA), programs, policies, contracts, fringe benefits, or arrangements (whether written or unwritten) of Purchaser or its Affiliates covering similarly situated employees primarily engaged with respect to operations in the U.S. (collectively, "Purchaser U.S. Employee Plans"). Purchaser and its Affiliates shall, to the extent permissible under any Purchaser U.S. Employee Plan (provided that Purchaser and its Affiliates shall use reasonable efforts to remove any restrictions including restrictions in any insurance policy), waive all limitations as to pre-existing condition exclusions and waiting periods with respect to such Designated Employees and their spouses and dependents, if applicable, under the Purchaser U.S. Employee Plans other than, but only to the extent of, limitations or waiting periods that were in effect with respect to such employees under the Company's U.S. Benefit Plans that have not been satisfied as of the Closing Date. Purchaser and its Affiliates shall, to the extent permissible under any Purchaser U.S. Employee Plan (provided that Purchaser and its Affiliates shall use reasonable efforts to remove any restrictions under any Purchaser U.S. Employee Plan or related insurance policy), provide each such Designated Employee with credit for any year-to-date co-payments and deductibles paid as of the Closing Date in satisfying any deductible or out-of-pocket requirements under the Purchaser U.S. Employee Plans. Purchaser and its Affiliates shall accept or cause to be accepted transfers from Sellers' health care spending account plan and dependent care flexible spending account plan included in the Company's U.S. Benefit Plans of each such Designated Employee's unused account balance as of the day after the Closing Date and credit such employee with such amounts under the applicable Purchaser U.S. Employee Plans. In the event the plan years under the Purchaser U.S. Employee Plans and Company's U.S. Benefit Plans do not end on the same date, such credits and transfers set forth in the preceding sentence shall be applied under the Purchaser U.S. Employee Plans for the plan year which includes the Closing Date; provided, however, that if there are less than six (6) months remaining in the plan year which includes the Closing Date, such credits and transfers shall be applied to the plan year which begins next following the Closing Date, to the extent permitted by applicable Law.

(b) As of the day after the date a Company Onshore Employee that is a Selected Employee is released by Seller to become an employee of Purchaser or its Designated Affiliates, such Selected Employee shall, if applicable, be eligible to participate in and, if elected, shall commence participation in the Purchaser U.S. Employee Plans. Purchaser and its Affiliates shall, to the extent permissible under any Purchaser U.S. Employee Plan (provided that Purchaser and its Affiliates shall use reasonable efforts to remove any restrictions including restrictions in any insurance policy), waive all limitations as to pre-existing condition exclusions and waiting periods with respect to each such Selected Employee and his or her spouse and dependents, if applicable, under the Purchaser U.S. Employee Plans other than, but only to the extent of, limitations or waiting periods that were in effect with respect to such employee under the Company's U.S. Benefit Plans that have not been satisfied as of the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates. Purchaser and its Affiliates shall, to the extent permissible under any Purchaser U.S. Employee Plan (provided that Purchaser and its Affiliates shall use reasonable efforts to remove any restrictions under any Purchaser U.S. Employee Plan or related insurance policy), provide each such Selected Employee with credit for any year-to-date co-payments and deductibles paid as of the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates in satisfying any deductible or out-of-pocket requirements under the Purchaser U.S. Employee Plans. Purchaser and its Affiliates shall accept or cause to be accepted transfers from Sellers' health care spending account plan and dependent care flexible spending account plan included in the Company's U.S. Benefit Plans of each such Selected Employee's unused account balance as of the day after the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates and credit such employee with such amounts under the applicable Purchaser U.S. Employee Plans. In the event the plan years under the Purchaser U.S. Employee Plans and Company's U.S. Benefit Plans do not end on the same date, such credits and transfers set forth in the preceding sentence shall be applied under the Purchaser U.S. Employee Plans for the plan year which includes the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates; provided, however, that if there are less than six (6) months remaining in the plan year which includes the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates, such credits and transfers shall be applied to the plan year which begins next following the date such employee is released by Seller to become an employee of Purchaser or its Designated Affiliates, to the extent permitted by applicable Law.

Section 10.5 **Service Credit**. Purchaser and its Affiliates shall cause to be provided to each Company Onshore Employee credit for prior service with Sellers or their Affiliates for purposes (including vesting, eligibility, benefit accrual and/or level of benefits) in all Purchaser U.S. Employee Plans, including fringe benefit plans, vacation and sick leave policies, severance plans or policies, and matching contributions under defined contribution plans, other than for benefit accruals under defined benefit pension plans subject to Title IV of ERISA or Section 412 of the Code and retiree medical plans maintained or provided by Purchaser or its wholly-owned subsidiaries or Affiliates, in which such Company Onshore Employees are eligible to participate on or after the date such employee is employed by the Purchaser or its Designated Affiliates. Under Purchaser's vacation plan, each Company Onshore

Employee initially shall be entitled to vacation at least equal to the vacation such Company Onshore Employee was entitled to under Seller's vacation plan.

Section 10.6 **Vacation and Leave**. Purchaser and its Affiliates shall provide each Company Onshore Employee credit for all of the Company Onshore Employee's earned but unused vacation and sick leave and other time-off as of the date such employee is employed by the Purchaser or its Designated Affiliates as determined under Sellers' time-off policies.

Section 10.7 **Defined Contribution Plan**. To the extent allowable by Law, Purchaser and its Affiliates shall take any and all necessary action to cause the trustee of a tax qualified defined contribution plan of Purchaser or one of its Affiliates, if requested to do so by a Company Onshore Employee, to accept a direct "rollover" of all or a portion of such employee's distribution from Sellers' tax qualified defined contribution plan (excluding securities (or other in-kind forms of distributions), but including plan loans).

Section 10.8 **Vesting**.

(a) As of the Closing Date, Sellers shall take all necessary action to cause the tax qualified defined contribution and defined benefit pension plans maintained by the Sellers or an Affiliate of Sellers to fully vest Company Onshore Employees that are Designated Employees in their account balances and/or accrued benefits under such plans.

(b) As of the date such employee is employed by the Purchaser or its Designated Affiliates, Sellers shall take all necessary action to cause the tax qualified defined contribution and defined benefit pension plans maintained by the Sellers or an Affiliate of Sellers to fully vest Company Onshore Employees that are Selected Employees in their account balances and/or accrued benefits under such plans.

Section 10.9 **Welfare Benefit Plans; Workers' Compensation; Other Benefits**.

(a) With respect to each Company Onshore Employee that is a Designated Employee (including any beneficiary or the dependent thereof), the Sellers shall retain all liabilities and obligations arising under any Seller welfare benefit plans and workers' compensation benefits to the extent that such liability or obligation relates to claims incurred (whether or not reported or paid) on or prior to the Closing Date. For purposes of this Section 10.9(a), a claim shall be deemed to be incurred when (i) with respect to medical, dental, health related benefits, accident and disability (but not including workers' compensation benefits and wage continuation/replacement type benefits), the medical, dental, health related, accident or disability services with respect to such claim are performed, (ii) with respect to life insurance, when the death occurs and (iii) with respect to workers' compensation benefits, when the injury or condition giving rise to the claim occurs on or prior to the Closing Date. Subject to Section 10.1, with respect to each Company Onshore Employee that is a Designated Employee receiving workers' compensation benefits, for purposes of this Section 10.9(a), the Seller or Affiliate (other than a Company or Subsidiary) employing such Designated Employee shall be responsible for claims incurred on or prior to the Closing Date, including payments made after the Closing Date for such claims. Subject to Section 10.1, with respect to each Company Onshore Employee that is a Designated Employee receiving wage continuation/replacement benefits for sickness/disability, for purposes of this Section 10.9(a), the Seller or Affiliate (other than a Company or Subsidiary) employing such Designated Employee shall be responsible for any payments due on or prior to the Closing Date and Purchaser and its Designated Affiliates shall be responsible for any payments due after the Closing Date. Effective as of the Closing Date, the Seller or Affiliate employing a Company Onshore Employee that is a Designated Employee shall be responsible for providing coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") to any such Designated Employee, his or her spouse or dependent person as to whom a "qualifying event" as defined in Section 4890B of the Code has occurred on or prior to the Closing Date. Purchaser and its Designated Affiliates shall be responsible for providing COBRA coverage to any Company Onshore Employee that is a Designated Employee, his or her spouse or dependent person as to whom a "qualifying event" occurs after the Closing Date.

(b) With respect to each Company Onshore Employee that is a Selected Employee (including any beneficiary or the dependent thereof), the Sellers shall retain all liabilities and obligations arising under any Seller welfare benefit plans and workers' compensation benefits to the extent that such liability or obligation relates to claims incurred (whether or not reported or paid) on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates. For purposes of this Section 10.9(b), a claim shall be deemed to be incurred when (i) with respect to medical, dental, health related benefits, accident and disability (but not including workers' compensation benefits and wage continuation/replacement type benefits), the medical, dental, health related, accident or disability services with respect to such claim are performed, (ii) with respect to life insurance, when the death occurs and (iii) with respect to workers' compensation benefits, when the injury or condition giving rise to the claim occurs on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates. Subject to Section 10.1, with respect to each Company Onshore Employee that is a Selected Employee receiving workers' compensation benefits, for purposes of this Section 10.9(b), the Seller or Affiliate (other than a Company or Subsidiary) employing such Selected Employee shall be responsible for claims incurred on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates, including payments made after such date for such claims. Subject to Section 10.1, with respect to each Company Onshore Employee that is a Selected Employee receiving wage continuation/replacement benefits for sickness/disability, for purposes of this Section 10.9(b), the Seller or Affiliate (other than a Company or Subsidiary) employing such Selected Employee shall be responsible for any payments due on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates and Purchaser and its Designated Affiliates shall be responsible for any payments due after the date such employee is employed by the Purchaser or its Designated Affiliates. Effective as of the Closing Date, the Seller or Affiliate employing a Company Onshore Employee that is a Selected Employee shall be responsible for providing coverage under COBRA to any such Selected Employee, his or her spouse or dependent person as to whom a "qualifying event" as defined in Section 4890B of the Code has occurred on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates. Purchaser and its Designated Affiliates shall be responsible for providing COBRA coverage to any Company Onshore Employee that is a Selected Employee, his or her spouse or dependent person as to whom a "qualifying event" occurs after the date such employee is employed by the Purchaser or its Designated Affiliates.

(c) For Company Onshore Employees that are Designated Employees, effective as of the Closing Date, and for Company Onshore Employees that are Selected Employees, effective as of the date such employee is employed by the Purchaser or its Designated Affiliates, with respect to (i) relocation costs and reimbursements, (ii) appliance loans, (iii) education assistance, (iv) computer loans and (v) adoption assistance programs, Purchaser and its Designated Affiliates agree to assume responsibility for payments and benefits provided by or committed to by Sellers or their Affiliates to such Company Onshore Employees except that Purchaser and its Designated Affiliates undertake no obligation to continue any of these programs.

Section 10.10 **WARN Act**.

(a) If a plant closing or a mass layoff occurs or is deemed to occur with respect to DEPI, DOTEPI, Reserves, the Companies, the Subsidiaries and Dominion Resource Services, Inc. at any time on or after the Closing Date as a result of a termination of employment of Company Onshore Employees that are Designated Employees by Purchaser, Purchaser and its Designated Affiliates shall be solely responsible for providing all notices required under the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §2109 et seq. or the regulations promulgated thereunder (the "WARN Act") and for taking all remedial measures, including, without limitation, the payment of all amounts, penalties, liabilities, costs and expenses if such notices are not provided.

(b) If a plant closing or a mass layoff occurs or is deemed to occur with respect to DEPI, DOTEPI, Reserves, the Companies, the Subsidiaries and Dominion Resource Services, Inc. at any time on or after the date a Company Onshore Employee that is a Selected Employee is employed by the Purchaser or its Designated Affiliates as a result of a termination of employment of such Selected Employees by Purchaser, Purchaser and its Designated Affiliates shall be solely responsible for providing all notices required under the WARN Act and for taking all remedial measures, including, without limitation, the payment of all amounts, penalties, liabilities, costs and expenses if such notices are not provided.

Section 10.11 **Postretirement Benefits**.

(a) Except as set forth in Sections 10.2, 10.3, 10.4, 10.6 and 10.9, Sellers shall retain any and all liabilities, assets and obligations which relate to service of any Company Onshore Employee or former employee of Sellers or their Affiliates that arise under any Employee Plans, with respect to Company Onshore Employees that are Designated Employees, as of the Closing Date and with respect to Company Onshore Employees that are Selected Employees, as of the date such employee is employed by the

Purchaser or its Designated Affiliates, including, without limitation, those providing postretirement benefits for any Company Onshore Employee or former employee (i) that are defined benefit pension plans, (ii) that are defined contribution plans as defined in Section 3(34) of ERISA, or (iii) which relate to other post-employment benefits for all current retirees of DEPI, DOTEPI, Reserves, the Companies, the Subsidiaries or Dominion Resource Services, Inc.

(b) Purchaser does not currently sponsor a qualified defined benefit pension plan, retiree medical plan or retiree life insurance plan, nor does Purchaser intend to implement such plans following the Closing Date. Therefore, in lieu of such benefits, Purchaser will pay or provide, as appropriate, or will cause its Designated Affiliates to pay or provide, to each Company Onshore Employee employed by Purchaser or its Designated Affiliates as of the Closing Date additional benefits and/or a one time cash bonus (the "Special Benefits"). To the maximum extent permitted by applicable Law, such Special Benefits shall be in the form of one or more contributions for each Company Onshore Employee to a tax qualified defined contribution plan equal to, in the aggregate, 12.9% of the individual's annual rate of base pay as of the (i) Closing Date for Designated Employees or (ii) for Selected Employees, the date such employees becomes employed by Purchaser or its Designated Affiliates. If all or a part of such Special Benefits cannot by reason of applicable Law be provided in a tax qualified defined contribution plan (the "Excess Amount"), the Excess Amount that cannot be so provided shall be paid in cash on a fully tax grossed up basis so that after all state and federal Taxes the Company Onshore Employee retains an amount equal to the Excess Amount. Purchaser may propose an alternative method for calculating the Special Benefits that provides equal or greater value in the aggregate for Company Onshore Employees, subject to DEPI's approval that will not be unreasonably withheld.

(c) With respect to Company Onshore Employees that are Designated Employees, the lesser of one-half of the Special Benefits or the maximum amount of the Special Benefits that can be contributed to the tax qualified plan for the 2007 plan year for such employee will be paid within 30 days after the end of the 2007 plan year of the tax qualified plan and the remainder paid on the first anniversary of the Closing Date. If such Designated Employee is terminated by the Purchaser for cause or such Designated Employee terminates his/her employment prior to the first anniversary of the Closing Date, then he/she shall forfeit all rights to any of the Special Benefits that have not been paid as of the termination date.

(d) With respect to Company Onshore Employees that are Selected Employees, the lesser of one-half of the Special Benefits or the maximum amount of the Special Benefits that can be contributed to the tax qualified plan for the 2007 plan year for such employee will be paid within 30 days after the end of the 2007 plan year of the tax qualified plan and the remainder paid on the first anniversary of the date such employee is employed by the Purchaser or its Designated Affiliates. If such Selected Employee is terminated by the Purchaser for cause or such Selected Employee terminates his/her employment prior to the first anniversary of the date such employee is employed by the Purchaser or its Designated Affiliates, then he/she shall forfeit all rights to of the Special Benefits that have not been paid as of the termination date.

Section 10.12 **Annual Incentive Plan**. Sellers shall pay, or shall cause the Companies or Wholly-Owned Subsidiaries, as applicable, to pay to each Company Onshore Employee as part of such individual's final pay from Sellers and their Affiliates a prorated incentive amount in accordance with the Sellers' Annual Incentive Plan.

Section 10.13 **Immigration Matters**. Purchaser and its Designated Affiliates shall use reasonable efforts to employ Company Onshore Employees with H-1B immigration status under terms and conditions such that both (i) Purchaser and its Designated Affiliates qualify as a "successor employer" under applicable United States immigration laws and (ii) "green card portability" applies to such employees in respect of the transactions contemplated by this Agreement. Seller shall retain all immigration related liabilities and responsibilities (y) with respect to Company Onshore Employees that are Designated Employees arising from acts or omissions which occur on or prior to the Closing Date and (z) with respect to Company Onshore Employees that are Selected Employees arising from acts or omissions which occur on or prior to the date such employee is employed by the Purchaser or its Designated Affiliates.

Section 10.14 **No Plan or Amendment**. Nothing in this Article 10 is intended to constitute, nor shall it operate or be construed as constituting, an employee benefit plan or an amendment to any employee benefit plan of the Purchaser or any Affiliate of the Purchaser.

ARTICLE 11.
TERMINATION AND AMENDMENT

Section 11.1 **Termination**. This Agreement may be terminated at any time prior to Closing: (i) by the mutual prior written consent of Sellers and Purchaser; or (ii) by either Sellers or Purchaser, if Closing has not occurred on or before October 1, 2007 provided, however, that no Party shall be entitled to terminate this Agreement under this Section 11.1 if the Closing has failed to occur because such Party negligently or willfully failed to perform or observe in any material respect its covenants and agreements hereunder.

Section 11.2 **Effect of Termination**. If this Agreement is terminated pursuant to Section 11.1, this Agreement shall become void and of no further force or effect (except for the provisions of Sections 1.2, 1.3, 4.12, 5.10, 6.3, 6.6, 11.1, 11.2, 13.1, 13.2, 13.4, 13.8, 13.9, 13.10, 13.11, 13.12, 13.13, 13.14, 13.15, 13.16, 13.17, 13.18 and 13.19 and of the Confidentiality Agreement, all of which shall continue in full force and effect). Notwithstanding anything to the contrary in this Agreement, the termination of this Agreement under Section 11.1 shall not relieve any Party from liability for any willful or negligent failure to perform or observe in any material respect any of its agreements or covenants contained herein that were to be performed or observed at or prior to Closing. In the event this Agreement terminates under Section 11.1 and any Party has willfully or negligently failed to perform or observe in any material respect any of its agreements or covenants contained herein which are to be performed or observed at or prior to Closing, then the other Party, subject to Section 13.19, shall be entitled to all remedies available at law or in equity and shall be entitled to recover court costs and attorneys' fees in addition to any other relief to which the other Party may be entitled (and, for the avoidance of doubt, damages recoverable by the other Party for a termination under this Article 11 shall include, without limiting similar damages of Purchaser or Sellers to the extent not described below, all applicable damages (it being agreed that the following damages do not constitute consequential, special, or punitive damages for the purpose of Section 13.19) constituting: (i) all out of pocket costs paid by it and its Affiliates in connection with the terminated transaction, including brokers, agents, advisors and attorneys fees; (ii) with respect to Sellers as the other Party, all costs of additional employee retention payments and/or costs of temporary or contract workers to replace workers departing after the termination of this transaction for a period of one year to the extent those costs of Seller exceed the baseline costs that would have been incurred by Seller in maintaining the employees of Seller as if the terminated transaction had never been agreed upon; (iii) with respect to Sellers as the other Party, the amount, if any, by which the Unadjusted Purchase Price exceeds the aggregate unadjusted sales price for the subsequent sale or sales comprising in aggregate the sale of the Interests to a third Person or third Persons to the extent such sale or sales are completed within a period of one year following the termination of the transaction; and (iv) interest at the Agreed Rate on the outstanding amount of the excess described in clause (iii) from the Target Closing Date until the last of any such subsequent sale or sales of the Interests are consummated not to exceed one year following the termination of the transaction).

ARTICLE 12.
INDEMNIFICATION; LIMITATIONS

Section 12.1 **Assumption**. Without limiting Purchaser’s rights to indemnity under this Article 12, as of the Closing Date Purchaser shall assume and hereby agrees to fulfill, perform, pay and discharge (or cause to be fulfilled, performed, paid or discharged) all of the obligations and liabilities of Sellers and their Affiliates, known or unknown, with respect to the Interests, regardless of whether such obligations or liabilities arose prior to or after the Closing Date, including but not limited to, obligations to furnish makeup gas according to the terms of applicable gas sales, gathering or transportation Contracts, production balancing obligations, obligations to pay working interests, royalties, overriding royalties, net profits interests and other interests held in suspense, obligations to plug wells and dismantle structures, and to restore and/or remediate the Assets, ground water, surface water, soil or seabed in accordance with applicable agreements and Laws, including any obligations to assess, remediate, remove and dispose of NORM, asbestos, mercury, drilling fluids and chemicals, and produced waters and hydrocarbons, other environmental liabilities with respect to the E&P Business, obligations with respect to the actions, suits and proceedings identified as items 2 through 14 (inclusive), 18, 19 and 20 on Schedule 4.4 (and any other actions, suits or proceedings arising out of the same facts or circumstances), regardless of the properties or assets to which such actions, suits or proceedings relate (unless such properties and assets are included in clauses (a) or (b) below), any claims regarding the general method, manner or practice of calculating or making royalty payments with respect to the Properties, and continuing obligations under any agreements pursuant to which the Sellers or their Affiliates (including without limitation the Companies and Subsidiaries) purchased Assets prior to the Closing (all of said obligations and liabilities, subject to the exclusions of the proviso below, herein being referred to as the “Assumed Seller Obligations”); provided, however, that Purchaser does not assume any obligations or liabilities to the extent that they are (collectively, the “Retained Seller Obligations”):

(a) attributable to or arise out of the Excluded Assets;

(b) directly attributable to interests held or formerly held by DEPI, DOTEPI Reserves or any of the Companies or Subsidiaries located in the Offshore Package Areas, the Excluded Onshore Areas or the states in which the Appalachian Business is located;

(c) required to be borne by Sellers under Section 2.3 or Section 2.4(c), including as provided in Section 8.4;

(d) attributable to or arise out of any futures, options, swaps or other derivatives in place prior to Closing, except the Transferred Derivatives;

(e) Tax obligations retained by Sellers pursuant to Article 9;

(f) obligations retained by Sellers under Article 10;

(g) obligations owed by any Seller, Company or Wholly-Owned Subsidiary or its Affiliates to a third Person claimant in the actions, suits and proceedings identified as items 1 and 15 through 17 (inclusive) of Schedule 4.4, regardless of the Assets to which such actions, suits or proceedings relate;

(h) amounts owed by any Seller, Company or Wholly-Owned Subsidiary to any Affiliate (other than a Company or Wholly-Owned Subsidiary) at the end of the Closing Date that are not incurred for the provision of goods or services, for employment related costs, or otherwise in the ordinary course of business, with respect to the ownership or operation of the Assets; or

(i) any current liabilities (as determined in accordance with the Accounting Principles) composed of Property Costs that are outstanding at the Effective Date (provided that Seller's retention of the same, and their classification as "Retained Seller Obligations," shall terminate on the Cut-off Date).

Section 12.2 **Indemnification**.

(a) From and after Closing, Purchaser shall indemnify, defend and hold harmless Sellers and their current and former Affiliates (other than the Companies and Subsidiaries) and their respective officers, directors, employees and agents ("Seller Group") from and against all Damages incurred or suffered by Seller Group:

(i) caused by or arising out of or resulting from the Assumed Seller Obligations,

(ii) caused by or arising out of or resulting from the ownership, use or operation of the Assets, whether before or after the Closing Date,

(iii) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in Article 6,

(iv) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in Article 5 of this Agreement or in the certificate delivered at Closing pursuant to Section 8.3(d), or

(v) consisting of Environmental Liabilities (except to the extent DEPI is required to indemnify Purchaser pursuant to Section 12.2(b) or Section 12.2(g)).

even if such Damages are caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any Indemnified Person, or a pre-existing condition, but excepting in each case Damages against which DEPI would be required to indemnify Purchaser under Section 12.2(b) at the time the claim notice is presented by Purchaser.

(b) From and after Closing, DEPI shall indemnify, defend and hold harmless Purchaser, its current and former Affiliates and its and their respective officers, directors, employees and agents ("Purchaser Group") against and from all Damages incurred or suffered by Purchaser Group:

(i) caused by or arising out of or resulting from Sellers' breach of any of Sellers' covenants or agreements contained in Article 6, (provided, however, for purposes of interpretation of the preceding indemnity, Sellers' covenants and agreements qualified by "Material Adverse Effect" but not "material" or materiality generally shall be deemed to have been made without the "Material Adverse Effect" qualification),

(ii) caused by or arising out of or resulting from any breach of any representation or warranty made by DEPI contained in Article 4 of this Agreement (other than Section 4.5(e), which shall be exclusively subject to Section 9.1(g)), or in the certificates delivered at Closing pursuant to Section 8.2(j) (other than in respect of Section 4.5(e)) (provided, however, for purposes of interpretation of the preceding indemnity, Sellers' representations and warranties qualified by "Material Adverse Effect," but not "material" or materiality generally shall be deemed to have been made without the "Material Adverse Effect" qualification),

(iii) caused by, arising out of or resulting from the Retained Seller Obligations,

(iv) caused by, arising out of or resulting from claims for injury or death to any natural person attributable to or arising out of DEPI's, DOTEPI's, Reserves' or any Company's or Wholly-Owned Subsidiary's ownership or operation of the Assets or any part thereof prior to the Effective Date,

(v) caused by, arising out of or resulting from claims (whether brought by a Governmental Authority, an individual pursuant to a qui tam or false claims act proceeding, or otherwise) that DEPI, DOTEPI, Reserves or any Company or Wholly-Owned Subsidiary failed to pay, missed a payment of, or made an error in the payment of, royalties (including minimum royalties, rentals, shut-in payments and overriding royalties) during such Person's period of ownership or operation of the Assets or any part thereof prior to the Effective Date, to the extent attributable to such Person's failure to pay, consistent with then current industry practices, royalties owing with respect to such Person's share of production from specific Properties,

(vi) consisting of Environmental Liabilities for which Seller is required to indemnify Purchaser pursuant to Section 12.2(b)(ii) or Section 12.2(g) and any Environmental Liabilities caused by, arising out of or resulting from Sellers' failure to perform any remediation operations that Sellers elect to perform pursuant to Section 12.2(g)(vi) in accordance with the requirements of such Section and applicable Law,

(vii) related to off-site disposal of Hazardous Substances from the Assets prior to the Effective Date for which the owner of the Assets may be liable, or

(viii) constituting fines, or civil, criminal or regulatory penalties that may be levied by a Governmental Authority for a violation of Environmental Laws with respect to the Assets which occurred prior to the Effective Date.

even if such Damages are caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any Indemnified Person, or a pre-existing condition.

(c) Notwithstanding anything to the contrary contained in this Agreement, from and after Closing, Sellers' and Purchaser's exclusive remedy against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties contained in Articles 4 (other than Section 4.5(e), which shall be exclusively subject to Section 9.1(g)), 5 and 6 (excluding Section 6.6, which shall be separately enforceable by Sellers pursuant to whatever rights and remedies are available to it outside of this Article 12) and the affirmations of such representations, warranties, covenants and agreements contained in the certificates delivered by each Party at Closing pursuant to Sections 8.2(j) or 8.3(d), as applicable, is set forth in this Section 12.2. Except for (i) the remedies contained in this Section 12.2 and Section 11.2, and (ii) any other remedies available to the Parties at law or in equity with respect to provisions of this Agreement other than Articles 4 (excluding Section 4.5(e)), 5 and 6 (excluding Section 6.6), or the breach thereof, upon Closing Sellers and Purchaser each release, remise and forever discharge the other and their or its Affiliates and all such Persons' stockholders, officers, directors, employees, agents, advisors and representatives from any and all suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest, or causes of action whatsoever, in law or in equity, known or unknown, which such Parties might now or subsequently may have, based on, relating to or arising out of this Agreement or any Seller's, Company's or Subsidiary's ownership, use or operation of the Assets, or the condition, quality, status or nature of the Assets, including rights to contribution under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, breaches of statutory and implied warranties, nuisance or other tort actions, rights to punitive damages, common law rights of contribution, any rights under insurance policies issued or underwritten by the other Party or Parties or any of its or their Affiliates and any rights under agreements between the Companies or the Subsidiaries and the Sellers or any other Affiliate of the Companies, **even if caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any released Person**, **or a pre-existing condition,** but excluding, however, any remaining balance owed by DEPI, DOTEPI, Reserves, any Company or any Subsidiary to any other Affiliate at the end of the Closing Date for provision of goods or services, or employment-related costs, or other ordinary course of business expenses, with respect to the ownership or operation of the Assets, the Companies or the Subsidiaries. Without limiting the generality of the preceding sentence, Purchaser agrees that from and after Closing its only remedy with respect to any Seller's breach of its covenants and agreements in Article 6 shall be the indemnity of DEPI in Section 12.2(b), as limited by the terms of this Article 12.

(d) "Damages," for purposes of this Article 12, shall mean the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Indemnified Person arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims, torts or otherwise, including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the costs of investigation and/or monitoring of such matters, and the costs of enforcement of the indemnity; provided, however, that "Damages" shall not include any adjustment for Taxes that may be assessed on payments under this Article 12 or for Tax benefits received by the Indemnified Person as a consequence of any Damages. Notwithstanding the foregoing, Purchaser and Sellers shall not be entitled to indemnification under this Section 12.2 for, and Damages shall not include, (i) loss of profits, whether actual or consequential, or other consequential damages suffered by the Party claiming indemnification, or any punitive damages (other than loss of profits, consequential damages or punitive damages suffered by third persons for which responsibility is allocated between the Parties), (ii) any increase in liability, loss, cost, expense, claim, award or judgment to the extent such increase is caused by the actions or omissions of any Indemnified Person after the Closing Date or (iii) except with respect to claims for any Retained Seller Obligations or breach of Sections 6.8, 6.9, 6.11, 6.12 and 6.13, any liability, loss, cost, expense, claim, award or judgment that does not individually exceed One Million dollars ($1,000,000).

(e) Any claim for indemnity under this Section 12.2 by any current or former Affiliate, director, officer, employee or agent must be brought and administered by the applicable Party to this Agreement. No Indemnified Person other than Sellers and Purchaser shall have any rights against either Sellers or Purchaser under the terms of this Section 12.2 except as may be exercised on its behalf by Purchaser or Sellers, as applicable, pursuant to this Section 12.2(e). Each of Sellers and Purchaser may elect to exercise or not exercise indemnification rights under this Section on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section.

(f) Without prejudice to those Sections, this Section 12.2 shall not apply in respect of title matters, which are exclusively covered by Article 3 (provided the aforesaid is not a limitation on Section 4.13), Tax matters other than Section 4.5(a)-(d) and (f)-(i), which are exclusively covered by Article 2 and Article 9, or claims for Property Costs, which are covered exclusively by Sections 2.3, 2.4 and 8.4.

(g) (i) Purchaser may at its option notify DEPI in writing on or before ten (10) Business Days prior to the Closing Date of any matter disclosed by a Phase I Investigation conducted by Purchaser pursuant to Section 6.1 which Purchaser in good faith believes may constitute an Adverse Environmental Condition (an "Environmental Concern"). If the existence of such Adverse Environmental Condition is suspected to exist in connection with the Phase I Investigation but can only be determined through further investigation or testing of soil, groundwater, or other materials or information (a "Potential Adverse Environmental Condition"), Purchaser shall conduct a Phase II environmental assessment with respect thereto within the timeframe provided below and notify DEPI in writing in accordance with the procedure described below of any item or information resulting from that Phase II environmental assessment that the Purchaser believes in good faith constitutes an Adverse Environmental Condition. Purchaser agrees that it is not permitted to conduct a Phase II environmental assessment prior to Closing.

(ii) If Purchaser delivers timely notice of an Environmental Concern as described above or of an alleged Adverse Environmental Condition confirmed through a Phase II environmental assessment as described below and DEPI confirms to its reasonable satisfaction that such Environmental Concern or alleged Adverse Environmental Condition may constitute an Adverse Environmental Condition or it is determined by the Environmental Arbitrator (defined below) that such Environmental Concern or alleged Adverse Environmental Condition may constitute an Adverse Environmental Condition (an "Agreed Environmental Concern"), Seller shall provide indemnification pursuant to, and subject to the limitations applicable to, Section 12.2(b)(vi) to the extent, and only to the extent, of the Environmental Liabilities that arise from or relate thereto.

(iii) Except for such disclosure to DEPI, Purchaser and DEPI shall maintain the results of any environmental assessment and all findings in connection therewith strictly confidential, subject to the terms of (including the authorized disclosures pursuant to) the Confidentiality Agreement, as if each Party were the "Recipient" and the other "DRI" thereunder. Each notice by Purchaser under Section 12.2(g)(i) or Section 12.2(g)(iv) shall include a reasonably detailed description of the Environmental Concern, including the relevant excerpt from the Phase I Investigation or Phase II environmental assessment, as appropriate.

(iv) With respect to any Potential Adverse Environmental Condition, Purchaser, within ninety (90) days after the Closing Date may conduct a Phase II environmental assessment with respect thereto. Purchaser must notify Seller on or before one hundred eighty (180) days after the Closing Date of the existence of any alleged Adverse Environmental Conditions, and any such notice shall include a copy of any relevant Phase II environmental assessment reports or other relevant documentation supporting Purchaser's determination.

(v) If Purchaser and Seller do not agree on the existence of an Environmental Concern or an Adverse Environmental Condition, the matter shall be submitted to a nationally recognized independent environmental consulting firm mutually acceptable to both the Purchaser and Seller (the "Environmental Arbitrator") for review and final determination. The Environmental Arbitrator shall conduct the arbitration proceedings in Houston, Texas in accordance with the Commercial Arbitration Rules of the American Arbitration Association, to the extent such rules do not conflict with the terms of this Section. The Environmental Arbitrator's determination shall be made within thirty (30) days after submission of the matters in dispute and shall be final and binding on all Parties, without right of appeal. In determining whether an Environmental Concern or Adverse Environmental Condition exists, the Environmental Arbitrator shall be bound by the terms of Section 12.2(g) and the defined terms contained in this Agreement. The Environmental Arbitrator shall act as an expert for the limited purpose of determining whether an Environmental Concern or Adverse Environmental Condition exists and may not award damages, interest or penalties to any Party with respect to any matter. Seller and Purchaser shall each bear its own legal fees and other costs of presenting its case. DEPI shall bear one half and Purchaser shall bear one half of the costs and expenses of the Environmental Arbitrator.

(vi) Purchaser shall not conduct (or have conducted on its behalf) any material remediation operations with respect to any claimed Damages relating to a breach of DEPI's representation or warranty pursuant to Section 4.6 or any Claim relating to the subject matter of such representation or warranty or any claim related to this Section 12.2(g) without first giving Sellers notice of the remediation with reasonable detail at least thirty (30) days prior thereto (or such shorter period of time as shall be required by any Governmental Authority, required to comply with Environmental Laws or required to respond to any emergency situation). Sellers shall have the option (in their sole discretion) to conduct (or have conducted on their behalf) such remediation operations. If Sellers shall not have notified Purchaser of their agreement to conduct such remediation operations within such specified period, then Purchaser may conduct (or have conducted on its behalf) such operations. Purchaser and Sellers agree that any remediation activities undertaken with respect to the Assets, whether conducted by Purchaser or Sellers, for which DEPI may have responsibility shall be reasonable in extent and cost effective and shall be designed or implemented in such a manner as to achieve the least stringent permanent risk-based closure or remediation standard applicable to the property in question under Environmental Laws, subject to the approval of any Governmental Authority with jurisdiction over such remediation activities, and as necessary to permit the continued use of the affected property in the same manner and for the same purposes for which it was being used at the Closing Date, provided that continuation of the pre-Closing use is acceptable to the relevant Governmental Authority. All remediation activities conducted by Sellers under this Agreement shall be conducted by qualified personnel or contractors in a professional and workmanlike manner and, to the extent reasonably possible, so as not to substantially interfere with Purchaser's operation of the Assets.

(h) The Parties shall treat, for Tax purposes, any amounts paid under this Article 12 as an adjustment to the applicable Interest Purchase Price(s) in the same manner as provided in Section 2.2(a).

Section 12.3 **Indemnification Actions**. All claims for indemnification under Section 12.2 shall be asserted and resolved as follows:

(a) For purposes of this Article 12, the term "Indemnifying Person" when used in connection with particular Damages shall mean the Person having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 12, and the term "Indemnified Person" when used in connection with particular Damages shall mean a Person having the right to be indemnified with respect to such Damages pursuant to this Article 12 (including, for the avoidance of doubt, those Persons identified in Section 12.2(e)).

(b) To make a claim for indemnification under Section 12.2, an Indemnified Person shall notify the Indemnifying Person of its claim, including the specific details of and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by a third Person against the Indemnified Person (a "Claim"), the Indemnified Person shall provide its Claim Notice within thirty (30) days after the Indemnified Person has actual knowledge of the Claim and shall enclose a copy of all papers (if any) served with respect to the Claim; provided that the failure of any Indemnified Person to give notice of a Claim as provided in this Section 12.3 shall not relieve the Indemnifying Person of its obligations under Section 12.2 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Claim or otherwise prejudices the Indemnifying Person's ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its obligation to defend the Indemnified Person against such Claim under this Article 12. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period regarding whether the Indemnifying Person admits or denies its obligation to defend the Indemnified Person, it shall be conclusively deemed obligated to provide such indemnification hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

(d) If the Indemnifying Person admits its obligation, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Claim. The Indemnifying Person shall have full control of such defense and proceedings, including any compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Claim which the Indemnifying Person elects to contest (provided, however, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may participate in, but not control, any defense or settlement of any Claim controlled by the Indemnifying Person pursuant to this Section 12.3(d), provided that the Indemnified Person may file initial pleadings as described in the last sentence of paragraph (c) above if required by court or procedural rules to do so within the thirty (30) day period in paragraph (c) above. An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Claim or consent to the entry of any judgment with respect thereto that (i) does not result in a final resolution of the Indemnified Person’s liability with respect to the Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person from all further liability in respect of such Claim) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not admit its obligation or admits its obligation but fails to diligently defend or settle the Claim, then the Indemnified Person shall have the right to defend against the Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person’s choosing, subject to the right of the Indemnifying Person to admit its obligation to indemnify the Indemnified Person and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its obligation to indemnify the Indemnified Person, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its obligation for indemnification with respect to such Claim and (ii) if its obligation is so admitted, assume the defense of the Claim, including the power to reject the proposed settlement. If the Indemnified Person settles any Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its obligation for indemnification in writing and assumed the defense of the Claim, the Indemnified Person shall be deemed to have waived any right to indemnity with respect to the Claim.

(f) In the case of a claim for indemnification not based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its obligation to provide indemnification with respect to such Damages or (iii) dispute the claim for such Damages. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such Damages, the

Indemnifying Person shall be conclusively deemed obligated to provide indemnification hereunder.

Section 12.4 **Casualty and Condemnation**. If, after the date of this Agreement but prior to the Closing Date, any portion of the Assets is destroyed or damaged by fire or other casualty or is expropriated or taken in condemnation or under right of eminent domain, Purchaser shall nevertheless be required to close. In the event that the amount of the costs and expenses associated with repairing and/or restoring all Assets affected by any such casualty or the Allocated Values, determined in the same manner as a Title Defect in accordance with Section 3.5(g), for all Units and Wells taken in a condemnation or pursuant to right of eminent domain exceeds one percent (1%) of the Unadjusted Purchase Price, Sellers must elect by written notice to Purchaser prior to Closing either (i) to cause the Assets affected by any casualty to be repaired or restored, at Sellers' sole cost, as promptly as reasonably practicable (which work may extend after the Closing Date), (ii) to indemnify Purchaser through a document to be delivered at Closing reasonably acceptable to Sellers and Purchaser against any costs or expenses that Purchaser reasonably incurs to repair or restore the Assets subject to any casualty or (iii) to treat the costs and expenses associated with repairing or restoring the Assets affected by such casualty or taking the Allocated Value for any Unit or Well taken as a breach of DEPI's representation under Section 3.1, but without regard to the limitations in Section 3.5(g) (other than Section 3.5(g)(v)(B)). In each case with respect to clauses (i), (ii) or (iii) above, Sellers shall retain (or, if applicable, receive an assignment from the Company or Wholly-Owned Subsidiary owning the affected properties of) all rights to insurance and other claims against third Persons with respect to the casualty or taking except to the extent the Parties otherwise agree in writing.

Section 12.5 **Limitation on Actions**.

(a) The representations and warranties of the DEPI and Purchaser in Articles 4 and 5 and the covenants and agreements of the Parties in Article 6, (excluding Sections 6.6 and 6.19) and the corresponding representations and warranties given in the certificates delivered at Closing pursuant to Sections 8.2(j) and 8.3(d), as applicable, shall survive the Closing until May 31, 2008 except that the representations and warranties of DEPI in Sections 4.2(e) [Title to Shares], 4.2(f) [The Shares], 4.3(e) [Title to Equity Interests of the Subsidiaries], 4.4(f) [The Equity Interests] and 4.5(e) [Taxes and Assessments] and the corresponding representations and warranties given in the certificate delivered at Closing pursuant to Section 8.2(j), in respect thereof, shall survive the Closing without time limit and the representations and warranties of DEPI in Section 4.18 shall terminate at Closing.

The remainder of this Agreement shall survive the Closing without time limit except as may otherwise be expressly provided herein. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, provided that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(b) The indemnities in Sections 12.2(a)(iii), 12.2(a)(iv), 12.2(b)(i) and 12.2(b)(ii) shall terminate as of the termination date of each respective representation, warranty, covenant or agreement that is subject to indemnification, except in each case as to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date. The indemnities in Sections 12.2(a)(i), 12.2(a)(ii), 12.2(a)(v), 12.2(b)(iii) (to the extent related to Sections 12.1(a), 12.1(b), 12.1(d) 12.1(e), 12.1(f) or 12.1(g)) and 12.4 shall continue without time limit. The indemnities in Sections 12.2(b)(iii) (to the extent related to Sections 12.1(c), 12.1(h) and 12.1(i)), 12.2(b)(iv), 12.2(b)(v), 12.2(b)(vi), 12.2(b)(vii) and 12.2(b)(viii) shall terminate one (1) year after Closing, except in each case at to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date.

(c) DEPI shall not have any liability for any indemnification under Section 12.2 until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Purchaser exceeds Forty Million dollars ($40,000,000), and then only to the extent such Damages exceed Forty Million dollars ($40,000,000). This Section shall not limit (i) indemnification for breach of those representations and warranties that survive without time limit under the first sentence of Section 12.5(a), (ii) indemnification for any breach of those covenants contained in Sections 6.8, 6.9, 6.11, 6.12, 6.13 and 6.14 and (iii) indemnification for the Retained Seller Obligations nor shall Damages for those matters count toward the Forty Million dollars ($40,000,000).

(d) Notwithstanding anything to the contrary contained elsewhere in this Agreement, DEPI shall not be required to indemnify Purchaser under this Article 12 for aggregate Damages in excess of Four Hundred Million dollars ($400,000,000); provided, however, that this Section 12.5(d) shall not limit DEPI’s liability with respect to breaches of (i) those representations and warranties that survive without time limit under the first sentence of Section 12.5(a), (ii) those covenants contained in Sections 6.8, 6.9, 6.12 and 6.13 and (iii) the Retained Seller Obligations.

(e) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 12 shall be reduced by the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs, and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates).

ARTICLE 13.
MISCELLANEOUS

Section 13.1 **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement. Delivery of an executed counterpart signature page by facsimile is as effective as executing and delivering this Agreement in the presence of the other Parties to this Agreement.

Section 13.2 **Notices**. All notices that are required or may be given pursuant to this Agreement shall be sufficient in all respects if given in writing, in English and delivered personally, by telecopy or by recognized courier service, as follows:

If to Sellers:

Consolidated Natural Gas Company
120 Tredegar Street
Richmond, Virginia 23219
Attention: Christine M. Schwab
Telephone: (804) 819-2142
Facsimile: (804) 819-2214

With a copy to:

Dominion Resources, Inc.
120 Tredegar Street
Richmond, Virginia 23219
Attention: Mark O. Webb
Telephone: (804) 819-2140
Telecopy: (804) 819-2202

and with a copy to:

Baker Botts L.L.P.
910 Louisiana Street
Houston, Texas 77002
Attention: David F. Asmus
Telephone: (713) 229-1539
Telecopy: (713) 229-2839

If to Purchaser:

L O & G Acquisition Corp.
667 Madison Avenue, 7th Floor
New York, NY 10021
Attention: Corporate Secretary
Telephone: (212) 521-2000
Telecopy: (212) 521-2997

With a copy to:

Vinson & Elkins LLP
First City Tower
1001 Fannin Street
Suite 2500
Houston, Texas 77002-6760
Attention: Douglas S. Bland
Telephone: (713) 758-2498
Telecopy: (713) 615-5649

Either Party may change its address for notice by notice to the other in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

Section 13.3 **Sales or Use Tax, Recording Fees and Similar Taxes and Fees**. Notwithstanding anything to the contrary in Article 9, Purchaser shall bear any sales, use, excise, real property transfer, registration, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the property transfers to Purchaser (or its Affiliates) contemplated hereby. Should any Seller, Company or Subsidiary or Affiliate of any of them pay prior to Closing, or should Seller or any continuing Affiliate of Seller pay after Closing, any amount for which Purchaser is liable under this Section 13.3, Purchaser shall, promptly following receipt of Sellers' invoice, reimburse the amount paid. If such transfers or transactions are exempt from any such taxes or fees upon the filing of an appropriate certificate or other evidence of exemption, the Parties shall cooperate to timely furnish such certificate or evidence. Sellers shall provide reasonable assistance to Purchaser in establishing the applicability of any exemption from sales, use, real property transfer or any other transfer Taxes that is based wholly or partially on facts and information related to Sellers, including, but not limited to, providing Purchaser and taxing authorities access to books and records establishing the lack of prior similar sales activity and the ability of a particular Seller to separately establish income and expenses attributable to assets being transferred to Purchaser.

Section 13.4 **Expenses**. Except as provided in Section 6.7 and in Section 13.3, all expenses incurred by Sellers in connection with or related to the authorization, preparation or execution of this Agreement, and the Exhibits and Schedules hereto and thereto, and all other matters related to the Closing, including without limitation, all fees and expenses of counsel, accountants and financial advisers employed by Sellers, shall be borne solely and entirely by Sellers, and all such expenses incurred by Purchaser shall be borne solely and entirely by Purchaser.

Section 13.5 **Replacement of Bonds, Letters of Credit and Guarantees**. The Parties understand that none of the bonds, letters of credit and guarantees, if any, posted by Sellers or any other Affiliate of the Companies or Subsidiaries (except the Companies and Subsidiaries) with any Governmental Authority or third Person and relating to the Companies, the Subsidiaries, or the Assets are to be transferred to Purchaser. On or before Closing, Purchaser shall obtain, or cause to be obtained in the name of Purchaser, replacements for such bonds, letters of credit and guarantees, and shall cause, effective as of the Closing, the cancellation or return to Sellers of the bonds, letters of credit and guarantees posted by Sellers and such Affiliates. Purchaser may also provide evidence that such replacements are not necessary as a result of existing bonds, letters of credit or guarantees that Purchaser has previously posted as long as such existing bonds, letters of credit or guarantees are adequate to secure the release of those posted by Sellers. Except for bonds, letters of credit and guarantees related primarily to the Excluded Assets, Schedule 13.5 identifies the bonds, letters of credit and guarantees posted by Sellers or any other Affiliate of the Companies or Subsidiaries (except the Companies and Subsidiaries) with respect to the E&P Business as of the date noted on such schedule.

Section 13.6 **Records**.

(a) Within ten (10) days after the Closing Date, Sellers shall deliver or cause to be delivered to Purchaser any Records that are in the possession of Sellers or its Affiliates (except the Subsidiaries that are not Wholly-Owned Subsidiaries), subject to Section 13.6(b).

(b) Sellers may retain the originals of those Records relating to Tax and accounting matters and provide Purchaser, at its request, with copies of such Records that pertain to (i) non-income Tax matters solely related to the Companies, the Subsidiaries or the Additional Assets; or (ii) if such Records are necessary for Purchaser to adequately prepare Tax Returns or to contest a Tax Audit pursuant to Article 9 with respect to any taxable period falling partly in the Pre-Closing Period and partly in the Post-Closing Period, with copies of such Records that are required by Purchaser for such Tax Records or Tax Audit. Sellers may retain copies of any other Records.

(c) Purchaser, for a period of seven (7) years following the Closing, (and subject to Purchaser's additional obligations under Section 9.4) shall:

(i) retain the Records,

(ii) provide Sellers, their Affiliates, and their respective officers, employees and representatives with access to the Records during normal business hours for review and copying at Sellers' expense and

(iii) provide Sellers, their Affiliates, and their respective officers, employees and representatives with access, during normal business hours, to materials received or produced after Closing relating to

(A) Sellers' obligations under Article 9 (including to prepare Tax Returns and to conduct negotiations with Tax Authorities), or

(B) any claim for indemnification made under Section 12.2 of this Agreement (excluding, however, attorney work product and attorney-client communications with respect to any such claim being brought by Purchaser under this Agreement)

for review and copying at Sellers' expense and to the Companies', the Wholly-Owned Subsidiaries' and their Affiliates' personnel for the purpose of discussing any such matter or claim.

(d) Sellers shall provide Purchaser, its Affiliates and their respective officers, employees and representatives with access, during normal business hours, to Excluded Records of the type described in Clauses (A) and (F) of Section 1.2(a)(xi) and Clause (D) of Section 1.2(j)(xi) for review and copying at Purchaser's expense, to the extent necessary for Purchaser and/or its Affiliates to defend any action, suit or proceeding before any Governmental Authority or arbitration or any investigation by any Governmental Authority, provided that Purchaser, its Affiliates and their respective officers, employees and representatives shall have no access to any such Excluded Records that are also excluded by virtue of Sections 1.2(a)(xi)(B), (C), (D) or (E) or Sections 1.2(j)(xi)(A), (B) or (C).

Section 13.7 **Name Change**. On the Closing Date, Purchaser shall make the filings required in each Company's and Wholly-Owned Subsidiary's jurisdiction of organization to eliminate the name "Dominion" and any variants thereof from the name of each Company and

Wholly-Owned Subsidiary. As promptly as practicable, but in any case within one hundred twenty (120) days after the Closing Date, Purchaser shall (i) make all other filings (including assumed name filings) required to reflect the change of name in all applicable records of Governmental Authorities and (ii) eliminate the use of the name "Dominion" and variants thereof from the Assets and the E&P Business, and, except with respect to such grace period for eliminating existing usage, shall have no right to use any logos, trademarks or trade names belonging to any Seller or any of its Affiliates. Purchaser shall be solely responsible for any direct or indirect costs or expenses resulting from the change in use of name, and any resulting notification or approval requirements.

Section 13.8 **Governing Law and Venue**. This Agreement and the legal relations between the Parties shall be governed by and construed in accordance with the laws of the State of Texas, without regard to principles of conflicts of laws that would direct the application of the laws of another jurisdiction.

Section 13.9 **Jurisdiction; Service of Process**. Each Party consents to personal jurisdiction in any action brought in the United States federal courts located in the State of Texas (or, if jurisdiction is not available in the United States federal courts located in the State of Texas, to personal jurisdiction in any action brought in the state and federal courts located in the State of Delaware) with respect to any dispute, claim or controversy arising out of or in relation to or in connection with this Agreement, and each of the Parties hereto agrees that any action instituted by it against the other with respect to any such dispute, controversy or claim (except to the extent a dispute, controversy, or claim arising out of or in relation to or in connection with the allocation of the Purchase Price pursuant to Section 2.2, the determination of a Title Defect Amount or Title Benefit Amount pursuant to Section 3.5(i), the determination of Purchase Price adjustments pursuant to Section 8.4(b) or the determination of an Adverse Environmental Condition pursuant to Section 12.2(g)(vi) is referred to an expert pursuant to those Sections) will be instituted exclusively in the United States District Court for the Southern District of Texas, Houston Division (or, if jurisdiction is not available in the United States District Court for the Southern District of Texas, Houston Division, then exclusively in the state or federal courts located in the State of Delaware). The Parties hereby waive trial by jury in any action, proceeding or counterclaim brought by any Party against another in any matter whatsoever arising out of or in relation to or in connection with this Agreement.

Section 13.10 **Captions**. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

Section 13.11 **Waivers**. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by the Party to whom compliance is owed and expressly identified as a waiver, but not in any other manner. No waiver of, or consent to a change in, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Section 13.12 **Assignment**. No Party shall assign or otherwise transfer all or any part of this Agreement, nor shall any Party delegate any of its rights or duties hereunder, without the prior written consent of the other Party and any transfer or delegation made without such consent shall be void; provided, however, Purchaser shall be entitled in accordance with Section 8.2 to assign its rights (but not its obligations) to purchase specific portions of the Interests under this Agreement to one or more directly or indirectly wholly-owned Affiliates of Purchaser that satisfy the requirements of Section 5.11 where applicable. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

Section 13.13 **Entire Agreement**. The Confidentiality Agreement, this Agreement and the documents to be executed hereunder and the Exhibits and Schedules attached hereto constitute the entire agreement among the Parties pertaining to the subject matter hereof, and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties pertaining to the subject matter hereof.

Section 13.14 **Amendment**. This Agreement may be amended or modified only by an agreement in writing signed by Sellers and Purchaser and expressly identified as an amendment or modification.

Section 13.15 **No Third-Person Beneficiaries**. Nothing in this Agreement shall entitle any Person other than Purchaser and Sellers to any claim, cause of action, remedy or right of any kind, except the rights expressly provided to the Persons described in Section 6.6 and Section 12.2(d).

Section 13.16 **Guarantees**. Simultaneously with execution of this Agreement, Sellers have caused DRI to deliver to Purchaser a guarantee for the performance of Sellers' obligations under this Agreement and any other agreements executed pursuant to this Agreement in substantially the form attached hereto as Exhibit "H" and Purchaser has caused Loews Corporation to deliver to Seller a guarantee for the performance of Purchaser's obligations under this Agreement and any other agreements executed pursuant to this Agreement in substantially the form attached hereto as Exhibit "I."

Section 13.17 **References**.

In this Agreement:

(a) References to any gender includes a reference to all other genders;

(b) References to the singular includes the plural, and vice versa;

(c) Reference to any Article or Section means an Article or Section of this Agreement;

(d) Reference to any Exhibit or Schedule means an Exhibit or Schedule to this Agreement, all of which are incorporated into and made a part of this Agreement;

(e) Unless expressly provided to the contrary, “hereunder”, “hereof”, “herein” and words of similar import are references to this Agreement as a whole and not any particular Section or other provision of this Agreement;

(f) References to “$” or “dollars” means United States dollars; and

(g) “Include” and “including” shall mean include or including without limiting the generality of the description preceding such term.

Section 13.18 **Construction**. Purchaser is capable of making such investigation, inspection, review and evaluation of the Assets as a prudent purchaser would deem appropriate under the circumstances, including with respect to all matters relating to the Assets, their value, operation and suitability. Each of Sellers and Purchaser has had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby. This Agreement is the result of arm’s-length negotiations from equal bargaining positions. It is expressly agreed that this Agreement shall not be construed against any Party, and no consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision thereof.

Section 13.19 **Limitation on Damages**. Notwithstanding anything to the contrary contained herein, except with respect to damages under Section 9.1(g) for loss of Tax benefits (or the incurrence of Taxes) attributable to failure to obtain a step-up in Tax basis, none of Purchaser, Sellers or any of their respective Affiliates shall be entitled to consequential, special or punitive damages in connection with this Agreement and the transactions contemplated hereby (other than consequential, special or punitive damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Purchaser and Sellers, for itself and on behalf of its Affiliates, hereby expressly waives any right to consequential, special or punitive damages in connection with this Agreement and the transactions contemplated hereby (other than consequential, special or punitive damages suffered by third Persons for which responsibility is allocated between the Parties).

IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties as of the date first above written.

SELLER:	DOMINION EXPLORATION & PRODUCTION, INC.
	Name: /s/
	Title:
SELLER:	DOMINION ENERGY, INC.
	Name: /s/
	Title:
SELLER:	DOMINION OKLAHOMA TEXAS EXPLORATION & PRODUCTION, INC.
	Name: /s/
	Title:
SELLER:	DOMINION RESERVES, INC.
	Name: /s/
	Title:
SELLER:	LDNG TEXAS HOLDINGS, LLC
	Name: /s/
	Title:
SELLER:	DEPI TEXAS HOLDINGS, LLC
	Name: /s/
	Title:
PURCHASER:	L O & G ACQUISITION CORP.
	Name: /s/
	Title:

Exhibit 10.2

FIRST AMENDMENT

TO

ALABAMA/MICHIGAN/PERMIAN PACKAGE

PURCHASE AGREEMENT

This First Amendment to Alabama/Michigan/Permian Package Purchase Agreement (this "First Amendment") is dated effective as of June 1, 2007, by and between Dominion Exploration & Production, Inc., a corporation organized under the Laws of Delaware ("DEPI"), Dominion Energy, Inc., a corporation organized under the Laws of Virginia ("DEI"), Dominion Oklahoma Texas Exploration & Production, Inc., a corporation organized under the Laws of Delaware ("DOTEPI"), Dominion Reserves, Inc., a corporation organized under Laws of Virginia ("Reserves"), LDNG Texas Holdings, LLC, a limited liability company organized under the laws of Oklahoma ("LDNG") and DEPI Texas Holdings, LLC, a limited liability company organized under the laws of Delaware ("DEPI Texas") (collectively "Sellers"), and HighMount Exploration & Production Holding Corp., a company formerly known as L O & G Acquisition Corp. and organized under the Laws of Delaware ("Purchaser"). Sellers and Purchaser are sometimes referred to collectively as the "Parties" and individually as a "Party."

RECITALS:

The Parties have entered into an Alabama/Michigan/Permian Package Purchase Agreement dated as of June 1, 2007 (the "Agreement"), providing for the sale by Sellers to Purchaser of the Shares and the Additional Assets.

The Parties desire to amend the Agreement to clarify the treatment of several matters, as set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meaning given to those terms in the Agreement.

2. Amendments. The Agreement is hereby amended as follows:

   a. On Schedule 8.4(D), the bank account information for Sellers is hereby replaced with the following:

      JP Morgan Chase Bank
      Account Holder: Dominion Resources, Inc.
      Account No. 144053865
      ABA No. 021-000-021

b. In Section 2.2 of Exhibit F, the form of DEPI/Purchaser Transition Services Agreement, the first sentence is rewritten to read as follows:

At all times during the performance of Purchaser Services by Purchaser, all persons performing such Purchaser Services who shall be in the employ and/or under the control of Purchaser, the Companies or their Affiliates (including agents, contractors, temporary employees and consultants) shall be independent from DEPI and not employees of DEPI and shall not be entitled to any payment, benefit or perquisite directly from DEPI on account of such Purchaser Services, provided, however, certain Company Onshore Employees and Managing Directors that accept employment and remain employed with Purchaser may participate in the Company's U.S. Benefit Plans to the extent such participation is permitted under the Dominion Pension Plan and the Dominion Retiree Health and Welfare Plan.

c. A new Section 2.7 is added in Exhibit F, the form of DEPI/Purchaser Transition Services Agreement, reading as follows:

Section 2.7 **Information to DEPI**. Within 30 days following the 180th day after the Closing Date, Purchaser shall provide DEPI notice of (i) all Company Onshore Employees and Managing Directors that have remained employed by Purchaser from the date of employment with Purchaser through the 180th day from Closing, measured from and including the Closing Date, and (ii) any Company Onshore Employees or Managing Directors who accepted employment with Purchaser pursuant to Section 10.2(a) or (b) of the Purchase Agreement but who were not employed by Purchaser for the entire 180 day period, measured from and including the Closing Date, together with an explanation as to whether their departure was voluntary, involuntary without cause, or involuntary with cause.

d. Schedule 3.4 is replaced in its entirety with the Schedule 3.4 attached to this First Amendment, and now includes allocations to Assets other than the Wells and Units which are the subject of DEPI's title representation in Article 3.

3. Ratification. Except as amended by this First Amendment, the Agreement remains in full force and effect in accordance with its terms.

4. Governing Law, Venue, Jurisdiction and Service of Process. Sections 13.8 and 13.9 of the Agreement are hereby incorporated into this First Amendment by reference as if set out in full herein.

5. Counterparts. This First Amendment may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement. Delivery of an executed counterpart signature page by facsimile is as

effective as executing and delivering this First Amendment in the presence of other Parties to this Agreement.

IN WITNESS WHEREOF, this First Amendment has been signed by each of the Parties as of the date first above written.

SELLER:	DOMINION EXPLORATION & PRODUCTION, INC. Name: /s/ Title:
SELLER:	DOMINION ENERGY, INC. Name: /s/ Title:
SELLER:	DOMINION OKLAHOMA TEXAS EXPLORATION & PRODUCTION, INC. Name: /s/ Title:
SELLER:	DOMINION RESERVES, INC. Name: /s/ Title:
SELLER:	LDNG TEXAS HOLDINGS, LLC Name: /s/ Title:
SELLER:	DEPI TEXAS HOLDINGS, LLC Name: /s/ Title:
PURCHASER:	HIGHMOUNT EXPLORATION & PRODUCTION HOLDING CORP. Name: /s/ Title:

I, James S. Tisch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Loews Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2007

By: /s/ James S. Tisch
JAMES S. TISCH
Chief Executive Officer

Exhibit 31.2

I, Peter W. Keegan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Loews Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2007

By: /s/Peter W. Keegan
PETER W. KEEGAN
Chief Financial Officer

Exhibit 32.1

Certification by the Chief Executive Officer
of Loews Corporation pursuant to 18 U.S.C. Section 1350
(as adopted by Section 906 of the
Sarbanes-Oxley Act of 2002)

Pursuant to 18 U.S.C. Section 1350, the undersigned chief executive officer of Loews Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2007

By: /s/ James S. Tisch
JAMES S. TISCH
Chief Executive Officer

Exhibit 32.2

Certification by the Chief Financial Officer
of Loews Corporation pursuant to 18 U.S.C. Section 1350
(as adopted by Section 906 of the
Sarbanes-Oxley Act of 2002)

Pursuant to 18 U.S.C. Section 1350, the undersigned chief financial officer of Loews Corporation (the “Company”) hereby certifies, to such officer’s knowledge, that the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 2007 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 1, 2007

By: /s/ Peter W. Keegan
PETER W. KEEGAN
Chief Financial Officer