

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 1995

OR

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

For the transition period from ----- to -----

Commission file number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

13-2646102

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification no.)

667 MADISON AVENUE, NEW YORK, N.Y. 10021-8087

(Address of principal executive offices) (Zip Code)

(212) 545-2000

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year,
if changed since last report)

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

Yes X No

Class

Outstanding at November 3, 1995

Common stock, \$1 par value

58,916,400 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in thousands of dollars)	September 30, 1995	December 31, 1994

Assets:		
Investments:		
Fixed maturities, amortized cost of \$26,940,404 and \$21,644,672	\$27,523,033	\$20,852,079
Equity securities, cost of \$807,231 and \$1,270,324	997,610	1,438,140
Mortgage loans and notes receivable	128,027	68,004
Policy loans	175,063	176,231
Other investments	482,143	104,210
Short-term investments	9,996,420	8,437,617
Total investments	39,302,296	31,076,281
Cash	258,892	160,557
Receivables	16,420,141	8,068,016
Inventories	194,183	244,394
Investments in associated companies	327,214	301,550
Property, plant and equipment-net	1,357,013	1,089,868
Deferred income taxes	1,555,368	1,679,172
Prepaid reinsurance premiums	567,264	175,146
Other assets	1,434,724	436,169
Deferred policy acquisition costs of insurance subsidiaries	1,478,235	1,024,561
Separate Account business	5,995,658	6,080,262
Total assets	\$68,890,988	\$50,335,976
=====		
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	\$41,133,822	\$28,933,767
Accounts payable and accrued liabilities	2,115,271	1,153,033
Payable for securities purchased	3,074,596	489,797
Securities sold under repurchase agreements	2,504,796	4,571,517
Long-term debt, less unamortized discount	4,242,110	2,144,394
Deferred credits and participating policyholders' equity	1,427,189	713,131
Separate Account business	5,995,658	6,080,262
Total liabilities	60,493,442	44,085,901
Minority interest	1,117,004	844,761
Shareholders' equity	7,280,542	5,405,314
Total liabilities and shareholders' equity .	\$68,890,988	\$50,335,976
=====		

See accompanying Notes to Consolidated Condensed Financial Statements.

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Consolidated Condensed Statements of Income

(Amounts in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1995	1994	1995	1994
Revenues:				
Insurance premiums:				
Property and casualty	\$2,427,861	\$1,759,281	\$ 6,374,962	\$ 5,086,484
Life	766,739	641,972	2,201,260	1,980,195
Investment income, net of expenses, principally of insurance subsidiaries	586,121	424,729	1,591,846	1,207,741
Realized investment gains (losses)	294,670	(17,915)	701,123	(245,518)
Manufactured products (including excise taxes of \$118,429, \$114,368, \$338,845 and \$324,350)	565,550	542,358	1,592,525	1,545,994
Other	318,641	194,879	720,435	568,905
Total	4,959,582	3,545,304	13,182,151	10,143,801
Expenses:				
Insurance claims and policyholders' benefits	2,959,023	2,324,656	7,988,886	7,011,510
Amortization of deferred policy acquisition costs	480,063	363,300	1,262,357	1,022,690
Cost of manufactured products sold	251,758	247,052	720,426	705,749
Selling, operating, advertising and administrative expenses	542,243	393,677	1,346,756	1,129,240
Interest	89,608	42,369	195,399	132,168
Total	4,322,695	3,371,054	11,513,824	10,001,357
	636,887	174,250	1,668,327	142,444
Income taxes (benefits)	223,074	30,126	551,591	(37,445)
Minority interest	27,408	9,909	96,097	(8,787)
Total	250,482	40,035	647,688	(46,232)
Net income	\$ 386,405	\$ 134,215	\$ 1,020,639	\$ 188,676
Net income per share	\$ 3.28	\$ 1.12	\$ 8.66	\$ 1.56
Cash dividends per share	\$.13	\$.13	\$.38	\$.38
Weighted average number of shares outstanding	117,833	119,891	117,836	121,177

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries Consolidated Condensed Statements of Cash Flows

(Amounts in thousands)	Nine Months Ended	
	September 30,	
	1995	1994
Operating Activities:		
Net income	\$ 1,020,639	\$ 188,676
Adjustments to reconcile net income to net cash provided by operating activities-net	(338,367)	163,456
Distribution of CBS equity earnings		86,382
Changes in assets and liabilities-net:		
Receivables	(1,062,796)	(360,685)
Inventories	50,211	13,565
Prepaid reinsurance premiums	57,883	(5,071)
Deferred policy acquisition costs	(147,573)	(49,166)
Insurance reserves and claims	756,914	1,316,938

Accounts payable and accrued liabilities	105,686	(137,606)
Other-net	264,998	26,259
	-----	-----
	707,595	1,242,748
	-----	-----
Investing Activities:		
Purchases of fixed maturities	(25,325,566)	(30,471,320)
Proceeds from sales of fixed maturities	23,346,595	22,115,211
Proceeds from maturities of fixed maturities ..	2,306,317	3,837,635
Change in securities sold under repurchase agreements	(2,066,720)	2,778,105
Purchases of equity securities	(805,739)	(838,293)
Proceeds from sales of equity securities	1,847,872	714,895
Purchase of The Continental Corporation, net of cash acquired	(960,400)	
Purchase of subsidiary shares		(35,450)
Return of investment from CBS tender offer		183,991
Change in short-term investments	240,279	894,364
Purchases of property, plant and equipment	(141,914)	(160,862)
Change in other investments	(111,966)	(21,437)
	-----	-----
	(1,671,242)	(1,003,161)
	-----	-----
Financing Activities:		
Dividends paid to shareholders	(44,186)	(45,494)
Purchases of treasury shares	(4,331)	(161,869)
Issuance of long-term debt	1,831,138	
Principal payments on long-term debt	(509,130)	(51,762)
Net decrease of short-term debt	(205,050)	
Receipts credited to policyholders	19,417	27,129
Withdrawals of policyholder account balances ..	(25,876)	(18,967)
	-----	-----
	1,061,982	(250,963)
	-----	-----
Net change in cash	98,335	(11,376)
Cash, beginning of period	160,557	155,703
	-----	-----
Cash, end of period	\$ 258,892	\$ 144,327
	=====	=====

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Notes to Consolidated Condensed Financial Statements

- Reference is made to Notes to Consolidated Financial Statements in the 1994 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.
- On May 10, 1995, CNA Financial Corporation ("CNA") acquired all the outstanding shares of The Continental Corporation ("CIC") for approximately \$1.1 billion or \$20 per CIC share. CIC is an insurance holding company principally engaged through subsidiaries in the business of property and casualty insurance.

The acquisition of CIC has been accounted for as a purchase, therefore CIC's operations are included in the Consolidated Condensed Financial Statements as of May 10, 1995. CNA has completed its preliminary purchase accounting analysis. The purchase of CIC currently reflects goodwill of approximately \$366 million which will be amortized over twenty years at an annual charge of \$18 million. Evaluation and appraisal of the net assets is continuing and allocation of the purchase price may be adjusted.

To finance the acquisition of CIC (including the refinancing of \$205 million of CIC debt) CNA entered into a five-year \$1.3 billion revolving credit facility (the "Bank Facility") involving 16 banks led by The First National Bank of Chicago and The Chase Manhattan Bank, N.A. The interest rate is based on the one, two, three or six month London Interbank Offered Rate ("LIBOR"), as elected, plus 25 basis points or other negotiated rates. Additionally, there is a facility fee of 10 basis points. Under the terms of the facility, CNA may prepay the debt without penalty.

To offset the variable rate characteristics of the facility, CNA entered into five year interest rate swap agreements with several banks. These agreements which terminate from May 2000 to July 2000 effectively convert variable rate debt based on three month LIBOR into fixed rate debt resulting in fixed rates on notional amounts aggregating \$950 million. The weighted average fixed swap rate at September 30, 1995 was 6.4%.

On August 10 1995, to take advantage of favorable interest rate spreads, CNA established a Commercial Paper Program, borrowing \$500 million from investors to reduce a like amount of bank financing. The weighted average yield on commercial paper at September 30, 1995 was 6.0%. The commercial paper borrowings are classified as long-term debt as \$500 million of the committed Bank Facility will support the commercial paper program (at an undrawn cost of 10 basis points). Standard and Poor's and Moody's issued short-term debt ratings of A2 and P2, respectively, for CNA's Commercial Paper Program.

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The pro forma consolidated condensed results of operations presented below assume the above transaction had occurred at the beginning of the periods presented:

	Three Months Ended September 30, 1995		Nine Months Ended September 30, 1995	
	1994		1994	

	(In thousands)			
Revenues	\$4,959,582	\$4,770,343	\$14,669,744	\$13,963,546
	=====			
Realized gains (losses) included in revenue	\$ 294,670	\$ (21,883)	\$ 821,192	\$ (224,084)
	=====			
Income (loss) before taxes and minority interest	\$ 636,887	\$ (428,353)	\$ 1,696,898	\$ (604,143)
Income tax (expense) benefit	(223,074)	224,411	(575,032)	325,694
Minority interest	(27,408)	47,728	(96,958)	85,947

Income (loss) from continuing operations	\$ 386,405	\$ (156,214)	\$ 1,024,908	\$ (192,502)
	=====			
Per share	\$ 3.28	\$ (1.30)	\$ 8.70	\$ (1.59)

The pro forma consolidated condensed financial information is not necessarily indicative either of the results of operations that would have occurred had these transactions been consummated at the beginning of the periods presented or of future operations of the combined companies.

3. The Company's inventories are comprised of the following:

	September 30, 1995	December 31, 1994

	(In thousands)	
Leaf tobacco	\$100,745	\$140,385
Manufactured stock	73,193	82,902
Materials, supplies, etc.	20,245	21,107

Total	\$194,183	\$244,394
	=====	

4. CNA assumes and cedes insurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, to provide greater diversification of risk and to minimize exposures on larger risks. The reinsurance coverages are tailored to the specific risk characteristics of each product line with CNA's retained amount varying by type of coverage.

The ceding of insurance does not discharge the primary liability of the original insurer. CNA places reinsurance with other carriers only after

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careful review of the nature of the contract and a thorough assessment of

the reinsurers' credit quality and claim settlement performance. Further, for carriers that are not authorized reinsurers in domiciliary states, CNA receives collateral primarily in the form of bank letters of credit, securing a large portion of the recoverables.

The effects of reinsurance on written premiums and earned premiums, in millions, are as follows:

Written Premiums--

Nine Months Ended September 30,								
1995				1994				
Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net	
<hr/>								
Contracts:								
Long Duration .	\$ 506.2	\$ 88.5	\$ 16.9	\$ 577.8	\$ 382.5	\$ 85.1	\$ 19.0	\$ 448.6
Short Duration	6,823.5	950.1	491.3	7,282.3	6,306.0	1,030.1	457.0	6,879.1
<hr/>								
Total	\$7,329.7	\$1,038.6	\$ 508.2	\$7,860.1	\$6,688.5	\$1,115.2	\$476.0	\$7,327.7
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Three Months Ended September 30,								
1995				1994				
Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net	
<hr/>								
Contracts:								
Long Duration .	\$ 173.9	\$ 28.0	\$ 6.4	\$ 195.5	\$ 122.7	\$ 27.2	\$ 7.0	\$ 142.9
Short Duration	2,301.1	377.9	190.4	2,488.6	2,121.4	302.2	143.1	2,280.5
<hr/>								
Total	\$2,475.0	\$ 405.9	\$ 196.8	\$2,684.1	\$2,244.1	\$ 329.4	\$150.1	\$2,423.4
<hr/>								

Earned Premiums--

Nine Months Ended September 30,								
1995				1994				
Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net	
<hr/>								
Contracts:								
Long Duration .	\$ 451.5	\$ 88.5	\$ 16.9	\$ 523.1	\$ 315.9	\$ 85.1	\$ 19.0	\$ 382.0
Short Duration	8,069.4	1,014.2	1,025.6	8,058.0	6,127.0	1,025.2	451.9	6,700.3
<hr/>								
Total	\$8,520.9	\$1,102.7	\$1,042.5	\$8,581.1	\$6,442.9	\$1,110.3	\$470.9	\$7,082.3
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Three Months Ended September 30,								
1995				1994				
Direct	Assumed	Ceded	Net	Direct	Assumed	Ceded	Net	
<hr/>								
Contracts:								
Long Duration .	\$ 156.5	\$ 28.0	\$ 6.4	\$ 178.1	\$ 92.7	\$ 27.2	\$ 7.0	\$ 112.9
Short Duration	3,176.8	378.4	537.1	3,018.1	2,130.7	316.2	153.3	2,293.6
<hr/>								
Total	\$3,333.3	\$ 406.4	\$ 543.5	\$3,196.2	\$2,223.4	\$ 343.4	\$160.3	\$2,406.5
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Insurance claims and policyholders' benefits are net of reinsurance recoveries of \$782.8, \$229.9, \$1,112.8 and \$489.7 million for the three and nine months ended September 30, 1995 and 1994, respectively.

(In thousands of dollars)

Preferred stock, \$.10 par value, Authorized--25,000,000 shares		
Common stock, \$1 par value: Authorized--200,000,000 shares		
Issued--117,929,800 and 58,964,900 shares	\$ 117,930	\$ 58,965
Additional paid-in capital	170,138	219,137
Earnings retained in the business	6,446,327	5,469,874
Unrealized appreciation (depreciation)	550,478	(322,700)
Pension liability adjustment		(19,962)
	-----	-----
Total	7,284,873	5,405,314
Less common stock (97,000 shares) held in treasury, at cost	4,331	
	-----	-----
Total	\$7,280,542	\$5,405,314
	=====	=====

6. Legal Proceedings and Contingent Liabilities-

Fibreboard Litigation

CNA's primary property and casualty subsidiary, Continental Casualty Company ("Casualty"), is party to litigation with Fibreboard Corporation ("Fibreboard") involving coverage for certain asbestos-related claims and defense costs (San Francisco Superior Court, Judicial Council Coordination Proceeding 1072). As described below, Casualty, Fibreboard, another insurer (Pacific Indemnity, a subsidiary of the Chubb Corporation), and a negotiating committee of asbestos claimant attorneys (collectively referred to as "Settling Parties") have reached a Global Settlement (the "Global Settlement") to resolve all future asbestos-related bodily injury claims involving Fibreboard. Casualty, Fibreboard and Pacific Indemnity have also reached an agreement (the "Trilateral Agreement"), which is subject to court approval, on a settlement to resolve the coverage litigation in the event the Global Settlement does not obtain final court approval. The implementation of the Global Settlement or the Trilateral Agreement would have the effect of settling Casualty's litigation with Fibreboard.

On July 27, 1995 the United States District Court for the Eastern District of Texas entered judgment approving the Global Settlement Agreement and the Trilateral Agreement. As expected, appeals have been filed as respects both of these decisions. Briefs will be filed with the United States Fifth Circuit Court of Appeals in New Orleans this fall. The Court has scheduled oral arguments for December 6 and 7, 1995.

Coverage Litigation--Between 1928 and 1971, Fibreboard manufactured insulation products containing asbestos. Since the 1970's, thousands of claims have been filed against Fibreboard by individuals claiming bodily injury as a result of asbestos exposure.

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Casualty insured Fibreboard under a comprehensive general liability policy between May 4, 1957 and March 15, 1959. Fibreboard disputed the coverage positions taken by its insurers and, in 1979, Fireman's Fund, another of Fibreboard's insurers, brought suit with respect to coverage for defense and indemnity costs. In January 1990, the San Francisco Superior Court (Judicial Council Coordination Proceeding 1072) rendered a decision against the insurers including Casualty and Pacific Indemnity. The court held that the insurers owed a duty to defend and indemnify Fibreboard for certain of the asbestos-related bodily injury claims asserted against Fibreboard (in the case of Casualty, for all claims involving exposure to Fibreboard's asbestos products if there was exposure to asbestos at any time prior to 1959 including years prior to 1957, regardless of when the claims were asserted or injuries manifested) and, although the policies had a \$500,000 per person limit and a \$1,000,000 per occurrence limit, they contained no aggregate limit of liability in relation to such claims. The judgment was appealed.

The Court of Appeal entered an opinion on November 15, 1993, as modified on December 13, 1993, which substantially affirmed the lower court's decisions on scope of coverage and trigger of coverage issues, as described below. The Court of Appeal withheld its ruling on the issues discrete to Casualty and Pacific Indemnity pending final court approval of

either the Global Settlement or the Trilateral Agreement described below. On January 27, 1994, the California Supreme Court granted a Petition for Review filed by several insurers, including Casualty, of, among other things, the trigger and scope of coverage issues. The order granting review has no effect on the Court of Appeal's order severing the issues unique to Casualty and Pacific Indemnity. On October 19, 1995 the California Supreme Court transferred the case back to the Court of Appeal with directions to vacate its decision and reconsider the case in light of the Supreme Court's decision in *Montrose Chemical Corp. v. Admiral Ins. Co.* (1995) 10 Cal.4th 645, where the Court adopted a continuous trigger in litigation over the duty to defend bodily injury and property damage due to exposure to D.D.T. Additional briefs will be filed in the Court of Appeal by November 20, 1995. Casualty cannot predict the time frame within which the issues before the California courts may be resolved. The appeal of issues such as trigger of coverage and scope of coverage are in process notwithstanding the pending proceedings to approve the Global and Trilateral Agreements. If neither the Global Settlement nor the Trilateral Agreement is finally approved, it is anticipated that Casualty and Pacific Indemnity will resume the appeal process of the issues discrete to them. Casualty's appeal of the coverage judgment raises many legal issues. Key issues on appeal under the policy are trigger of coverage, scope of coverage, dual coverage requirements and number of occurrences:

- . The trial court adopted a continuous trigger of coverage theory under which all insurance policies in effect at any time from first exposure to asbestos until the date of the claim filing or death are triggered. The Court of Appeal endorsed the continuous trigger theory, but modified the ruling to provide that policies are triggered by a claimant's first exposure to the policyholder's products, as opposed to the first exposure to any asbestos product. Therefore, an insurance policy is not triggered if a claimant's first exposure to the policyholder's product took place after the policy period. The court, however, placed the burden on the insurer to prove the claimant was not exposed to its policyholder's product before or during the policy period.

Casualty's position is that its policy is triggered under California law by manifestation of appreciable harm during the policy period. The bodily injury cannot be said to occur within the meaning of the policy

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until actual physical symptoms and associated functional impairment manifest themselves. Thus, Casualty's position is that there would be no coverage under Casualty's policy.

- . The scope of coverage decision imposed a form of "joint and several" liability that makes each triggered policy liable in whole for each covered claim, regardless of the length of the period the policy was in effect. This decision was affirmed by the Court of Appeal, but is now again before the Court due to the Supreme Court's transfer order. Casualty's position is that liability for asbestos claims should be shared not jointly, but severally and on a pro rata basis between the insurers and insured. Under this theory, Casualty would only be liable for that proportion of the bodily injury that occurred during the 22-month period its policy was in force.
- . Casualty maintains that both the occurrence and the injury resulting therefrom must happen during the policy period for the policy to be triggered. Consequently, if the court holds that the occurrence is exposure to asbestos, Casualty's position is that coverage under the Casualty policy is restricted to those who actually inhaled Fibreboard asbestos fibers and suffered injury from May 4, 1957 to March 15, 1959. The Court of Appeal withheld ruling on this issue, as noted above.
- . Casualty's policy had a \$1 million per occurrence limit. Casualty contends the number of occurrences under California law must be determined by the general cause of the injuries, not the number of claimants, and that the cause of the injury was the continuous manufacture and sale of the product. Because the manufacture and sale proceeded from two locations, Casualty maintains that there were only two occurrences and thus only \$2 million of coverage under the policy. However, the per occurrence limit was interpreted by the trial court to mean that each claim submitted by each individual constituted a separate occurrence. The Court of Appeal withheld ruling on this issue, as noted above.

Even if Casualty were successful on appeal on the dual coverage requirements or the number of occurrences, if the final decision in the coverage case affirms the trial court's decision on the existence of the

Pacific Indemnity policy, then Casualty would still have obligations under the Casualty and Pacific Indemnity Agreement described below.

Under various reinsurance agreements, Casualty has asserted a right to reimbursement for a portion of its potential exposure to Fibreboard. The reinsurers have disputed Casualty's right to reimbursement and have taken the position that any claim by Casualty is subject to arbitration under provisions in the reinsurance agreement. A Federal court has ruled that the dispute must be resolved by arbitration. There can be no assurance that Casualty will be successful in obtaining a significant recovery under its reinsurance agreements.

On April 9, 1993, Casualty and Fibreboard entered into an agreement pursuant to which, among other things, the parties agreed to use their best efforts to negotiate and finalize a global class action settlement with asbestos-related bodily injury and death claimants.

Through September 30, 1995, Casualty, Fibreboard and plaintiff attorneys had reached settlements with respect to approximately 137,500 claims, subject to resolution of the coverage issues, for an estimated settlement amount of approximately \$1.6 billion plus any applicable interest. If neither the Global Settlement nor the Trilateral Agreement receives final

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court approval, Casualty's obligation to pay under these settlements will be partially subject to the results of the pending appeal in the coverage litigation. Minimum amounts payable under all such agreements, regardless of the outcome of coverage litigation, may total as much as \$793 million, of which \$556 million had been paid through September 30, 1995. Casualty may negotiate other agreements with various classes of claimants including groups who may have previously reached agreement with Fibreboard.

Casualty will continue to pursue its appeals in the coverage litigation and all other litigation involving Fibreboard if the Global Settlement or the Trilateral Agreement cannot be implemented.

Global Settlement--On August 27, 1993, Casualty, Pacific Indemnity, Fibreboard and a negotiating committee of asbestos claimant attorneys reached an agreement in principle for an omnibus settlement to resolve all future asbestos-related bodily injury claims involving Fibreboard. The Global Settlement was executed on December 23, 1993. The agreement calls for contribution by Casualty and Pacific Indemnity of an aggregate of \$1.525 billion to a trust fund for a class of all future asbestos claimants, defined generally as those persons whose claims against Fibreboard were neither filed nor settled before August 27, 1993. An additional \$10 million is to be contributed to the fund by Fibreboard. The Global Settlement approval is subject to possible appeals. As noted below, there is limited precedent with settlements which determine the rights of future claimants to seek relief.

Subsequent to the announcement of the agreement in principle, Casualty, Fibreboard and Pacific Indemnity entered into the Trilateral Agreement which would, subject to court approval, settle the coverage case in the event the Global Settlement approval by the trial court is not upheld on appeal. In such case, Casualty and Pacific Indemnity would contribute to a settlement fund an aggregate of \$2 billion, less certain adjustments. Such fund would be devoted to the payment of Fibreboard's asbestos liabilities other than liabilities for claims settled before August 23, 1993. Casualty's share of such fund would be \$1.4 billion reduced by a portion of an additional payment of \$635 million which Pacific Indemnity has agreed to pay for unsettled present claims and previously settled claims. Casualty has agreed that if either the Global Settlement or the Trilateral Agreement is finally approved, it will assume responsibility for the claims that had been settled before August 27, 1993. The additional \$635 million to be contributed by Pacific Indemnity would be applied to the payment of such claims as well. As a part of the Global Settlement and the Trilateral Agreement, Casualty would be released by Fibreboard from any further liability under the comprehensive general liability policy written for Fibreboard by Casualty, including but not limited to liability for asbestos-related claims against Fibreboard. The Trilateral Agreement approval by the trial court is subject to possible appeal.

Casualty and Fibreboard have entered into a supplemental agreement (the "Supplemental Agreement") which governs the interim arrangements and obligations between the parties until such time as the trial court's approval of the Global Settlement is upheld on appeal and also governs certain obligations between the parties in the event the Global Settlement is upheld on appeal including the payment of claims which are not included in the Global Settlement.

In addition, Casualty and Pacific Indemnity have entered into an agreement (the "Casualty-Pacific Agreement") which sets forth the parties' agreement with respect to the means for allocating among themselves responsibility for payments arising out of the Fibreboard insurance policies whether or not the Global Settlement or the Trilateral Agreement is finally approved.

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Under the Casualty-Pacific Agreement, Casualty and Pacific Indemnity have agreed to pay 64.71% and 35.29%, respectively, of the \$1.525 billion plus expenses and interest accrued in escrow to be used to satisfy the claims of future claimants. If neither the Global Settlement nor the Trilateral Agreement is finally approved, Casualty and Pacific Indemnity would share, in the same percentages, most but not all liabilities and costs of either insurer including, but not limited to, liabilities for unsettled present claims and presently settled claims (regardless of whether either such insurer would otherwise have any liability therefor). If either the Trilateral Agreement or the Global Settlement is finally approved, Pacific Indemnity's share for unsettled present claims and presently settled claims will be \$635 million.

Reserves--In the fourth quarter of 1992, Casualty increased its reserve with respect to potential exposure to asbestos-related bodily injury cases by \$1.5 billion. In connection with the agreement in principle announced on August 27, 1993, Casualty added \$500 million to such claim reserve in the third quarter of 1993. The Fibreboard litigation represents the major portion of Casualty's asbestos-related claim exposure.

There are inherent uncertainties in establishing a reserve for complex litigation of this type. Courts have tended to impose joint and several liability, and because the number of manufacturers who remain potentially liable for asbestos-related injuries has diminished on account of bankruptcies, as has the potential number of insurers due to operation of policy limits, the liability of the remaining defendants is difficult to estimate. Further, a recent trend by courts to consolidate like cases into mass tort trials limits the discovery ability of insurers, generally does not allow for individual claim adjudication, restricts the identification of appropriate allocation methods and thereby results in an increasing likelihood for fraud and disproportionate and potentially excessive judgments. Additionally, management believes that recent court decisions would appear to be based on social or other considerations irrespective of the facts and legal issues involved.

The Global Settlement and the Trilateral Agreement approved by the trial court are subject to appeal. There is limited precedent with settlements which determine the rights of future claimants to seek relief. It is extremely difficult to assess the magnitude of Casualty's potential liability for such future claimants if neither the approval of the Global Settlement nor the Trilateral Agreement is upheld on appeal, keeping in mind that Casualty's potential liability is limited to persons exposed to asbestos prior to the termination of the policy in 1959.

Projections by experts of future trends differ widely, based upon different assumptions with respect to a host of complex variables. Some recently published studies, not specifically related to Fibreboard, conclude that the number of future asbestos-related bodily injury claims against asbestos manufacturers could be several times the number of claims brought to date. Such studies include claims asserted against asbestos manufacturers for all years, including claims filed or projected to be filed for exposure starting after 1959. As indicated above, as of September 30, 1995, Casualty, Fibreboard and plaintiff attorneys have reached settlements with respect to approximately 137,500 claims, subject to the resolution of coverage issues. Such amount does not include presently pending or unsettled claims, claims previously dismissed or claims settled pursuant to agreements to which Casualty is not a party.

Another aspect of the complexity in establishing a reserve arises from the widely disparate values that have been ascribed to claims by courts and in the context of settlements. Under the terms of a settlement reached with

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plaintiffs' counsel in August 1993, the expected settlement for approximately 49,500 claims for exposure to asbestos both prior to and after 1959 is currently averaging approximately \$13,300 per claim for the before 1959 claims processed through September 30, 1995. Based on reports by Fibreboard, between September 1988 and April 1993, Fibreboard resolved approximately 40,000 claims, approximately 45% of which involved no cost to Fibreboard other than defense costs, with the remaining claims involving the payment of approximately \$11,000 per claim. On the other hand, a trial court in Texas in 1990 rendered a verdict in which

Fibreboard's liability in respect of 2,300 claims was found to be approximately \$310,000 per claim including interest and punitive damages. Fibreboard entered into a settlement of such claims by means of an assignment of its potential proceeds from its policy with Casualty. Casualty intervened and settled these claims for approximately \$77,000 on average, with a portion of the payment contingent on final approval on appeal of the Global Settlement or the Trilateral Agreement, and if neither is finally approved, subject to resolution of the coverage appeal.

Casualty believes that as a result of the Global Settlement and the Trilateral Agreement it has greatly reduced the uncertainty of its exposure with respect to the Fibreboard matter. However, if neither the Global Settlement, nor the Trilateral Agreement is upheld on appeal, in light of the factors discussed herein the range of Casualty's potential liability cannot be meaningfully estimated and there can be no assurance that the reserves established would be sufficient to pay all amounts which ultimately could become payable in respect of asbestos-related bodily injury liabilities.

While it is possible that the ultimate outcome of this matter could have a material adverse impact on the equity of the Company, management does not believe that a further loss material to equity is probable. Management will continue to monitor the potential liabilities with respect to asbestos-related bodily injury claims and will make adjustments to the claim reserves if warranted.

Environmental Pollution and Asbestos

The CNA property/casualty insurance companies have potential exposures related to environmental pollution, asbestos-related and other toxic tort claims.

Environmental pollution clean-up is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to clean-up. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies.

The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of abandoned toxic waste sites and formalize the concept of legal liability for clean-up and restoration by "Responsible Parties" ("RP's"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish a mechanism to pay for clean-up of waste sites if RP's fail to do so, and to assign liability to RP's. The extent of liability to be allocated to an RP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. To date, approximately 1,300 clean-up sites have been identified by the Environmental Protection Agency ("EPA") on its National Priorities List. On the other hand, the Congressional Budget Office

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estimates that there will be 4,500 National Priority List sites, and other estimates project as many as 30,000 sites that will require clean-up under ECLs. Very few sites have been subject to clean-up to date. The extent of clean-up necessary and the assignment of liability has not been established.

CNA and the insurance industry are disputing many such claims. Key coverage issues include whether Superfund response costs are considered damages under the policies, trigger of coverage, applicability of pollution exclusions, the potential for joint and several liability and definition of an occurrence. Similar coverage issues exist for clean-up of waste sites not covered under Superfund. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties, however no reforms were enacted by Congress in 1994. The Superfund taxing authority will expire at the end of 1995 and will, therefore, need to be addressed by the 104th Congress. While Congress may address this issue, no predictions can be made as to what positions the Congress or the Administration will take and what legislation, if any, will result. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental clean-up may be materially reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental clean-up statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result.

Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to clean-up, and the standards for clean-up and liability, the exposure to CNA for environmental pollution claims cannot be meaningfully quantified. Claim and claim expense reserves represent management's estimates of ultimate liabilities based on currently available facts and law. However, in addition to the uncertainties previously discussed, additional issues related to, among other things, specific policy provisions, multiple insurers and allocation of liability among insurers, consequences of conduct by the insured, missing policies and proof of coverage make quantification of liabilities exceptionally difficult and subject to later adjustment based on new data. As of September 30, 1995 and December 31, 1994, CNA carried approximately \$986 and \$509 million, respectively, of claim and claim expense reserves, before reinsurance recoverable, for reported and unreported environmental pollution claims. Included in the September 30, 1995 reserves are \$380 million related to CIC, whose financial results are included in the accompanying financial statements for the period May 10, 1995 through September 30, 1995. Unfavorable reserve development for the nine months ended September 30, 1995 and the year ended December 31, 1994 totaled \$145 and \$180 million, respectively. The foregoing reserve information includes claims for accident years 1988 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form which included an absolute pollution exclusion.

CNA has exposure to asbestos-related claims, including those attributable to Fibreboard, and other toxic tort claims. Estimation of asbestos-related and other toxic tort claim reserves encounter many of the same limitations discussed above for environmental pollution claims such as inconsistency of court decisions, specific policy provisions, multiple insurers and allocation of liability among insurers, missing policies and proof of coverage. As of September 30, 1995 and December 31, 1994, CNA carried approximately \$2,305 and \$2,049 million, respectively, of claim and claim expense reserves, before reinsurance recoverable, for reported and

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unreported asbestos-related and other toxic tort claims. Included in the September 30, 1995 reserves are \$319 million related to CIC, whose financial results are included in the accompanying financial statements for the period May 10, 1995 through September 30, 1995. Unfavorable reserve development for the nine months ended September 30, 1995 and the year ended December 31, 1994 totaled \$105 and \$37 million, respectively.

The results of operations in future years may continue to be adversely affected by environmental pollution claim and claim expenses. Management will continue to monitor potential liabilities and make further adjustments as warranted.

The following table summarizes the reserves for environmental pollution, asbestos-related and other toxic tort claims.

	September 30, 1995	December 31, 1994
	-----	-----
	(In thousands)	
Environmental pollution	\$ 986,000	\$ 509,000
Asbestos and other toxic tort including Fibreboard	2,305,000	2,049,000
	-----	-----
	3,291,000	2,558,000
Reinsurance recoverable	(161,000)	(113,000)
	-----	-----
Net reserves	\$3,130,000	\$2,445,000
	=====	=====

Tobacco Litigation -----

A number of lawsuits have been filed against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes or exposure to tobacco smoke. Plaintiffs have asserted claims

based on, among other things, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability, civil conspiracy, intentional infliction of harm, and failure to warn of the allegedly harmful and/or addictive nature of tobacco products. Plaintiffs seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as \$100 million in compensatory damages and \$600 million in punitive damages. As of October 31, 1995, 106 such cases were pending in the United States federal and state courts against manufacturers of tobacco products generally; Lorillard is a named defendant in 39 of these cases and the Company is a defendant in two of these cases.

In addition to cases brought by individuals, five purported class actions are pending against Lorillard and other cigarette manufacturers, and the Company is a defendant in one of these cases. Plaintiffs in four of the purported class actions seek damages for alleged nicotine addiction and health effects claimed to have resulted from the use of cigarettes, and plaintiffs in one of the purported class actions allege health effects

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from exposure to tobacco smoke. Theories of liability include a broad range of product liability theories, theories based upon consumer protection statutes and fraud and misrepresentation. These purported class actions are more fully described below.

In *Broin v. Philip Morris Companies, Inc., et al.* (Circuit Court, Dade County, Florida, filed October 31, 1991), the purported class consists of flight attendants claiming injury as a result of exposure to environmental tobacco smoke in the cabins of aircraft. Plaintiffs seek an unspecified amount in compensatory damages and \$5 billion in punitive damages. The trial court granted plaintiffs' motion for class certification on December 12, 1994. Defendants have appealed this ruling to the Florida Court of Appeal.

In *Castano v. The American Tobacco Company, et al.* (U.S. District Court, Eastern District, Louisiana, filed March 29, 1994), the purported class consists of individuals in the United States who are allegedly nicotine dependent and the estates and heirs of individuals in the United States who were allegedly nicotine dependent. Plaintiffs in this action are represented by a well-funded and coordinated consortium of over 60 law firms from around the United States. Plaintiffs seek unspecified amounts in actual damages and punitive damages. The court issued an order on February 17, 1995 that granted in part plaintiffs' motion for class certification. The United States Court of Appeals for the Fifth Circuit granted defendants' motion for leave to file an interlocutory appeal from this order, and defendant's appeal is pending.

In *Granier v. The American Tobacco Company, et al.* (U.S. District Court, Eastern District, Louisiana, filed September 26, 1994), plaintiffs seek certification of a class to be comprised of all residents of the United States who are addicted to nicotine, and of survivors who claim their decedents were addicted to nicotine. Plaintiffs seek unspecified dollar amounts in actual damages and punitive damages and the creation of a medical monitoring fund to monitor the health of individuals allegedly injured by their addiction to nicotine. Plaintiffs' motion to consolidate this action with *Castano*, above, has not been decided by the court.

In *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994), the purported class consists of citizens and residents of the United States, and the purported survivors of citizens and residents of the United States, who have had, presently have, or have died from, diseases and medical conditions allegedly caused by smoking cigarettes containing nicotine. Plaintiffs in this case seek actual and punitive damages in excess of \$100 billion each, and the creation of a medical fund to compensate individuals for future health care costs. Plaintiffs' motion for class certification was granted by the court on October 31, 1994. Defendants have appealed this ruling to the Florida Court of Appeal.

In the fifth purported class action, *Lacey v. Lorillard Tobacco Company, et al.* (U.S. District Court, Northern District, Alabama, filed March 15, 1994), plaintiff alleges that the defendants, Lorillard and two other cigarette manufacturers, did not disclose to the plaintiff or other cigarette smokers in the State of Alabama the nature, type, extent and identity of additives, additions, or additional substances that the defendants allegedly caused or allowed to be made a part of cigarettes or cigarette components. Plaintiff requests injunctive relief requiring defendants to list the additives, additions or additional substances that defendants have caused or allowed to be placed onto or within cigarettes or cigarette components manufactured for sale and sold in the State of

claim and on behalf of each member of the purported class arising out of the complaint's allegation not to exceed \$48,500 for the individual claim or for any individual member of the class.

In addition to the foregoing cases, four actions have been initiated in which states or state agencies seek recovery of funds expended by the states or state agencies to provide health care to eligible citizens with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims including indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Lorillard is named as a defendant in each of these four state or state agency actions and the Company is named as a defendant in two of them.

The case of *Moore v. The American Tobacco Company, et al.* (Chancery Court, Jackson County, Mississippi, filed May 23, 1994), was filed by the Attorney General of Mississippi. The case of *McGraw v. The American Tobacco Company, et al.* (Circuit Court, Kanawha County, West Virginia, filed on September 20, 1994), was filed by the Attorney General of West Virginia. The case of *State of Minnesota v. Philip Morris Incorporated, et al.* (District Court, Ramsey County, Minnesota, filed August 17, 1994), was filed by the Attorney General of Minnesota and Blue Cross and Blue Shield of Minnesota. In the case of *McGraw v. The American Tobacco Company, et al.*, the court entered an order during June 1995 that granted defendants' motion to dismiss eight of the ten counts of the complaint. The motion to dismiss was not directed to plaintiff's two remaining claims of antitrust and consumer fraud. At plaintiff's request, the court has entered final judgment as to the dismissed claims to enable plaintiff to seek an appeal. In the case of *State of Minnesota v. Philip Morris Incorporated, et al.*, the Minnesota Supreme Court has agreed to hear defendants' appeal contending that plaintiff Blue Cross and Blue Shield of Minnesota lacks standing to assert claims and to seek damages from the defendants. Plaintiff Blue Cross and Blue Shield of Minnesota seeks damages from the defendants on its own behalf as a purchaser of health care services, and on behalf of its fully insured groups with whom it has contracts, who have allegedly been required to pay increased premiums for health insurance.

The case of *The State of Florida, et al. v. The American Tobacco Company, et al.* (Circuit Court, Palm Beach County, Florida, filed February 22, 1995), was filed by the State of Florida, the Governor of Florida, and two state agencies. Plaintiffs in this case seek reimbursement under a specific Florida statute that permits the state to sue a manufacturer to recover Medicaid costs incurred by the state that are claimed to result from the use of the manufacturer's product. In any such suit, the statute permits causation and damages to be proven by statistical analysis, abrogates all affirmative defenses, adopts a "market share" liability theory, applies joint and several liability and eliminates the statute of repose. An action for declaratory judgment has been commenced in Florida state court by companies and trade associations in several potentially affected industries challenging this statute. In June 1995, a ruling was issued by a Florida state court that granted in part this motion for declaratory judgment. The ruling declared that certain portions of the statute on which the lawsuit against cigarette companies was based violated the constitution of the State of Florida. The defendants in the declaratory judgment action have noticed an appeal of the June 1995 order to the Florida Court of Appeal. Plaintiffs have noticed a cross-appeal. The appeals have been certified to the Florida Supreme Court, which heard argument in the appeals on November 6, 1995. The Florida legislature has passed legislation repealing the statute on which the lawsuit against the cigarette companies is based, but the Governor of the State of Florida has

signed a veto of the legislation repealing the statute. It is impossible at this time to predict whether the Florida legislature will take further action to repeal the statute on which the lawsuit against the cigarette companies is based. Lorillard understands that several other states, and the Congress, have considered or are considering legislation similar to that passed in Florida.

In a fifth state, Massachusetts, the Governor on July 10, 1994 signed legislation authorizing that state's attorney general to bring an action against tobacco manufacturers to recover medical assistance payments for which such companies may be liable under existing law. No action has been brought to date by the State of Massachusetts.

The states pursuing the foregoing efforts are doing so at the urging and with the assistance of well known members of the plaintiffs bar and these lawyers have been meeting with attorneys general in other states to encourage them to file similar suits.

In addition to the foregoing cases, one pending case, Cordova v. Liggett Group, Inc., et al. (Superior Court San Diego County, California, filed May 12, 1992), alleges that Lorillard and other named defendants, including other manufacturers of tobacco products, engaged in unfair and fraudulent business practices in connection with activities relating to the Council for Tobacco Research-USA, Inc., of which Lorillard is a sponsor, in violation of a California state consumer protection law by misrepresenting to or concealing from the public information concerning the health aspects of smoking. Plaintiff seeks an injunction ordering defendants to undertake a "corrective advertising campaign" in California to warn consumers of the health hazards associated with smoking, to provide restitution to the public for funds "unlawfully, unfairly, or fraudulently" obtained by defendants, and to "disgorge" all revenues and profits acquired as a result of defendants' "unlawful, unfair and/or fraudulent business practices." An adverse development in this case could encourage the filing of additional actions in other states with consumer protection laws similar to California's.

In addition to the foregoing cases, several cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, almost forty years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. As of October 31, 1995, 13 such cases were pending in federal and state courts against Lorillard. The Company is not named as a defendant in any of these cases. Allegations of liability against Lorillard include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as \$10 million in compensatory damages and \$100 million in punitive damages. Trials were held in two of these cases during 1995 and a trial in a third case is currently in progress. In one of the cases, the jury returned a verdict in favor of Lorillard. In the second case, the jury returned a verdict in favor of plaintiffs and awarded a total of \$2,000,000 in actual damages and punitive damages. The verdict requires Lorillard to pay an amount between \$1,750,000 and \$2,000,000. The precise amount to be paid by Lorillard will be determined at a later date if the verdict withstands review by the trial court and by appellate courts. Lorillard has filed with the trial court a motion for judgment notwithstanding the verdict and for a new trial. Lorillard intends to notice an appeal from the judgment in plaintiffs' favor if the motion for judgment notwithstanding the verdict and for a new trial is not successful. Lorillard is unable to predict the

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outcome of the motion for judgment notwithstanding the verdict and for a new trial. Lorillard also is unable to predict the outcome of any forthcoming appeal.

One of the defenses raised by Lorillard in certain cases is preemption by the Federal Cigarette Labeling and Advertising Act (the "Labeling Act"). In the case of Cipollone v. Liggett Group, Inc., et al., the United States Supreme Court, in a plurality opinion issued on June 24, 1992, held that the Labeling Act as enacted in 1965 does not preempt common law damage claims but that the Labeling Act, as amended in 1969, does preempt claims against tobacco companies arising after July 1, 1969, which assert that the tobacco companies failed to adequately warn of the alleged health risks of cigarettes, sought to undermine or neutralize the Labeling Act's mandatory health warnings, or concealed material facts concerning the health effects of smoking in their advertising and promotion of cigarettes. The Supreme Court held that claims against tobacco companies based on fraudulent misrepresentation, breach of express warranty, or conspiracy to misrepresent material facts concerning the alleged health effects of smoking are not preempted by the Labeling Act. The Supreme Court in so holding did not consider whether such common law damage actions were valid under state law. The effect of the Supreme Court's decision on pending and future cases against Lorillard and other tobacco companies will likely be the subject of further legal proceedings. Additional litigation involving claims such as those held to be preempted by the Supreme Court in Cipollone could be encouraged if legislative proposals to eliminate the federal preemption defense, pending in Congress since 1991, are enacted. It is not possible to predict whether any such legislation will be enacted.

In addition to the defenses based on preemption under the Supreme Court

decision referred to above, Lorillard believes that it has a number of other valid defenses to pending cases. These defenses, where applicable, include, among others, statutes of limitations or repose, assumption of the risk, comparative fault, the lack of proximate causation, and the lack of any defect in the product alleged by a plaintiff. Lorillard believes, and has been so advised by counsel, that some or all of these defenses may, in any of the pending or anticipated cases, be found by a jury or court to bar recovery by a plaintiff. Application of valid defenses, including those of preemption, are likely to be the subject of further legal proceedings in the class action cases and in the actions brought by states or state agencies.

Smoking and health related litigation has been brought by plaintiffs against Lorillard and other manufacturers of tobacco products for many years. While Lorillard intends to defend vigorously all such actions which may be brought against it, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties, and it is possible that some of these actions could be decided unfavorably. An unfavorable outcome of a pending smoking and health case could encourage the commencement of additional similar litigation.

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. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period or its financial position could be materially affected by an ultimately unfavorable outcome of certain pending litigation. Management believes, however, that the ultimate outcome of pending litigation should not have a material adverse effect on the Company's financial position.

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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.

7. The Company's receivables are comprised of the following:

	September 30, 1995	December 31, 1994

	(In thousands)	
Reinsurance	\$ 7,454,034	\$3,754,980
Other insurance	5,785,885	3,294,142
Security sales	2,593,616	376,932
Federal income taxes	64,171	166,782
Other	745,538	615,185

Total	16,643,244	8,208,021
Less allowance for doubtful accounts and cash discounts	223,103	140,005

Receivables-net	\$16,420,141	\$8,068,016
	=====	

8. On August 1, 1995 CBS Inc. ("CBS") entered into an Agreement and Plan of Merger with Westinghouse Electric Corporation ("WEC") and a subsidiary of WEC (the "Subsidiary") pursuant to which the Subsidiary would be merged with CBS and each share of common stock of CBS would be exchanged for cash consideration of \$81 per share plus interest thereon at the rate of 6% per annum from August 31, 1995. The Company has entered into an agreement dated August 1, 1995 with WEC pursuant to which the Company agreed to vote its shares of common stock of CBS in favor of the proposed merger. In addition to approval by the shareholders of CBS (a special meeting of CBS's shareholders is scheduled for November 16, 1995), consummation of the merger is subject to various regulatory approvals. Upon consummation of the merger, the Company would realize gross proceeds of approximately \$890 million (without giving effect to any possible increase based on the interest adjustment referred to above). Based on the carrying value of CBS at September 30, 1995, the Company would recognize a pre-tax gain of approximately \$568 million. The actual gain recognized upon consummation of the merger will vary based on the actual proceeds received as well as

any additional undistributed earnings recognized by the Company.

9. 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 September 30, 1995 and December 31, 1994 and the results of operations for the three and nine months and the changes in its cash flows for the nine months ended September 30, 1995 and 1994, respectively.

Results of operations for the third quarter and first nine months of each of the years is not necessarily indicative of results of operations for that entire year.

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10. Subsequent Events-

In October 1995 the Company's subsidiary, Diamond Offshore Drilling, Inc. ("Diamond Offshore"), sold 14,950,000 shares of its common stock through an initial public offering at \$24 per share. Diamond Offshore used the net proceeds of approximately \$338 million to fund the repayment of its intercompany debt as well as a dividend to the Company. As a result of the offering, the Company's ownership interest in Diamond Offshore declined to approximately 70.1% and the Company will record a pre-tax gain of approximately \$195 million in the fourth quarter of 1995.

On October 17, 1995, the Board of Directors declared a two-for-one stock split, by way of a stock dividend, distributable December 1, 1995, to holders of record on November 3, 1995. All per share amounts included in Parts I and II have been restated to reflect the stock split.

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

Liquidity and Capital Resources:

Insurance

Property and casualty and life insurance operations are wholly owned subsidiaries of CNA Financial Corporation ("CNA"). CNA is an 84% owned subsidiary of the Company--

Acquisition of The Continental Corporation ("CIC")

As previously reported, on May 10, 1995, CNA consummated the acquisition of all the outstanding shares of CIC for approximately \$1.1 billion or \$20 per CIC share. As a result of the acquisition, CNA is the sixth largest U.S. insurance organization, the third largest U.S. property-casualty organization and the largest U.S. commercial lines insurance group, based on 1994 premium volume.

CNA has financed the transaction (including the refinancing of \$205 million of CIC debt) through a five-year \$1.3 billion revolving credit facility (the "Bank Facility") involving 16 banks led by The First National Bank of Chicago and The Chase Manhattan Bank, N.A. The interest rate is based on the one, two, three or six month London Interbank Offered Rate ("LIBOR"), as elected, plus 25 basis points or other negotiated rates. Additionally, there is a facility fee of 10 basis points. Under the terms of the facility, CNA may prepay the debt without penalty, giving CNA flexibility to arrange longer-term financing on more favorable terms.

To offset the variable rate characteristics of the facility, CNA entered into five year interest rate swap agreements with several banks. These agreements which terminate from May 2000 to July 2000 effectively convert variable rate debt based on three month LIBOR into fixed rate debt resulting in fixed rates on notional amounts aggregating \$950 million. The weighted average fixed swap rate at September 30, 1995 was 6.4%.

On August 10 1995, to take advantage of favorable interest rate spreads, CNA established a Commercial Paper Program, borrowing \$500 million from investors to reduce a like amount of bank financing. The weighted average yield on commercial paper at September 30, 1995 was 6.0%. The commercial paper borrowings are classified as long-term debt as \$500 million of the committed Bank Facility will support the commercial paper program (at an undrawn cost of 10 basis points). Standard and Poor's and Moody's issued short-term debt ratings of A2 and P2, respectively, for CNA's Commercial Paper Program.

CNA has completed its preliminary purchase accounting analysis and the Company filed pro forma financial information with the Securities and Exchange Commission on July 24, 1995 on Form 8-K/A. Evaluation and appraisal of the net assets is continuing and allocation of the purchase price may be adjusted. The purchase adjustments resulted in goodwill of approximately \$366 million that will be amortized over twenty years at an annual charge of \$18 million.

As a result of the CIC acquisition, A.M. Best, Moody's, Standard and Poor's and Duff & Phelps issued revised ratings for CNA's Continental Casualty Company ("CCC") Intercompany Pool, Continental Insurance Company ("CIC") Intercompany Pool and Continental Assurance Company ("CAC") Intercompany Pool. Also rated were the senior debt of both CNA and CIC and CNA's preferred stock. In some

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cases the rating agencies affirmed the previous ratings. In others, the ratings were lowered because of the increased level of debt associated with the CIC acquisition.

The chart below lists the current ratings:

	Insurance Ratings			Debt And Stock Ratings			
	CNA		CIC	CNA			CIC
	CCC	CAC		Senior Debt	Commercial Paper	Preferred Stock	Senior Debt
	Financial Strength						
A.M. Best	A	A	A-	-	-	-	-
Moody's	A1	A1	A2	A3	P2	a3	Baa1
	Claims Paying Ability						
Standard & Poor's	A+	AA	A-	A-	A2	A-	BBB-
Duff & Phelps	AA-	AA	-	A-	-	A-	-
General							

CNA and the insurance industry are exposed to an unknown amount of liability for environmental pollution, primarily related to toxic waste site clean-up. See Note 6 of the Notes to Consolidated Condensed Financial Statements for a further discussion of environmental pollution exposures.

The liquidity requirements of CNA, excluding the acquisition of CIC, have been met primarily by funds generated from operations. The principal operating cash flow sources of CNA's property and casualty and life insurance subsidiaries are premiums and investment income. The primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the first nine months of 1995, CNA's operating activities generated net cash flows of \$409 million, compared to \$745 million for the same period in 1994. The decrease in cash flows is due primarily to CIC activities, namely the impact in 1995 from the 1994 sale of \$408 million in receivables and increased claim payments. Net cash flows are invested in marketable securities. Investment strategies employed by CNA's insurance subsidiaries consider the cash flow requirements of the insurance products sold and the tax attributes of the various types of marketable investments.

The statutory surplus of the property/casualty subsidiaries amounts to \$5.6 billion, including \$1.7 billion for CIC's insurance subsidiaries, compared to a pro forma combined \$4.8 billion at December 31, 1994. The increase, excluding that caused by the addition of CIC, resulted primarily from net income. The statutory surplus of the life insurance subsidiaries is approximately \$1.1 billion.

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Cigarettes

Lorillard, Inc. and subsidiaries ("Lorillard")--

Lorillard continues to be negatively impacted by the August 1993 industry wide price reduction of approximately 25%. While the price reduction has slowed the rapid growth of discount cigarettes, unit sales volume gains have not compensated for the reduced selling prices. Virtually all of Lorillard's sales are in the premium priced segment. In May 1995, Lorillard increased its wholesale prices by \$1.50 per thousand cigarettes, or 2.7%.

A number of lawsuits have been filed against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from the use of cigarettes or exposure to tobacco smoke. In several of these cases the Company is named as a defendant. Pending litigation includes actions commenced by individuals, purported class actions and actions brought by state governments, most of which claim very substantial damages. These actions are described in Note 6 of the Notes to Consolidated Condensed Financial Statements.

On August 10, 1995, President Clinton announced that he had authorized the Food and Drug Administration ("FDA") to assert regulatory jurisdiction over cigarettes and smokeless tobacco products for the purpose of curbing smoking among children and teenagers. On August 11, the FDA issued a notice of proposed rulemaking. Among other things, the FDA's proposed rules would severely restrict cigarette advertising and promotion, limit the manner in which tobacco products can be sold and require cigarette manufacturers to finance antismoking education programs. Comment on the FDA's proposed regulations must be filed on or before January 2, 1996.

Lorillard and four other cigarette manufacturers have filed a lawsuit in the United States District Court for the Middle District of North Carolina challenging the FDA's assertion of jurisdiction over cigarettes and seeking both preliminary and permanent injunctive relief. The complaint in the case, Coyne Beahm, Inc., et al. v. United States Food & Drug Administration, et al., asserts that the FDA lacks authority to regulate cigarettes and that the proposed rules violate the Federal Food, Drug and Cosmetic Act, the Federal Cigarette Labeling and Advertising Act and the United States Constitution. Lawsuits challenging the FDA's rulemaking also have been filed in the same court by several smokeless tobacco manufacturers, several national advertising trade associations and the National Association of Convenience Stores.

The cigarette manufacturers and smokeless tobacco manufacturers have moved for summary judgment, and the government has moved to dismiss the complaints. The government has asked the court to stay briefing on the summary judgment motions until it has ruled on the government's motions to dismiss.

Lorillard is assessing the impact, if any, of the FDA's proposed rules. In addition, it is uncertain whether the proposed regulations will be modified before they are promulgated in final form, whether Congress will pass legislation that would moot the proposed regulations and whether the manufacturers will succeed in securing judicial relief. Accordingly, the impact, if any, of the FDA's proposed regulations on Lorillard cannot be predicted at this time.

Corporate
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On October 17, 1995, the Board of Directors declared a two-for-one stock split, by way of a stock dividend, distributable December 1, 1995, to holders of

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record on November 3, 1995. In addition, the Board declared a quarterly dividend of \$.25 per common share, on the post-split shares, effectively doubling the Company's annual dividend rate.

In October 1995 the Company's subsidiary, Diamond Offshore Drilling, Inc. ("Diamond Offshore"), sold 14,950,000 shares of its common stock through an initial public offering at \$24 per share. Diamond Offshore used the net proceeds of approximately \$338 million to fund the repayment of its intercompany debt as well as a dividend to the Company. As a result of the offering, the Company's ownership interest in Diamond Offshore declined to approximately 70.1% and the Company will record a pre-tax gain of approximately \$195 million in the fourth quarter of 1995.

On August 1, 1995 CBS Inc. ("CBS") entered into an Agreement and Plan of Merger with Westinghouse Electric Corporation ("WEC") and a subsidiary of WEC (the "Subsidiary") pursuant to which the Subsidiary would be merged with CBS and each share of common stock of CBS would be exchanged for cash consideration of \$81 per share plus interest thereon at the rate of 6% per annum from August 31, 1995. The Company has entered into an agreement dated August 1, 1995 with WEC pursuant to which the Company agreed to vote its shares of common stock of CBS in favor of the proposed merger. In addition to approval by the shareholders of

CBS (a special meeting of CBS's shareholders is scheduled for November 16, 1995), consummation of the merger is subject to various regulatory approvals. Upon consummation of the merger, the Company would realize gross proceeds of approximately \$890 million (without giving effect to any possible increase based on the interest adjustment referred to above). Based on the carrying value of CBS at September 30, 1995, the Company would recognize a pre-tax gain of approximately \$568 million. The actual gain recognized upon consummation of the merger will vary based on the actual proceeds received as well as any additional undistributed earnings recognized by the Company.

In the first quarter of 1995 the Company purchased 97,000 shares of its outstanding Common Stock (on a post-split basis) at an aggregate cost of approximately \$4.3 million. The funds required for such purchases were provided from working capital. Depending on market conditions, the Company, from time to time, purchases shares in the open market or otherwise.

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Investments:

Insurance

A summary of CNA's general account fixed income securities portfolio and short-term investments are as follows:

	September 30, 1995	December 31, 1994	Change in Unrealized Gains

	(In millions)		
Fixed income securities:			
U.S. Treasury securities and obligations of government agencies ..	\$12,501	\$10,782	\$ 839
Asset-backed securities	4,955	2,564	196
Tax exempt securities	3,419	3,770	47
Taxable	6,630	3,712	293

Total fixed income securities ...	27,505	20,828	1,375
Stocks	743	755	123
Short-term and other investments.....	8,442	5,360	

Total	\$36,690	\$26,943	\$1,498
	=====		

	September 30, 1995	December 31, 1994

	(In millions)	
Short-term investments:		
Security repurchase collateral	\$ 2,508	\$ 2,479
Escrow	1,035	1,010
Others	4,134	1,547
Other investments	765	324

Total short-term and other investments	\$ 8,442	\$ 5,360
	=====	

CNA's investment portfolio increased by \$9.7 billion from December 31, 1994 to September 30, 1995. This increase includes \$7.4 billion related to the acquisition of CIC.

CNA's general account investment portfolio is managed to maximize after tax investment return, while minimizing credit risks, with investments concentrated in high quality securities to support its insurance underwriting operations.

CNA has the capacity to hold its fixed income portfolio to maturity. However, securities may be sold as part of CNA's asset/liability strategies or to take advantage of investment opportunities generated by changing interest rates,

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prepayments, tax and credit considerations, or other similar factors. Accordingly, fixed income securities are classified as available for sale.

CNA holds a small amount of derivative financial instruments for purposes of enhancing income and total return. The derivative securities are marked-to-market and reported as realized investment gains and losses. CNA's investment in, and risk in relation to, derivative securities is not significant.

The general account portfolio consists primarily of high quality marketable debt securities, approximately 94% of which are rated as investment grade. At September 30, 1995, short-term investments excluding collateral for securities sold under repurchase agreements, comprised approximately 14% of the general account's total investment portfolio compared to 9% at December 31, 1994. Historically, CNA has maintained short-term assets at a level that provided for liquidity to meet its short-term obligations. In the first nine months of 1995, short-term investments have increased well above such levels as positive cash flows, including proceeds from sales of securities, have not been invested in long-term securities; currently, short-term interest rates are relatively attractive compared to longer-term rates. At September 30, 1995, the major components of the short-term investment portfolio were approximately \$4.5 billion of high grade commercial paper and \$2.0 billion of U.S. Treasury bills. Collateral for securities sold under repurchase agreements remained at \$2.5 billion and were invested in high grade commercial paper.

Debt security carrying values are highly susceptible to changes in interest rates and were favorably affected as a general decline in interest rates occurred in the first nine months of 1995.

As of September 30, 1995, the market value of CNA's general account investments in bonds and redeemable preferred stocks was \$27.5 billion and exceeded amortized cost by approximately \$579 million. This compares to \$795 million of net unrealized investment losses at December 31, 1994. The gross unrealized investment gains and losses for the fixed income securities portfolio at September 30, 1995, were \$787 and \$208 million, respectively, compared to \$194 and \$989 million, respectively, at December 31, 1994.

Net unrealized investment gains on general account bonds at September 30, 1995 include net unrealized investment gains on high yield securities of \$57 million, compared to net unrealized investment losses of \$30 million at December 31, 1994. High yield securities are bonds rated as below investment grade by bond rating agencies, plus private placements and other unrated securities which, in the opinion of management, are below investment grade. Fair values of high yield securities in the general account were \$1.7 billion at September 30, 1995, compared to \$1.0 billion at December 31, 1994.

At September 30, 1995, total Separate Account cash and investments amounted to \$6.0 billion with taxable debt securities representing approximately 92% of the Separate Accounts' portfolio. Approximately 86% of Separate Account investments are used to fund guaranteed investment contracts ("GIC's") for which CNA's life insurance affiliate guarantees principal and a specified return to the contract holders. The fair value of all fixed income securities in the GIC portfolio was \$4.9 billion compared to \$4.6 billion at December 31, 1994. At September 30, 1995, fair values exceeded amortized cost by approximately \$14 million. This compares to \$195 million of net unrealized losses at December 31, 1994. The gross unrealized investment gains and losses for the GIC fixed income securities portfolio at September 30, 1995 were \$89 and \$75 million, respectively, compared to \$34 and \$229 million, respectively, at December 31, 1994.

Carrying values of high yield securities in the GIC portfolio were \$1.0 and \$1.1 billion at September 30, 1995 and December 31, 1994. Net unrealized investment losses on high yield securities held in such Separate Accounts were

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\$26 million at September 30, 1995, compared to \$108 million at December 31, 1994.

High yield securities generally involve a greater degree of risk than that of investment grade securities. Expected returns should, however, compensate for the added risk. The risk is also considered in the interest rate assumptions in the underlying insurance products. At September 30, 1995, CNA's concentration in high yield bonds, including Separate Accounts, was approximately 4.2% of its total assets. In addition, CNA's investment in mortgage loans and investment real estate are substantially below the industry average, representing less than one half of one percent of its total assets.

Included in CNA's fixed income securities at September 30, 1995 (general and GIC portfolios) are \$7.4 billion of asset-backed securities, consisting of approximately 33% in collateralized mortgage obligations ("CMO's"), 27% in corporate asset-backed obligations, and 40% in U.S. government agency issued

pass-through certificates. The majority of CMO's held are U.S. government agency issues, which are actively traded in liquid markets. At September 30, 1995, the fair value of asset-backed securities exceeded amortized cost by approximately \$95 million compared to unrealized investment losses of \$181 million at December 31, 1994. CNA limits the risks associated with interest rate fluctuations and prepayment by concentrating its CMO investments in early planned amortization classes with wide bands and relatively short principal repayment windows.

Over the last few years, much concern has been raised regarding the quality of insurance company invested assets. At September 30, 1995, 61% of the general account's debt securities portfolio was invested in U.S. government securities, 15% in other AAA rated securities and 12% in AA and A rated securities. CNA's GIC fixed income portfolio is comprised of 32% U.S. government securities, 19% other AAA rated securities and 17% in AA and A rated securities. These ratings are primarily from nationally recognized rating agencies (92% of the general account portfolio and 95% of the GIC portfolio).

Other
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Investment activities of non-insurance companies include investments in fixed maturities securities, equity securities, derivative instruments and short-term investments. Derivative instruments are marked-to-market and reported as realized investment gains or losses in the income statement. The remaining securities are carried at fair value with a net unrealized gain of \$44.8 million at September 30, 1995, compared to \$146.2 million at December 31, 1994.

The Company invests in certain derivative instruments for income enhancements as part of its portfolio management strategy. These instruments include various swaps, forwards and futures contracts as well as both purchased and written options.

These investments subject the Company to market risk for positions where the Company does not hold an offsetting security. The Company controls this risk through monitoring procedures which include daily detailed reports of existing positions and valuation fluctuations. These reports are reviewed by members of senior management to ensure that open positions are consistent with the Company's portfolio strategy.

The credit exposure associated with these instruments is generally limited to the positive market value of the instruments and will vary based on changes in market prices. The Company enters into these transactions with large financial institutions and considers the risk of nonperformance to be remote. In addition, the amounts subject to credit risk are substantially mitigated by collateral requirements in many of these transactions.

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The Company does not believe that any of the derivative instruments utilized by it are unusually complex or volatile, or expose the Company to a higher degree of risk. These derivative instruments have not had, and are expected not to have, an adverse impact on the results of operations. See Note 5 of the Notes to Consolidated Financial Statements in the 1994 Annual Report on Form 10-K for additional information with respect to derivative instruments.

At December 31, 1994 the Company's short-term investments portfolio included \$2.1 billion of proceeds from securities sold under agreements to repurchase. These proceeds were invested in U.S. government treasury securities. During the first quarter of 1995, the Company closed these positions and recognized net investment gains of \$17.8 million.

Results of Operations:
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Revenues increased by \$1,414.3 and \$3,038.4 million, or 39.9% and 30.0%, and net income increased \$252.2 and \$832.0 million, respectively, for the quarter and nine months ended September 30, 1995 as compared to the prior year. The following table sets forth the major sources of the Company's consolidated revenues and net income.

Three Months Ended September 30,		Nine Months Ended September 30,	
1995	1994	1995	1994
(In thousands)			

Revenues (a):

Property and casualty insurance	\$3,104,736	\$2,110,394	\$ 8,069,225	\$ 5,988,501
Life insurance	890,208	728,250	2,634,739	2,184,334
Cigarettes	539,756	506,139	1,524,567	1,444,740
Hotels	65,852	49,430	169,327	140,609
Watches and other timing devices	27,117	38,063	77,160	106,083
Drilling	92,025	79,212	240,103	228,025
Investment income-net (non-insurance companies)	237,085	28,174	460,723	28,667
Equity in income of CBS Inc.	4,008	9,243	13,032	39,949
Other and eliminations--net	(1,205)	(3,601)	(6,725)	(17,107)
	-----	-----	-----	-----
	\$4,959,582	\$3,545,304	\$13,182,151	\$10,143,801
	=====	=====	=====	=====

Net income (a):

Property and casualty insurance	\$ 119,679	\$ 40,819	\$ 399,554	\$ (37,716)
Life insurance	42,280	12,853	136,221	15,828
Cigarettes	95,171	93,858	268,029	262,844
Hotels	11,369	2,390	14,445	2,208
Watches and other timing devices	834	65	1,913	26
Drilling	169	(8,799)	(12,922)	(23,196)
Investment income-net (non-insurance companies)	139,086	16,829	296,053	16,748
Equity in income of CBS Inc.	2,875	(503)	9,279	26,979
Interest expense and other--net	(25,058)	(23,297)	(91,933)	(75,045)
	-----	-----	-----	-----
	\$ 386,405	\$ 134,215	\$ 1,020,639	\$ 188,676
	=====	=====	=====	=====

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(a) Includes realized investment gains (losses) as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	-----	-----	-----	-----
	1995	1994	1995	1994
	-----	-----	-----	-----
Revenues:				
Property and casualty insurance	\$ 80,830	\$ (7,035)	\$215,482	\$ (127,799)
Life insurance	14,578	(10,988)	119,796	(69,370)
Investment income-net	199,262	108	365,845	(48,349)
	-----	-----	-----	-----
	\$294,670	\$ (17,915)	\$701,123	\$ (245,518)
	=====	=====	=====	=====
Net income:				
Property and casualty insurance	\$ 44,259	\$ (3,560)	\$116,489	\$ (71,957)
Life insurance	7,639	(5,555)	61,425	(31,201)
Investment income-net	129,241	(376)	237,252	(31,656)
	-----	-----	-----	-----
	\$181,139	\$ (9,491)	\$415,166	\$ (134,814)
	=====	=====	=====	=====

Insurance

Property and casualty revenues, excluding realized investment gains (losses), increased by \$906.5 and \$1,737.4 million, or 42.8% and 28.4%, respectively, for the quarter and nine months ended September 30, 1995, as compared to the same periods a year ago.

Property and casualty premium revenues increased by \$668.6 and \$1,288.5 million, or 38.0% and 25.3%, respectively, for the quarter and nine months ended September 30, 1995 from the prior year's comparable period. The quarter and nine months ended September 30, 1995 included premiums of \$672 and \$1,137 million, respectively, from the acquisition of CIC. Other factors contributing to the change in revenues were increases in small and medium commercial accounts, mass marketing and reinsurance offset in part by decreases in large account premium business due to the continued shift to high deductibles and decreases in involuntary residual markets. Investment income increased \$147.7 and \$332.3 million, or 47.2% and 37.1%, for the quarter and nine months compared with the same periods a year ago. Investment income increased primarily due to the acquisition of CIC (\$106.5 and \$171.2 million for the quarter and nine months ended September 30, 1995) continued strong positive cash flow and higher yielding investments resulting from a shift late in the 1994 first quarter to longer term securities. Interest rates on debt securities generally rose throughout 1994, but have declined since January 1995. The bond segment of the

investment portfolio yielded 7.0% in the first nine months of 1995 compared with 6.3% for the same period a year ago.

Life insurance revenues, excluding realized investment gains (losses), increased by \$136.4 and \$261.2 million, or 18.5% and 11.6%, as compared to the same periods a year ago. Life premium revenues increased by \$124.8 and \$221.1 million, or 19.4% and 11.2%, for the quarter and nine months ended September 30, 1995 with the primary growth in annuities, term life products and group business. The increase was due primarily to new life products introduced in 1995. Life investment income increased by \$9.1 and \$37.8 million, or 11.4% and 16.6%, for the quarter and nine months ended September 30, 1995, compared to the same periods a year ago primarily due to the same reasons described above for the property and casualty operations. The bond segment of the life investment portfolio yielded 7.0% in the first nine months of 1995 compared with 6.5% for the same period a year ago.

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Property and casualty underwriting losses for the quarter and nine months ended September 30, 1995 were \$273.8 and \$737.8 million, compared to \$293.3 and \$983.1 million for the same periods in 1994. The statutory combined ratio for the quarter and nine months ended September 30, 1995 was 110.3% compared with 112.9% and 115.9%, respectively, for the same periods in 1994. Contributing to the improvement in underwriting results were continued favorable trends in the workers' compensation line and a lower level of catastrophe losses. Pre-tax catastrophe losses for the quarter and nine months ended September 30, 1995 were approximately \$38 and \$116 million, compared with \$47 and \$213 million in 1994. The 1994 catastrophe claims stemmed from the California earthquake and severe winter storms throughout the northeastern part of the United States.

The components of CNA's realized investment gains (losses) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995	1994
(In millions)				
Bonds:				
U.S. Government.....	\$ 1.3	\$ (9.9)	\$ 99.2	\$ (155.1)
Tax exempt.....	5.7	(1.9)	23.6	21.2
Asset-backed.....	1.8	(16.5)	35.7	(60.9)
Taxable.....	(12.9)	(1.7)	(17.6)	(40.9)
Total bonds.....	(4.1)	(30.0)	140.9	(235.7)
Stocks.....	74.6	4.7	126.3	37.4
Derivative instruments	8.0	6.6	.8	9.8
Other	16.9	.6	67.3	(8.7)
Total realized investment gains (losses)	\$ 95.4	\$ (18.1)	\$335.3	\$ (197.2)

For the nine months ended September 30, 1995, CNA's property/casualty group sold approximately \$25 billion of fixed income and equity securities, realizing pre-tax gains of \$206.5 million. Of the \$25 billion of securities sold, approximately \$13 and \$5 billion, respectively, were from the U.S. Treasury and government mortgage-backed bond portfolios.

Cigarettes -----

Revenues increased by \$33.6 and \$79.8 million, or 6.6% and 5.5%, and net income increased by \$1.3 and \$5.2 million, or 1.4% and 2.0%, respectively, for the quarter and nine months ended September 30, 1995 as compared to the corresponding periods of the prior year.

The increase in revenues is primarily composed of an increase of approximately \$20.1 and \$56.3 million, or 4.0% and 3.9%, due to higher unit sales volume and an increase of approximately \$13.9 and \$23.8 million, or 2.8% and 1.6%, reflecting higher average unit prices for the quarter and nine months ended September 30, 1995, respectively, as compared to the corresponding periods of the prior year. The increase in net income primarily reflects the higher revenues, partially offset by increased sales promotion expenses and an adjustment to state taxes in the prior year.

Hotels

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Revenues increased by \$16.4 and \$28.7 million, or 33.2% and 20.4%, and net income increased by \$9.0 and \$12.2 million, respectively, for the quarter and nine months ended September 30, 1995, as compared to the prior year.

Revenues and net income increased for the quarter and nine months ended September 30, 1995, as compared to the prior year, due primarily to a pre-tax and after tax gain of \$14.5 and \$9.5 million related to the division's cessation of casino operations at its Monte Carlo hotel. Revenues and net income also reflect higher occupancy and average room rates, and favorable foreign currency fluctuations, partially offset by increased advertising expenses.

Watches and Other Timing Devices

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Revenues decreased by \$10.9 and \$28.9 million, or 28.8% and 27.3%, and net income increased by \$.8 and \$1.9 million, respectively, for the quarter and nine months ended September 30, 1995 as compared to the corresponding periods in the prior year. In January 1995, Bulova Corporation sold its industrial and defense manufacturing business, Bulova Technologies, Inc. ("BTI"), and recognized a pre-tax and after tax gain of \$558,000 and \$351,000, respectively.

Exclusive of BTI, revenues increased \$.3 and \$8.4 million, or 1.1% and 12.1%, and net income increased by \$.7 and \$2.1 million, respectively, for the quarter and nine months ended September 30, 1995. Revenues and net income for the 1995 nine month period included interest income of \$4.2 million and a tax expense of \$3.2 million resulting from a tax audit adjustment. Revenues for the quarter and nine months ended September 30, 1995 also reflect increased unit sales volume and price increases, partially offset by lower royalty income.

Drilling

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Revenues increased by \$12.8 and \$12.1 million, or 16.2% and 5.3%, and results from operations increased \$9.0 and \$10.3 million, respectively, for the quarter and nine months ended September 30, 1995 as compared to the prior year.

Revenues for the quarter and nine months ended September 30, 1995 increased due primarily to higher dayrates and utilization rates recognized by Diamond Offshore's semisubmersible rigs located in the North Sea and the Gulf of Mexico. These increases were partially offset by lower dayrates for jack-up rigs operating in the Gulf of Mexico.

Results from operations for the quarter and nine months ended September 30, 1995 increased due primarily to the higher revenues discussed above, partially offset by increased interest expense.

Other

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Revenues increased by \$206.1 and \$415.5 million and net income increased by \$123.9 and \$244.7 million, for the quarter and nine months ended September 30, 1995, respectively, as compared to the prior year. Other operations consist primarily of investment income of non-insurance companies and the Company's investment in CBS.

Revenues include realized investment gains of \$199.3 and \$365.8 million, respectively, for the quarter and nine months ended September 30, 1995, as compared to a realized investment gain of \$.1 million and losses of \$48.3

million, respectively, in the prior year. Net income includes realized investment gains of \$129.2 and \$237.3 million, respectively, as compared to losses of \$.4 and \$31.7 million, respectively, in the prior year. Realized investment gains for the quarter and nine months ended September 30, 1995 include revenues of \$227.5 and \$372.9 million and net income of \$147.9 and \$242.4 million related to the sale by the Company of most of its holdings of Champion International Corporation.

Exclusive of securities transactions, revenues increased \$6.9 and \$1.3 million, or 20.5% and 1.3%, and net loss increased \$5.7 and \$24.2 million, respectively, for the quarter and nine months ended September 30, 1995. Revenues increased due primarily to higher investment income partially offset by lower results from the Company's investment in CBS. Net loss increased due to lower results from the Company's investment in CBS during the nine month period as

well as lower results from CNA's non-insurance operations.

Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This statement applies to financial statements for fiscal years beginning after December 15, 1995 and will not have a significant impact on the Company.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits involving environmental pollution claims and litigation with Fibreboard Corporation. Information involving such lawsuits is incorporated by reference to Note 6 of the Notes to Consolidated Condensed Financial Statements in Part I.

2. Lorillard is involved in various lawsuits involving tobacco products seeking damages for cancer and other health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to Note 6 of the Notes to Consolidated Condensed Financial Statements in Part I.

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

(a) Exhibits--

(27) Financial Data Schedule for the nine months ended September 30, 1995.

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

On July 24, 1995, the Company filed an amendment to its report on Form 8-K dated May 10, 1995 in order to provide the required financial statements and pro forma financial information in relation to CNA's acquisition of CIC.

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SIGNATURES

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

LOEWS CORPORATION

(Registrant)

Dated: November 14, 1995

By Roy E. Posner

ROY E. POSNER
Senior Vice President and
Chief Financial Officer
(Duly authorized officer
and principal financial
officer)

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DEC-31-1995
SEP-30-1995
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38,517,063
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223,103
194,183
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