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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

OR

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

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

Commission file number 1-6541

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

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

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

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

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

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

Yes X No ---------

| Class | Outstanding at August 9, 2002 |
|---|---|
| Common Stock, $1.00 par value | 186,103,400 shares |
| Carolina Group Stock, $.01 par value | 40,250,000 shares |

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INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

| (In millions) | June 30, 2002 | December 31, 2001 |
|---|---|---|
| ~~Assets:~~ | | |
| ~~Investments:~~ | | |
| ~~Fixed maturities, amortized cost of $33,654.7 and $31,004.1~~ | ~~$32,286.2~~ | ~~$31,191.0~~ |
| ~~Equity securities, cost of $1,534.9 and $1,457.3~~ | ~~1,575.0~~ | ~~1,646.0~~ |
| ~~Other investments~~ | ~~1,746.0~~ | ~~1,587.3~~ |
| ~~Short term investments~~ | ~~8,433.7~~ | ~~6,734.8~~ |
| ~~Total investments~~ | ~~44,040.9~~ | ~~41,159.1~~ |
| ~~Cash~~ | ~~182.1~~ | ~~181.3~~ |
| ~~Receivables-net~~ | ~~19,113.5~~ | ~~19,452.8~~ |
| ~~Property, plant and equipment-net~~ | ~~2,999.8~~ | ~~3,075.3~~ |
| ~~Deferred income taxes~~ | ~~724.0~~ | ~~607.0~~ |
| ~~Goodwill and other intangible assets-net~~ | ~~262.8~~ | ~~323.8~~ |
| ~~Other assets~~ | ~~4,360.2~~ | ~~4,229.8~~ |
| ~~Deferred acquisition costs of insurance subsidiaries~~ | ~~2,513.4~~ | ~~2,423.9~~ |
| ~~Separate account business~~ | ~~3,387.0~~ | ~~3,798.1~~ |
| ~~Total assets~~ | ~~$77,583.7~~ | ~~$75,251.1~~ |
| ~~Liabilities and Shareholders' Equity:~~ | | |
| ~~Insurance reserves:~~ | | |
| ~~Claim and claim adjustment expense~~ | ~~$30,385.7~~ | ~~$31,266.2~~ |
| ~~Future policy benefits~~ | ~~7,158.2~~ | ~~7,306.4~~ |
| ~~Unearned premiums~~ | ~~4,914.1~~ | ~~4,505.3~~ |
| ~~Policyholders' funds~~ | ~~565.5~~ | ~~546.0~~ |
| ~~Total insurance reserves~~ | ~~43,023.5~~ | ~~43,623.9~~ |
| ~~Payable for securities purchased~~ | ~~1,916.5~~ | ~~1,365.6~~ |
| ~~Securities sold under agreements to repurchase~~ | ~~3,133.0~~ | ~~1,602.4~~ |
| ~~Long term debt, less unamortized discount~~ | ~~5,929.5~~ | ~~5,920.3~~ |
| ~~Reinsurance balances payable~~ | ~~2,718.9~~ | ~~2,722.9~~ |
| ~~Other liabilities~~ | ~~4,844.9~~ | ~~4,595.2~~ |
| ~~Separate account business~~ | ~~3,387.0~~ | ~~3,798.1~~ |
| ~~Total liabilities~~ | ~~64,953.3~~ | ~~63,628.4~~ |
| ~~Minority interest~~ | ~~1,875.1~~ | ~~1,973.4~~ |
| ~~Shareholders' equity~~ | ~~10,755.3~~ | ~~9,649.3~~ |
| ~~Total liabilities and shareholders' equity~~ | ~~$77,583.7~~ | ~~$75,251.1~~ |

~~See accompanying Notes to Consolidated Condensed Financial Statements.~~

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Operations

| (In millions, except per share data) | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance premiums . . . . . . . . . . . | $ 2,825.4 | $ 1,586.8 | $ 5,661.5 | $ 4,083.6 |
| Investment income, net of expenses . . | 539.8 | 464.3 | 1,002.9 | 1,047.6 |
| Investment (losses) gains . . . . . . . | (195.0) | 584.1 | (171.5) | 991.6 |
| Manufactured products (including excise taxes of $176.1, $160.4, $356.5 and $311.1). . . . . . . . . . . . . . . . | 1,067.8 | 1,021.7 | 2,072.3 | 1,959.1 |
| Other . . . . . . . . . . . . . . . . . . | 410.6 | 483.3 | 869.8 | 987.2 |
| Total . . . . . . . . . . . . . . . . | 4,648.6 | 4,140.2 | 9,435.0 | 9,069.1 |
| Expenses: | | | | |
| Insurance claims and policyholders' benefits . . . . . . . . . . . . . . . . | 2,382.2 | 4,276.2 | 4,692.3 | 6,345.6 |
| Amortization of deferred acquisition costs . . . . . . . . . . . . . . . . . | 461.6 | 450.5 | 902.0 | 874.1 |
| Cost of manufactured products sold . . | 599.9 | 589.7 | 1,207.3 | 1,153.4 |
| Other operating expenses . . . . . . . | 785.6 | 1,062.9 | 1,654.2 | 1,919.3 |
| Restructuring and other related charges | | 56.1 | | 62.1 |
| Interest . . . . . . . . . . . . . . . | 78.2 | 92.7 | 154.7 | 179.0 |
| Total . . . . . . . . . . . . . . . . | 4,307.5 | 6,528.1 | 8,610.5 | 10,533.5 |
| | 341.1 | (2,387.9) | 824.5 | (1,464.4) |
| Income tax expense (benefit) . . . . . | 124.5 | (768.3) | 296.0 | (439.9) |
| Minority interest . . . . . . . . . . . | 14.7 | (202.5) | 42.7 | (132.8) |
| Total . . . . . . . . . . . . . . . . | 139.2 | (970.8) | 338.7 | (572.7) |
| Income (loss) from continuing operations | 201.9 | (1,417.1) | 485.8 | (891.7) |
| Discontinued operations net . . . . . . . | | 1.9 | (31.0) | 2.1 |
| Cumulative effect of changes in accounting principles net . . . . . . . | | | | (53.3) |
| Net income (loss) . . . . . . . . . . . | $ 201.9 | $(1,415.2) | $ 454.8 | $ (942.9) |





| (In millions, except per share data) | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 |
|---|---|---|---|---|
| Net income (loss) attributable to: | | | | |
| Loews Common Stock: | | | | |
| Income (loss) from continuing operations . . . . . . . . . . . . . . | $ 160.5 | $(1,417.1) | $ 426.4 | $ (891.7) |
| Discontinued operations net . . . . . | | 1.9 | (31.0) | 2.1 |
| Cumulative effect of change in accounting principles net . . . . . | | | | (53.3) |
| Loews Common Stock . . . . . . . . . . | 160.5 | (1,415.2) | 395.4 | (942.9) |
| Carolina Group Stock . . . . . . . . . | 41.4 | | 59.4 | |
| Total . . . . . . . . . . . . . . . . | $ 201.9 | $(1,415.2) | $ 454.8 | $ (942.9) |
| Income (loss) per Loews common share: | | | | |
| Income (loss) from continuing operations . . . . . . . . . . . . . . . | $ 0.85 | $ (7.19) | $ 2.25 | $ (4.52) |
| Discontinued operations . . . . . . . . | | 0.01 | (0.16) | 0.01 |
| Cumulative effect of changes in accounting principles . . . . . . . . | | | | (0.27) |
| Net income (loss) . . . . . . . . . | $ 0.85 | $ (7.18) | $ 2.09 | $ (4.78) |

| | | | | |
|---|---|---|---|---|
| Net income per Carolina Group common share | $ 1.03 | | $ 1.48 | |
| Weighted average number of shares outstanding: | | | | |
| Loews Common Stock | 188.19 | 197.24 | 189.63 | 197.24 |
| Carolina Group Stock | 40.25 | | 40.25 | |

See accompanying Notes to Consolidated Condensed Financial Statements.



Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

| (In millions) | Six Months Ended June 30, 2002 | 2001 |
|---|---|---|
| **Operating Activities:** | | |
| Net income (loss) | $ 454.8 | $ (942.9) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities net | 208.1 | (1,233.5) |
| Discontinued operations net | 31.0 | (2.1) |
| Cumulative effect of changes in accounting principles | | 53.3 |
| Changes in assets and liabilities net: | | |
| Reinsurance receivable | 48.3 | (1,736.0) |
| Other receivables | (36.5) | 696.8 |
| Federal income taxes | 873.0 | (611.2) |
| Prepaid reinsurance premiums | (228.5) | 89.3 |
| Deferred acquisition costs | (91.7) | (50.6) |
| Insurance reserves and claims | (225.4) | 2,888.7 |
| Reinsurance balances payable | (4.0) | 237.7 |
| Other liabilities | (4.9) | 484.0 |
| Trading securities | (400.2) | 173.5 |
| Other net | 169.0 | (247.1) |
| | 793.0 | (200.1) |
| **Investing Activities:** | | |
| Purchases of fixed maturities | (39,678.8) | (47,878.6) |
| Proceeds from sales of fixed maturities | 35,840.7 | 39,424.7 |
| Proceeds from maturities of fixed maturities | 2,719.8 | 8,058.6 |
| Securities sold under agreements to repurchase | 1,530.6 | 643.2 |
| Purchase of equity securities | (548.2) | (752.5) |
| Proceeds from sales of equity securities | 516.3 | 1,666.5 |
| Change in short-term investments | (1,545.3) | (525.9) |
| Purchases of property, plant and equipment | (189.8) | (229.9) |
| Proceeds from sales of property, plant and equipment | 92.8 | 272.6 |
| Change in other investments | (162.4) | (183.9) |
| | (1,424.3) | 494.8 |
| **Financing Activities:** | | |
| Dividends paid to Loews shareholders | (75.0) | (54.2) |
| Dividends paid to minority interests | (20.0) | (19.8) |
| Issuance of Loews Common Stock | 0.5 | 0.4 |
| Issuance of Carolina Group Stock | 1,069.6 | |
| Purchases of Loews treasury shares | (309.2) | |
| Purchases of treasury shares by subsidiaries | (16.9) | |
| Issuance of long term debt | | 449.4 |
| Principal payments on long term debt | (0.5) | (662.6) |
| Receipts credited to policyholders | 0.3 | 1.5 |
| Withdrawals of policyholders account balances | (26.3) | (38.3) |
| Other | 9.6 | (0.9) |
| | 632.1 | (324.5) |
| Net change in cash | 0.8 | (29.8) |
| Cash, beginning of period | 181.3 | 195.2 |
| Cash, end of period | $ 182.1 | $ 165.4 |

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Notes to Consolidated Condensed Financial Statements

(Dollars in millions, except per share data)

1. Basis of Presentation:

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock, referred to as Carolina Group stock, for net proceeds of $1,069.6. This stock is designed to track the performance of the Carolina Group, which consists of: the Company's ownership interest in its wholly owned subsidiary, Lorillard, Inc.; $2,500.0 of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; any and all liabilities, costs and expenses of Loews Corporation and Lorillard, Inc. arising out of the past, present or future business of Lorillard, Inc., and all net income or net losses from the assets and liabilities attributed to the Carolina Group. Each outstanding share of Carolina Group stock has 1/10 of a vote per share. Holders of Carolina Group stock are common stockholders of Loews Corporation.

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

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

Accounting Changes

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



In June 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changes the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment only approach. Amortization of goodwill and intangible assets with indefinite lives, including goodwill recorded in past business combinations, ceased effective January 1, 2002, upon adoption of SFAS No. 142. As required under SFAS No. 142, the Company has completed the first step of its initial impairment testing and has identified $65.0 of its $262.8 of total net carried goodwill and indefinite-lived intangible assets, as being impaired. The impaired goodwill is related to CNA's Specialty Lines and Life Operations. The second step of the impairment testing, which involves quantification of the amount of the impairment, will be completed in the third quarter of 2002. The initial impairment loss will be reported as a cumulative effect of a change in accounting principle as of January 1, 2002, and will require restatement of the interim 2002 results. Any impairment losses incurred after the initial application of this standard

~~will be reported in operating income.~~

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

~~In the first quarter of 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS No. 133). The initial adoption of SFAS No. 133 did not have a significant impact on the equity of the Company; however, adoption of SFAS No. 133 resulted in a charge to 2001 earnings of $53.3, net of income taxes and minority interest of $33.0 and $8.0, respectively, to reflect the change in accounting principle. Of this transition amount, approximately $50.5, net of income taxes and minority interest, related to CNA Financial Corporation's ("CNA"), a 90% owned subsidiary, investments and investment-related derivatives. Because CNA already carried its investment and investment related derivatives at fair value through other comprehensive income, there was an equal and offsetting favorable adjustment of $50.5 to shareholders' equity (accumulated other comprehensive income). The remainder of the transition adjustment is attributable to collateralized debt obligation products that are derivatives under SFAS No. 133. See Note 4 of the Notes to Consolidated Financial Statements in the Company's 2001 Annual Report on Form 10-K.~~

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



~~a material impact on the financial position or results of operations of the Company.~~

~~Comprehensive Income (Loss)~~

~~Comprehensive income includes all changes to shareholders' equity, including net income (loss), except those resulting from investments by shareholders and distributions to shareholders. For the three and six months ended June 30, 2002 and 2001, comprehensive income (loss) totaled $411.8, $(2,082.4), $423.2 and $(1,457.5), respectively. Comprehensive income (loss) includes net income (loss), unrealized appreciation (depreciation) of investments and foreign currency translation gains or losses.~~

~~Reclassifications~~

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

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

~~Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to each class of common stock by the weighted average number of common shares of each class of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the three and six months ended June 30, 2002 and 2001, income (loss) per common share assuming dilution is the same as basic income (loss) per share because the impact of securities that could potentially dilute basic income (loss) per common share is insignificant or antidilutive for the periods presented.~~

~~Income (loss) per share for each class of common stock was determined based on the attribution of income (loss) to each class of common stock~~

for the period divided by the weighted average number of common shares for each class of common stock outstanding during the period.



The attribution of income (loss) to each class of common stock, for the three and six months ended June 30, 2002, was as follows:

| | Three Months June 30, 2002 | Six Months June 30, 2002 |
|---|---|---|
| **Loews Common Stock:** | | |
| Consolidated net income . . . . . . . . . . . . . . | $201.9 | $454.8 |
| Less income attributable to Carolina Group Stock | (41.4) | (59.4) |
| Income attributable to Loews Common Stock . . . . | $160.5 | $395.4 |
| **Carolina Group Stock:** | | |
| Carolina Group net income . . . . . . . . . . . . . | $178.8 | $329.5 |
| Less net income for January 2002 . . . . . . . . . | | 73.1 |
| Income available to Carolina Group Stock . . . . | 178.8 | 256.4 |
| Economic interest of the Carolina Group Stock . . | 23.17% | 23.17% |
| Income attributable to Carolina Group Stock . . . | $ 41.4 | $ 59.4 |



3. Consolidating Financial Information:

The Consolidating Condensed Balance Sheets of Loews Corporation as of June 30, 2002 and December 31, 2001 and the Consolidating Statements of Operations for the three and six months ended June 30, 2002 and 2001 and Cash Flows for the six months ended June 30, 2002 and 2001, are as follows:

CONSOLIDATING STATEMENTS OF OPERATIONS

| Three Months Ended June 30, 2002 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Insurance premiums . . . . . . . . . | | $ 2,825.4 | | $ 2,825.4 |
| Investment income, net of expenses | $ 10.6 | 579.2 | $ (50.0) (a) | 539.8 |
| Investment (losses) gains. . . . . | 7.8 | (202.8) | | (195.0) |
| Manufactured products . . . . . . | 1,026.9 | 40.9 | | 1,067.8 |
| Other . . . . . . . . . . . . . . . | 0.7 | 409.9 | | 410.6 |
| Total . . . . . . . . . . . . . . | 1,046.0 | 3,652.6 | (50.0) | 4,648.6 |
| **Expenses:** | | | | |
| Insurance claims and policyholders' benefits . . . . . | | 2,382.2 | | 2,382.2 |
| Amortization of deferred acquisition costs . . . . . . . . . | | 461.6 | | 461.6 |
| Cost of manufactured products sold | 580.6 | 19.3 | | 599.9 |
| Other operating expenses (b) . . . | 119.5 | 666.1 | | 785.6 |
| Interest . . . . . . . . . . . . . . | 50.0 | 78.2 | (50.0) (a) | 78.2 |
| Total . . . . . . . . . . . . . . | 750.1 | 3,607.4 | (50.0) | 4,307.5 |

| | | | | |
|---|---|---|---|---|
| | 295.9 | 45.2 | | 341.1 |
| Income taxes . . . . . . . . . . . | 117.1 | 7.4 | | 124.5 |
| Minority interest . . . . . . . . | | 14.7 | | 14.7 |
| Total . . . . . . . . . . . . . | 117.1 | 22.1 | | 139.2 |
| Income from operations . . . . . . | 178.8 | 23.1 | | 201.9 |
| Equity in earnings of the Carolina Group . . . . . . . . . . . . . . | | 137.4 | (137.4) (c) | |
| Net income . . . . . . . . . . | $ 178.8 | $ 160.5 | $ (137.4) | $ 201.9 |

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



CONSOLIDATING STATEMENTS OF OPERATIONS

| Six Months Ended June 30, 2002 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance premiums . . . . . . . . | | $ 5,661.5 | | $ 5,661.5 |
| Investment income, net of expenses | $ 21.8 | 1,060.1 | $ (79.0) (a) | 1,002.9 |
| Investment (losses) gains. . . . . | 10.6 | (182.1) | | (171.5) |
| Manufactured products . . . . . . | 2,000.0 | 72.3 | | 2,072.3 |
| Other . . . . . . . . . . . . . . | 0.7 | 869.1 | | 869.8 |
| Total . . . . . . . . . . . . . | 2,033.1 | 7,480.9 | (79.0) | 9,435.0 |
| Expenses: | | | | |
| Insurance claims and policyholders' benefits . . . . . | | 4,692.3 | | 4,692.3 |
| Amortization of deferred acquisition costs . . . . . . . . | | 902.0 | | 902.0 |
| Cost of manufactured products sold | 1,172.9 | 34.4 | | 1,207.3 |
| Other operating expenses (b) . . . | 239.0 | 1,415.2 | | 1,654.2 |
| Interest . . . . . . . . . . . . . | 79.0 | 154.7 | (79.0)(a) | 154.7 |
| Total . . . . . . . . . . . . . | 1,490.9 | 7,198.6 | (79.0) | 8,610.5 |
| | 542.2 | 282.3 | | 824.5 |
| Income taxes . . . . . . . . . . . | 212.7 | 83.3 | | 296.0 |
| Minority interest . . . . . . . . | | 42.7 | | 42.7 |
| Total . . . . . . . . . . . . . | 212.7 | 126.0 | | 338.7 |
| Income from operations . . . . . . | 329.5 | 156.3 | | 485.8 |
| Equity in earnings of the Carolina Group . . . . . . . . . . . . . . | | 270.1 | (270.1)(c) | |
| Income from continuing operations | 329.5 | 426.4 | (270.1) | 485.8 |
| Discontinued operations-net . . . | | (31.0) | | (31.0) |
| Net income . . . . . . . . . . | $ 329.5 | $ 395.4 | $(270.1) | $ 454.8 |

(a) To eliminate interest on the intergroup notional debt.
(b) Includes $0.2 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.2 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these

consolidating statements.
(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.



CONSOLIDATING STATEMENTS OF OPERATIONS

| Three Months Ended June 30, 2001 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance premiums . . . . . . . . . | | $ 1,586.8 | | $ 1,586.8 |
| Investment income, net of expenses | $ 19.9 | 444.4 | | 464.3 |
| Investment gains . . . . . . . . . | | 584.1 | | 584.1 |
| Manufactured products . . . . . . | 991.0 | 30.7 | | 1,021.7 |
| Other . . . . . . . . . . . . . . | 3.9 | 479.4 | | 483.3 |
| Total . . . . . . . . . . . . . | 1,014.8 | 3,125.4 | | 4,140.2 |
| Expenses: | | | | |
| Insurance claims and policyholders' benefits . . . . . . . . . . . . | | 4,276.2 | | 4,276.2 |
| Amortization of deferred acquisition costs . . . . . . . . . | | 450.5 | | 450.5 |
| Cost of manufactured products sold | 574.8 | 14.9 | | 589.7 |
| Other operating expenses (a) . . . | 305.9 | 757.0 | | 1,062.9 |
| Restructuring and other related charges . . . . . . . . . . . . . . | | 56.1 | | 56.1 |
| Interest . . . . . . . . . . . . . | 0.2 | 92.5 | | 92.7 |
| Total . . . . . . . . . . . . . | 880.9 | 5,647.2 | | 6,528.1 |
| | 133.9 | (2,521.8) | | (2,387.9) |
| Income taxes (benefit) . . . . . . | 53.8 | (822.1) | | (768.3) |
| Minority interest . . . . . . . . | | (202.5) | | (202.5) |
| Total . . . . . . . . . . . . . | 53.8 | (1,024.6) | | (970.8) |
| Income (loss) from operations . . | 80.1 | (1,497.2) | | (1,417.1) |
| Equity in earnings of the Carolina Group . . . . . . . . . . . . . . . | | 80.1 | $(80.1) (b) | |
| Income (loss) from continuing operations . . . . . . . . . . . . | 80.1 | (1,417.1) | (80.1) | (1,417.1) |
| Discontinued operations net . . . | | 1.9 | | 1.9 |
| Net income (loss) . . . . . . . | $ 80.1 | $(1,415.2) | $(80.1) | $(1,415.2) |

(a) Includes $0.2 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.1 expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a service agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.



CONSOLIDATING STATEMENTS OF OPERATIONS

| Six Months Ended June 30, 2001 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Revenues: | | | | |
| Insurance premiums . . . . . . . . . | | $ 4,083.6 | | $ 4,083.6 |
| Investment income, net of expenses | $ 46.6 | 1,001.0 | | 1,047.6 |
| Investment gains . . . . . . . . . . | 2.1 | 989.5 | | 991.6 |
| Manufactured products . . . . . . . | 1,896.3 | 62.8 | | 1,959.1 |
| Other . . . . . . . . . . . . . . . | 5.7 | 981.5 | | 987.2 |
| Total . . . . . . . . . . . . . . | 1,950.7 | 7,118.4 | | 9,069.1 |
| Expenses: | | | | |
| Insurance claims and policyholders' benefits . . . . . . . . . . . . . | | 6,345.6 | | 6,345.6 |
| Amortization of deferred acquisition costs . . . . . . . . . | | 874.1 | | 874.1 |
| Cost of manufactured products sold | 1,123.9 | 29.5 | | 1,153.4 |
| Other operating expenses (a) . . . | 420.0 | 1,499.3 | | 1,919.3 |
| Restructuring and other related charges . . . . . . . . . . . . . | | 62.1 | | 62.1 |
| Interest . . . . . . . . . . . . . | 0.3 | 178.7 | | 179.0 |
| Total . . . . . . . . . . . . . . | 1,544.2 | 8,989.3 | | 10,533.5 |
| | 406.5 | (1,870.9) | | (1,464.4) |
| Income taxes (benefit) . . . . . . | 160.7 | (600.6) | | (439.9) |
| Minority interest . . . . . . . . | | (132.8) | | (132.8) |
| Total . . . . . . . . . . . . . . | 160.7 | (733.4) | | (572.7) |
| Income (loss) from operations . . | 245.8 | (1,137.5) | | (891.7) |
| Equity in earnings of the Carolina Group . . . . . . . . . . . . . . . | | 245.8 | $(245.8) (b) | |
| Income (loss) from continuing operations . . . . . . . . . . . . | 245.8 | (891.7) | (245.8) | (891.7) |
| Discontinued operations-net . . . | | 2.1 | | 2.1 |
| Cumulative effect of changes in accounting principles-net . . . . | | (53.3) | | (53.3) |
| Net income (loss) . . . . . . | $ 245.8 | $ (942.9) | $(245.8) | $ (942.9) |

(a) Includes $0.4 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.1 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a service agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.



CONSOLIDATING CONDENSED BALANCE SHEET

| June 30, 2002 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Assets: | | | | |
| Investments . . . . . . . . . . . | $ 1,883.4 | $42,157.5 | | $44,040.9 |
| Cash . . . . . . . . . . . . . . | 1.6 | 180.5 | | 182.1 |
| Receivables-net . . . . . . . . . | 49.3 | 19,097.6 | $ (33.4) (a) | 19,113.5 |
| Property, plant and equipment-net | 183.3 | 2,816.5 | | 2,999.8 |
| Deferred income taxes . . . . . . | 434.6 | 289.4 | | 724.0 |
| Goodwill and other intangible assets-net . . . . . . . . . . . | | 262.8 | | 262.8 |
| Other assets . . . . . . . . . . | 448.4 | 3,911.8 | | 4,360.2 |
| Investment in combined attributed net assets of the Carolina Group | | 1,678.9 | (1,678.9) (b) | |
| Deferred acquisition costs of insurance subsidiaries . . . . . | | 2,513.4 | | 2,513.4 |
| Separate account business . . . . | | 3,387.0 | | 3,387.0 |

| | | | | |
|---|---|---|---|---|
| Total assets . . . . . . . . . | $ 3,000.6 | $76,295.4 | $(1,712.3) | $77,583.7 |
| **Liabilities and Shareholders' Equity:** | | | | |
| Insurance reserves . . . . . . . . | | $43,023.5 | | $43,023.5 |
| Payable for securities purchased | | 1,916.5 | | 1,916.5 |
| Securities sold under agreements to repurchase . . . . . . . . . | | 3,133.0 | | 3,133.0 |
| Long-term debt, less unamortized discount . . . . . . . . . . . . . | $ 2,500.0 | 5,929.5 | $(2,500.0) (a) | 5,929.5 |
| Reinsurance balances payable . . | | 2,718.9 | | 2,718.9 |
| Other liabilities . . . . . . . . | 1,569.3 | 3,309.0 | (33.4) (a) | 4,844.9 |
| Separate account business . . . . | | 3,387.0 | | 3,387.0 |
| Total liabilities . . . . . . | 4,069.3 | 63,417.4 | (2,533.4) | 64,953.3 |
| Minority interest . . . . . . . . . | | 1,875.1 | | 1,875.1 |
| **Shareholders' equity:** | | | | |
| Loews Common stock, $1.00 par value . . . . . . . . . . . . . . | | | 191.5 (c) | 191.5 |
| Carolina Group Stock, $0.01 par value . . . . . . . . . . . . . . | | | 0.4 (c) | 0.4 |
| Additional paid in capital . . . | | | 1,115.7 (c) | 1,115.7 |
| Earnings retained in the business . . . . . . . . . . . . | | | 9,594.7 (c) | 9,594.7 |
| Accumulated other comprehensive income . . . . . . . . . . . . . . | | | 163.1 (c) | 163.1 |
| Combined attributed net assets . | (1,068.7) | 11,002.9 | (9,934.2)(c) | |
| | (1,068.7) | 11,002.9 | 1,131.2 | 11,065.4 |
| Less Loews Common Stock held in treasury, at cost . . . . . . . . | | | (310.1) | (310.1) |
| Total shareholders' equity . | (1,068.7) | 11,002.9 | 821.1 | 10,755.3 |
| Total liabilities and shareholders' equity . . . | $ 3,000.6 | $76,295.4 | $(1,712.3) | $77,583.7 |

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



CONSOLIDATING CONDENSED BALANCE SHEET

| December 31, 2001 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments . . . . . . . . . . . | $1,628.9 | $39,530.2 | | $41,159.1 |
| Cash . . . . . . . . . . . . . . . | 1.7 | 179.6 | | 181.3 |
| Receivables net . . . . . . . . . | 45.9 | 19,406.9 | | 19,452.8 |
| Property, plant and equipment net | 181.2 | 2,894.1 | | 3,075.3 |
| Deferred income taxes . . . . . . | 426.6 | 180.4 | | 607.0 |
| Goodwill and other intangible assets net . . . . . . . . . . . | | 323.8 | | 323.8 |
| Other assets . . . . . . . . . . . | 485.1 | 3,744.7 | | 4,229.8 |
| Investment in combined attributed net assets of the Carolina Group | | 1,274.5 | $ (1,274.5)(a) | |
| Deferred acquisition costs of insurance subsidiaries . . . . . | | 2,423.9 | | 2,423.9 |
| Separate account business . . . . | | 3,798.1 | | 3,798.1 |
| Total assets . . . . . . . . . | $2,769.4 | $73,756.2 | $ (1,274.5) | $75,251.1 |

Liabilities and Shareholders' Equity:

| | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Insurance reserves . . . . . . . . | | $43,623.9 | | $43,623.9 |
| Payable for securities purchased | | 1,365.6 | | 1,365.6 |
| Securities sold under agreements to repurchase . . . . . . . . . | | 1,602.4 | | 1,602.4 |
| Long term debt, less unamortized discount . . . . . . . . . . . . | | 5,920.3 | | 5,920.3 |
| Reinsurance balances payable . . | | 2,722.9 | | 2,722.9 |
| Other liabilities . . . . . . . . . | $1,494.9 | 3,100.3 | | 4,595.2 |
| Separate account business . . . . | | 3,798.1 | | 3,798.1 |
| Total liabilities . . . . . | 1,494.9 | 62,133.5 | | 63,628.4 |
| Minority interest . . . . . . . . . | | 1,973.4 | | 1,973.4 |
| Shareholders' equity: | | | | |
| Loews Common stock, $1.00 par value . . . . . . . . . . . . . . | | | $ 191.5 (b) | 191.5 |
| Additional paid in capital . . . | | | 48.2 (b) | 48.2 |
| Earnings retained in the business | | | 9,214.9 (b) | 9,214.9 |
| Accumulated other comprehensive income . . . . . . . . . . . . . | | | 194.7 (b) | 194.7 |
| Combined attributed net assets . | 1,274.5 | 9,649.3 | (10,923.8)(b) | |
| Total shareholders' equity . | 1,274.5 | 9,649.3 | (1,274.5) | 9,649.3 |
| Total liabilities and shareholders' equity . . . | $2,769.4 | $73,756.2 | $ (1,274.5) | $75,251.1 |

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



CONSOLIDATING STATEMENT OF CASH FLOWS

| Six Months Ended June 30, 2002 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Net cash provided by operating activities . . . . . . . . . . . . . | $ 344.3 | $ 608.1 | $ (159.4) | $ 793.0 |
| Investing activities: | | | | |
| Purchases of property and equipment | (23.5) | (166.3) | | (189.8) |
| Proceeds from sales of property and equipment . . . . . . . . . . | 2.6 | 90.2 | | 92.8 |
| Change in short term investments | (146.2) | (1,399.1) | | (1,545.3) |
| Other investing activities . . . . | | 218.0 | | 218.0 |
| | (167.1) | (1,257.2) | | (1,424.3) |
| Financing activities: | | | | |
| Dividends paid to shareholders . . | (177.3) | (57.1) | 159.4 | (75.0) |
| Other financing activities . . . . | | 707.1 | | 707.1 |
| | (177.3) | 650.0 | 159.4 | 632.1 |
| Net change in cash . . . . . . . . . | (0.1) | 0.9 | | 0.8 |
| Cash, beginning of period . . . . . | 1.7 | 179.6 | | 181.3 |
| Cash, end of period . . . . . . . . | $ 1.6 | $ 180.5 | | $ 182.1 |

| Six Months Ended June 30, 2001 | Carolina Group | Loews Group | Adjustments and Eliminations | Consolidated Loews Corporation |
|---|---|---|---|---|
| Net cash provided (used) by operating activities | $ 448.0 | $ (398.1) | $ (250.0) | $ (200.1) |

| | | | | |
|---|---|---|---|---|
| Investing activities: | | | | |
| Purchases of property and equipment | (14.4) | (215.5) | | (229.9) |
| Proceeds from sales of property and equipment . . . . . . . . . . | 10.2 | 262.4 | | 272.6 |
| Change in short-term investments . | (194.2) | (331.7) | | (525.9) |
| Other investing activities . . . . | | 978.0 | | 978.0 |
| | (198.4) | 693.2 | | 494.8 |
| Financing activities: | | | | |
| Dividends paid to shareholders . . | (250.0) | (54.2) | 250.0 | (54.2) |
| Other financing activities . . . . | | (270.3) | | (270.3) |
| | (250.0) | (324.5) | 250.0 | (324.5) |
| Net change in cash . . . . . . . . . | (0.4) | (29.4) | | (29.8) |
| Cash, beginning of period . . . . . | 1.4 | 193.8 | | 195.2 |
| Cash, end of period . . . . . . . . | $ 1.0 | $ 164.4 | | $ 165.4 |



4. Reinsurance:

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

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

Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in investment income, was $57.0 and $86.0 for the second quarter of 2002 and 2001 and $115.0 and $122.0 for the six months ended June 30, 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,889.0 and $2,724.0 at June 30, 2002 and December 31, 2001.

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

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



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

| | Direct | Assumed | Ceded | Net |
|---|---|---|---|---|
| | Six Months Ended June 30, 2002 | | | |
| Property-casualty | $ 4,882.0 | $ 409.0 | $1,897.0 | $ 3,394.0 |
| Accident and health | 1,859.0 | 75.0 | 4.0 | 1,930.0 |
| Life | 538.0 | 18.0 | 218.0 | 338.0 |
| Total | $ 7,279.0 | $ 502.0 | $2,119.0 | $ 5,662.0 |

| | Direct | Assumed | Ceded | Net |
|---|---|---|---|---|
| | Six Months Ended June 30, 2001 | | | |
| Property-casualty | $ 3,926.0 | $ 372.0 | $2,304.0 | $ 1,994.0 |
| Accident and health | 1,753.0 | 137.0 | 139.0 | 1,751.0 |
| Life | 559.0 | 119.0 | 339.0 | 339.0 |
| Total | $ 6,238.0 | $ 628.0 | $2,782.0 | $ 4,084.0 |

For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of its property-casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the level of subject premium, but there is a maximum aggregate limit of $1,125.0. Maximum ceded premium under the contract is $683.0, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0% per annum, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $2.0 and $5.0 was recorded for the 2002 Cover for the three and six months ended June 30, 2002.

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

In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property-casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 of ceded losses with an aggregate limit of $1,000.0 of ceded losses for the three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 of limit the ceded premium is $230.0. The second section



of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 of ceded losses for a maximum ceded premium of $310.0. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.

The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the September 11, 2001 World Trade Center Disaster and related events, the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded in the second quarter of 2001, the $500.0 limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 of limit on accident years 2000 and 2001 under the first section.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Ceded earned premiums . . . . . . . . . . . . . | | $(418.0) | | $(460.0) |
| Ceded claim and claim adjustment expenses . . | | 683.0 | | 722.0 |
| Interest charges . . . . . . . . . . . . . . . | $(12.0) | (53.0) | $(25.0) | (59.0) |
| Pretax impact on operating results . . . . . | $(12.0) | $ 212.0 | $(25.0) | $ 203.0 |

In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 of ceded losses. The ceded premiums are a percentage of ceded losses and for the $760.0 of limit, the ceded premium is $456.0. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $563.0 have been ceded under the CCC Cover through June 30, 2002.



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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Ceded earned premiums . . . . . . . . . . . . . | | $ (2.0) | $(61.0) | $ (2.0) |
| Ceded claim and claim adjustment expenses . . | | | 93.0 | |
| Interest charges . . . . . . . . . . . . . . . | $(6.0) | | (16.0) | |
| Pretax impact on operating results . . . . . | $(6.0) | $ (2.0) | $ 16.0 | $ (2.0) |

5. Other Investments:

Other invested assets include investments in limited partnerships and certain derivative securities. The Company's limited partnership investments are recorded at fair value, typically reflecting a reporting lag of up to three months, with changes in fair value reported in investment income, net of expenses. Fair value of the Company's limited partnership investments represents the Company's equity in the partnership's net assets as determined by the general partner. The carrying value of the Company's limited partnership investments was $1,498.6 and $1,307.0 as of June 30, 2002 and December 31, 2001.

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

The Company has committed approximately $172.0 to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.



6. Receivables:

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| Reinsurance | $13,775.1 | $13,823.4 |
| Other insurance | 4,050.6 | 4,006.4 |
| Security sales | 914.9 | 648.1 |
| Accrued investment income | 421.4 | 398.3 |
| Federal income taxes | | 586.6 |
| Other | 322.8 | 353.7 |
| Total | 19,484.8 | 19,816.5 |
| Less allowance for doubtful accounts and cash discounts | 371.3 | 363.7 |
| Receivables net | $19,113.5 | $19,452.8 |

7. Claim and Claim Adjustment Expense Reserves:

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

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



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

CNA's property casualty insurance subsidiaries have potential exposures related to environmental pollution and mass tort and asbestos claims. The following table provides data related to claim and claim adjustment expense reserves.

| | June 30, 2002 | | December 31, 2001 | |
|---|---|---|---|---|
| | Environmental Pollution and Mass Tort | Asbestos | Environmental Pollution and Mass Tort | Asbestos |
| Gross reserves | $ 754.0 | $1,572.0 | $ 820.0 | $1,590.0 |
| Less ceded reserves | (195.0) | (353.0) | (203.0) | (386.0) |
| Net reserves | $ 559.0 | $1,219.0 | $ 617.0 | $1,204.0 |

Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive

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

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

~~A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2001 or the first six months of 2002, and it is unclear what positions Congress or the administration will take and what legislation, if any, will result in the~~



~~future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result or the effect upon CNA's results of operations and/or financial position.~~

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

~~As of June 30, 2002 and December 31, 2001, CNA carried approximately $559.0 and $617.0 of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort net development for the three and six months ended June 30, 2002. Unfavorable environmental pollution and mass tort development for the three and six months ended June 30, 2001 amounted to $449.0 and $453.0.~~

~~The reserve strengthening in the second quarter of 2001 for environmental pollution and mass tort reserves was due to reviews completed during the year, which indicated that paid and reported losses were higher than expectations based on prior year reviews. Factors that have led to this development include a number of declaratory judgments filed in 2001 due to an increasingly favorable legal environment for policyholders in certain courts involving environmental pollution and mass tort claims, and other unfavorable decisions regarding cleanup issues. Due to the uncertainties created by these factors, the ultimate liability of CNA for mass tort claims may also vary substantially from the amount currently recorded.~~

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

~~broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of June 30, 2002 and December 31, 2001, CNA carried approximately $1,219.0 and $1,204.0 of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. There was no asbestos net claim and claim adjustment expense development for the three and six months ended June 30, 2002. Unfavorable asbestos net claim and claim adjustment reserve development for the three and six months ended June 30, 2001 amounted to $748.0 and $769.0. CNA has attempted to manage its asbestos-related exposures by aggressively resolving older claims.~~



~~The reserve strengthening in the second quarter of 2001 for asbestos-related claims was based on a management review of developments with respect to these exposures conducted in the second quarter. This analysis indicated a significant increase in claim counts for asbestos related claims. The factors that led to the deterioration in claim counts included, among other things, intensive advertising campaigns by lawyers for asbestos claimants and the addition of new defendants such as the distributors and installers of asbestos containing products. New claim filings increased significantly in 2000 over 1999 and that trend continued in 2001 and the first half of 2002. The volume of new claims caused the bankruptcies of numerous asbestos defendants. Those bankruptcies also may result in increased liability for remaining defendants under principles of joint and several liability. In some bankruptcy proceedings asbestos claimants may assert an entitlement to policy proceeds upon confirmation of a plan of reorganization, rather than when claims would ordinarily be paid to all claimants. If such assertions are made successfully, they could have the effect of accelerating claims payment patterns.~~

~~In addition, some asbestos related defendants asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called "non-products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed.~~

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

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



~~Second Quarter 2001 Prior Year Reserve Strengthening~~

~~During the second quarter of 2001, CNA noted the continued emergence of adverse loss experience across several lines of business related to prior years, which are discussed in further detail below. CNA completed a number of reserve studies during the second quarter of 2001 for many of its lines of business, including those in which these adverse trends were noted. With respect to APMT reserves, CNA reviewed internal claims data as well as studies generated by external parties, including a significant industry analysis of asbestos and environmental pollution exposures by an international rating agency. As a result of these various reviews,~~

management concluded that ultimate losses, including losses for APMT claims, would be higher in the range of possible outcomes than previously estimated. CNA recorded a pretax charge of $2,616.0 ($1,479.5 after tax and minority interest) of reserve strengthening, net of the related corporate aggregate reinsurance treaty benefit, associated with a change in estimate of prior year net loss reserves, including $1,197.0 pretax ($677.0 after-tax and minority interest) related to APMT.

The second quarter 2001 reserve strengthening and related items comprising the amounts noted above are detailed in the following table.

| | Three Months Ended June 30, 2001 |
|---|---|
| Net reserve strengthening, excluding the impact of the corporate aggregate reinsurance treaty | |
| APMT . . . . . . . . . . . . . . . . . . . . . . | $1,197.0 |
| Non APMT . . . . . . . . . . . . . . . . . . . . . | 1,594.0 |
| Total . . . . . . . . . . . . . . . . . . . . . | 2,791.0 |
| Pretax benefit from corporate aggregate reinsurance treaty on accident year 1999 (1) . . | (223.0) |
| Accrual for insurance related assessments . . . . | 48.0 |
| Net reserve strengthening and related accruals | 2,616.0 |
| Change in estimate of premium accruals . . . . . | 616.0 |
| Reduction of related commission accruals. . . . . | (50.0) |
| Net premium and related accrual reductions. . . | 566.0 |
| Total reserve strengthening and related accruals | $3,182.0 |

(1) $500.0 of ceded losses reduced by $230.0 of ceded premiums and $47.0 of interest charges.

The non APMT adverse reserve development was the result of analyses of several lines of business. This development related principally to commercial insurance coverages including automobile liability and multiple peril, as well as assumed reinsurance and health care related coverages. A brief summary of these lines of business and the associated reserve development is discussed below.



Approximately $600.0, excluding the impact of the corporate aggregate reinsurance treaty, of the adverse reserve development was a result of analyses of several coverages provided to commercial entities written by various segments of CNA. These analyses showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple peril. In addition, the number of commercial automobile liability claims was higher than expected. Finally, several state specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.

An analysis of CNA Re's assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations and resulted in an increase of net reserves of approximately $560.0, excluding the impact of the corporate aggregate reinsurance treaty. The estimated ultimate loss ratios for these recent accident years have been revised to reflect the paid and reported losses.

Approximately $320.0 of adverse reserve development, excluding the impact of the corporate aggregate reinsurance treaty, was recorded in Specialty Lines and was caused by coverages provided to health care related entities. The level of paid and reported losses associated with coverages provided to national long term care facilities was higher than expected. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing health care related services increased more than expected.

Concurrent with CNA's review of loss reserves, CNA completed comprehensive studies of estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. The studies included the review of all such retrospectively rated insurance policies and the estimates of ultimate losses.

As a result of this review and changes in premiums associated with the change in estimates for loss reserves, CNA recorded a pretax reduction in premium accruals of $566.0. The effect on net earned premiums was $616.0 offset by a reduction of accrued commissions of $50.0. Approximately $188.0 of this amount resulted from a change in estimate in premiums related to involuntary market facilities, which had an offsetting impact on net losses and therefore had no impact on the net operating results in 2001. Accruals for ceded premiums related to other reinsurance treaties increased $83.0 due to the reserve strengthening. The remainder of the decrease in premium accruals relates to the change in estimate of the amount of retrospective premium receivables as discussed above.



8. Shareholders' equity:

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| Preferred stock, $0.10 par value, | | |
| Authorized - 100,000,000 shares | | |
| Common stock: | | |
| Loews Common Stock, $1.00 par value: | | |
| Authorized - 600,000,000 shares | | |
| Issued 191,506,800 and 191,493,300 shares | $ 191.5 | $ 191.5 |
| Carolina Group Stock, $0.01 par value: | | |
| Authorized - 600,000,000 shares | | |
| Issued and outstanding 40,250,000 shares | 0.4 | |
| Additional paid in capital . . . . . . . . . | 1,115.7 | 48.2 |
| Earnings retained in the business . . . . . . | 9,594.7 | 9,214.9 |
| Accumulated other comprehensive income . . . | 163.1 | 194.7 |
| | 11,065.4 | 9,649.3 |
| Less Loews common stock (5,401,600 shares) held in treasury, at cost . . . . . . . . . | 310.1 | |
| Total shareholders' equity . . . . . . . . . | $10,755.3 | $ 9,649.3 |

During the second quarter of 2002, CNA recorded $292.0 pretax of impairment losses, principally on corporate bonds. Included in the second quarter 2002 impairment writedowns were $129.0 related to debt securities issued by WorldCom Inc. and $74.0 related to Adelphia Communications Corporation, both of which have recently filed for bankruptcy. These securities were written down to estimated net realizable value of $33.0 and $29.0, respectively. The remaining $89.0 of impairment writedowns related primarily to issuers in the telecommunications sector. Of the total amount of impairment writedowns, $76.0 and $17.0 are included in accumulated other comprehensive income as unrealized losses during the three and six months ended June 30, 2002.

9. Restructuring and Other Related Charges:

2001 Restructuring

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

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise-wide system initiatives. The IT Plan had two main



components, which included the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that included common architecture and platform standards that directly support CNA's strategies.

For the three and six months ended June 30, 2001, CNA incurred $56.1 and $62.1 pretax of restructuring and other related charges for the IT Plan primarily related to employee severance charges and the write-off of impaired assets.

No restructuring and other related charges related to the IT Plan have been incurred in 2002; however, payments were made during the six months ended June 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at June 30, 2002 and the activity in that accrual since inception.

IT Plan Accrual

| | Employee Termination And Related Benefit Costs | Impaired Asset Charges | Other Costs | Total |
|---|---|---|---|---|
| IT Plan initial accrual . . . . . . . . . . . . | $ 29.0 | $ 32.0 | $1.0 | $ 62.0 |
| Costs that did not require cash in 2001 . . . . | | (32.0) | | (32.0) |
| Payments charges against liability in 2001 . . . | (19.0) | | | (19.0) |
| Accrued costs at December 31, 2001 . . . . . . . | 10.0 | | 1.0 | 11.0 |
| Payments charged against liability in 2002 . . . | (1.0) | | | (1.0) |
| Accrued costs at June 30, 2002 . . . . . . . . . | $ 9.0 | $ | $1.0 | $ 10.0 |

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

2001 Plan

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

No restructuring and other related charges related to the 2001 Plan have been incurred in 2002; however, payments were made during the six months ended June 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of June 30, 2002 and the activity in that accrual since inception.



2001 Plan Accrual

| | Employee Termination and Related Benefit Costs | Lease Termination Costs | Impaired Asset Charges | Other Costs | Total |
|---|---|---|---|---|---|
| 2001 Plan initial accrual . . . . . . | $ 68.0 | $ 56.0 | $ 30.0 | $ 35.0 | $189.0 |
| Costs that did not require cash in 2001 . . . . . . . . . . . . . . . . | | | | (35.0) | (35.0) |
| Payments charged against liability in 2001 . . . . . . . . . . . . . . . . | (2.0) | | | | (2.0) |
| Accrued costs at December 31, 2001 . | 66.0 | 56.0 | 30.0 | | 152.0 |
| Costs that did not require cash in 2002 . . . . . . . . . . . . . . . . | | | (25.0) | | (25.0) |
| Payments charged against liability | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| ~~in 2002~~ | ~~(45.0)~~ | ~~(10.0)~~ | ~~(1.0)~~ | | ~~(56.0)~~ |
| ~~Accrued costs at June 30, 2002~~ | ~~$ 21.0~~ | ~~$ 46.0~~ | ~~$ 4.0~~ | ~~$~~ | ~~$ 71.0~~ |

~~10. Significant Transactions:~~

~~National Post Mail Handlers Union Contract Termination~~

~~During the second quarter of 2002, CNA announced the sale of the Claims Administration Corporation and the transfer of the National Post Mail Handlers Union group benefits plan (the "Plan") to First Health Group Corp., effective July 1, 2002.~~

~~The assets and liabilities of the Claims Administration Corporation and the Plan were $319.0 and $308.0 at June 30, 2002 and $352.0 and $350.0 at December 31, 2001. The revenues of the Claims Administration Corporation and Plan were $537.0 and $516.0 for the three months ended June 30, 2002 and 2001 and $1,153.0 and $1,049.0 for the six months ended June 30, 2002 and 2001.~~

~~Net operating income from the Claims Administration Corporation and the Plan was $3.6 and $1.7 for the three months ended June 30, 2002 and 2001 and $6.2 and $5.2 for the six months ended June 30, 2002 and 2001.~~

~~CNA Vida Disposition~~

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

~~CNA Vida's assets and liabilities at December 31, 2001 were $442.0 and $337.0. CNA Vida's net earned premiums were $16.0 for the three months ended June 30, 2001 and $24.0 and $49.0 for the six months ended June 30, 2002 and 2001. Net operating income was $1.7 for the three months ended June 30, 2001 and $1.8 and $1.7 for the six months ended June 30, 2002 and 2001. CNA Vida's results of operations, including the loss on sale, is presented as discontinued operations in all periods presented.~~



~~Other Dispositions and Planned Dispositions of Certain Businesses~~

~~During the second quarter of 2001, CNA announced its intention to sell certain businesses. The assets being held for disposition included the U.K. subsidiaries of CNA Re ("CNA Re U.K.") and certain other businesses. Based upon the impairment analyses performed at that time, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these sales, CNA estimated the net realizable value of each business being held for sale. An estimated loss of $278.4 (after tax and minority interest) was initially recorded in the second quarter of 2001. This loss was reported as investment losses in the Statement of Operations.~~

~~CNA continues to monitor the impairment losses recorded for these businesses and perform updated impairment analyses. Based on the analyses, the impairment loss has been reduced by approximately $170.0, primarily because the net assets of the businesses had been significantly diminished by their operating losses, including adverse loss reserve development recognized by CNA Re U.K. in the fourth quarter of 2001.~~

~~In the fourth quarter of 2001, CNA sold certain businesses as planned. The realized after tax and minority interest loss applicable to these businesses recognized in the second quarter of 2001 was $33.1. Revenues of these businesses included in the three and six months ended June 30, 2001 totaled approximately $18.0 and $25.0. Net operating losses related to these businesses included in the three and six months ended June 30, 2001 were approximately $12.2 and $14.8.~~

~~At June 30, 2002, CNA Re U.K. and certain other businesses remain held for sale. On July 15, 2002, CNA announced that it signed a share purchase agreement to sell CNA Re U.K. to Tawa U.K. Limited, a subsidiary of Artemis Group, a French conglomerate. The share purchase agreement includes all remaining business underwritten since inception by CNA Re U.K. The sale is subject to approval in the United Kingdom by the Financial Services Authority. Additionally, certain aspects of the~~

transaction also require approval by the Illinois Insurance Department, which will also conduct a comprehensive review of the terms of the transaction. While there can be no assurance that the transaction will close, management believes that all conditions necessary to close, including regulatory approvals, will be satisfied and that such closing will occur by the end of 2002. This sale does not impact CNA Re's on going U.S. based operations.

CNA Re U.K. will be sold for one dollar, subject to a completion adjustment at closing primarily driven by certain operating results between January 1, 2002 and closing and changes in interest rates. No additional impairment loss is expected based upon the terms of the sale agreement.

Concurrent with the sale, several reinsurance agreements under which CCC had provided retrocessional protection to CNA Re U.K. will be commuted. As part of the sale, CNA Re U.K.'s net exposure to all IGI Program liabilities will be ceded to CCC and CCC will provide a $100.0 stop loss cover attaching at carried reserves on CNA Re U.K.'s 2001 underwriting year exposures, both for the benefit of the buyer. See Note 13 for discussion of the IGI Program.



The statutory surplus of CNA Re U.K., was below the required regulatory minimum surplus level at December 31, 2001. CCC contributed $120.0 of capital on March 25, 2002 bringing the capital above the regulatory minimum.

As of June 30, 2002, CNA Re U.K. contributed revenues of approximately $19.0 and $82.0 for the three months ended June 30, 2002 and 2001, and $42.0 and $163.0 for the six months ended June 30, 2002 and 2001. CNA Re U.K. contributed net operating income of $1.8 and losses of $59.2 in the three months ended June 30, 2002 and 2001 and income of $3.6 and losses of $58.3 for the six months ended June 30, 2002 and 2001. The assets and liabilities of CNA Re U.K., after excluding the effects of planned concurrent transactions, were approximately $2,300.0 and $2,300.0 as of June 30, 2002 and $2,600.0 and $2,600.0 as of December 31, 2001.

The businesses sold in 2002 excluding both CNA Vida and the National Post Mail Handlers Contract, and those that continue to be held for disposition as of June 30, 2002, excluding CNA Re U.K., contributed revenues of approximately $6.0 and $34.0 for the three months ended June 30, 2002 and 2001, and $36.0 and $73.0 for the six months ended June 30, 2002 and 2001. Additionally, these businesses contributed net operating losses of $10.7 and $7.8 in the three months ended June 30, 2002 and 2001 and $13.3 and $12.2 for the six months ended June 30, 2002 and 2001. The assets and liabilities of these businesses were approximately $645.0 and $638.0 as of June 30, 2002 and $763.0 and $750.0 as of December 31, 2001. All anticipated sales are expected to be completed in 2002.

11. Discontinued Operations:

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

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| Total investments . . . . . . . . . . . . . . | $ 483.0 | $ 467.0 |
| Other assets . . . . . . . . . . . . . . . . | 260.0 | 264.0 |
| Insurance reserves . . . . . . . . . . . . . | (421.0) | (412.0) |
| Other liabilities . . . . . . . . . . . . . . | (24.0) | (25.0) |
| Net assets of discontinued operations . . . . | $ 298.0 | $ 294.0 |



12. Business Segments:

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property, casualty and life insurance (CNA Financial Corporation, a 90% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 53% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary). Each operating entity is responsible for the operation of its specialized business and is headed by a chief executive officer having the duties and authority commensurate with that position.

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

During the second quarter of 2002, Group Reinsurance, the business which assumes reinsurance from unaffiliated entities on group life, accident and health products as well as excess medical risk coverages for self funded employers, was transferred from Group Operations to the Other Insurance segment to be included as part of run off insurance operations. Also, CNA Trust, a limited operations bank specializing in 401(k) plan administration, was transferred from Life Operations to Group Operations. Segment disclosures of prior periods have been restated to conform to the current period presentation.

The Other Insurance segment is comprised primarily of losses and expenses related to the centralized adjusting and settlement of APMT claims, certain run off insurance operations and other operations. This segment's results also include interest expense on CNA's corporate borrowings, eBusiness initiatives and CNA UniSource.

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

Loews Hotels owns and/or operates 18 hotels, 16 of which are in the United States and two are in Canada. There is also a property in the United States under development with an opening date scheduled in 2004.

Diamond Offshore's business primarily consists of operating 45 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. As of June 30, 2002, 28 of these rigs were located in the Gulf of Mexico, 5 were located in Brazil and the remaining 12 were located in various foreign markets.

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



The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2001. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues (a): | | | | |
| CNA Financial: | | | | |
| Property-casualty . . . . . . . . . . . | $ 2,045.6 | $ 1,245.6 | $ 4,051.6 | $ 3,336.5 |
| Life . . . . . . . . . . . . . . . . . . | 366.6 | 484.4 | 818.6 | 967.2 |
| Group . . . . . . . . . . . . . . . . . | 862.0 | 865.2 | 1,822.1 | 1,728.0 |

| | | | | |
|---|---|---|---|---|
| Other Insurance | 43.4 | 112.7 | 73.2 | 245.0 |
| Total CNA Financial | 3,317.6 | 2,707.9 | 6,765.5 | 6,276.7 |
| Lorillard | 1,037.9 | 1,014.8 | 2,022.2 | 1,948.7 |
| Loews Hotels | 82.0 | 91.2 | 159.2 | 176.0 |
| Diamond Offshore | 187.8 | 239.3 | 391.9 | 463.7 |
| Bulova | 41.2 | 31.7 | 73.6 | 64.6 |
| Corporate | (17.9) | 55.3 | 22.6 | 139.4 |
| Total | $ 4,648.6 | $ 4,140.2 | $ 9,435.0 | $ 9,069.1 |
| Income (loss) before taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles: | | | | |
| CNA Financial: | | | | |
| Property casualty | $ 92.1 | $(1,493.1) | $ 232.3 | $(1,117.2) |
| Life | (17.2) | 110.9 | 49.9 | 243.6 |
| Group | 21.6 | 28.5 | 51.2 | 52.8 |
| Other Insurance | (48.4) | (1,255.4) | (111.9) | (1,238.0) |
| Total CNA Financial | 48.1 | (2,609.1) | 221.5 | (2,058.8) |
| Lorillard | 337.9 | 133.9 | 610.4 | 404.4 |
| Loews Hotels | 10.3 | 15.1 | 19.8 | 23.8 |
| Diamond Offshore | 8.6 | 57.1 | 36.3 | 104.3 |
| Bulova | 4.6 | 3.3 | 7.6 | 7.6 |
| Corporate | (68.4) | 11.8 | (71.1) | 54.3 |
| Total | $ 341.1 | $(2,387.9) | $ 824.5 | $(1,464.4) |



| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Net income (loss) (a): | | | | |
| CNA Financial: | | | | |
| Property casualty | $ 57.7 | $ (889.9) | $ 141.2 | $ (671.3) |
| Life | (9.7) | 63.4 | 28.8 | 138.1 |
| Group | 12.8 | 17.7 | 30.6 | 33.2 |
| Other Insurance | (26.9) | (723.4) | (63.1) | (719.5) |
| Total CNA Financial | 33.9 | (1,532.2) | 137.5 | (1,219.5) |
| Lorillard | 203.9 | 80.1 | 370.6 | 244.5 |
| Loews Hotels | 6.7 | 9.6 | 12.7 | 15.1 |
| Diamond Offshore | 1.7 | 17.8 | 10.4 | 32.5 |
| Bulova | 2.6 | 1.8 | 4.2 | 4.2 |
| Corporate | (46.9) | 5.8 | (49.6) | 31.5 |
| Income from continuing operations | 201.9 | (1,417.1) | 485.8 | (891.7) |
| Discontinued operations net | | 1.9 | (31.0) | 2.1 |
| Cumulative effect of changes in accounting principles net | | | | (53.3) |
| Total | $ 201.9 | $(1,415.2) | $ 454.8 | $ (942.9) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |

| | | | | |
|---|---|---|---|---|
| Revenues: | | | | |
| CNA Financial: | | | | |
| Property casualty . . . . . . . . . . | $ (62.7) | $ 416.0 | $ (51.7) | $ 613.3 |
| Life . . . . . . . . . . . . . . . . . | (74.0) | 73.6 | (60.6) | 142.1 |
| Group . . . . . . . . . . . . . . . . | (6.2) | 8.2 | 1.3 | 13.0 |
| Other Insurance . . . . . . . . . . | (19.4) | 69.2 | (50.3) | 169.4 |
| Total CNA Financial . . . . . . . . . | (162.3) | 567.0 | (161.3) | 937.8 |
| Corporate and other . . . . . . . . . | (32.7) | 17.1 | (10.2) | 53.8 |
| Total . . . . . . . . . . . . . . . . . . . | $ (195.0) | $ 584.1 | $(171.5) | $ 991.6 |
| Net income (loss): | | | | |
| CNA Financial: | | | | |
| Property casualty . . . . . . . . . . | $ (36.3) | $ 194.5 | $ (28.3) | $ 303.7 |
| Life . . . . . . . . . . . . . . . . . | (42.0) | 41.1 | (34.7) | 78.7 |
| Group . . . . . . . . . . . . . . . . | (3.5) | 4.7 | 0.8 | 7.4 |
| Other Insurance . . . . . . . . . . | (12.1) | 31.4 | (29.5) | 88.8 |
| Total CNA Financial . . . . . . . . . | (93.9) | 271.7 | (91.7) | 478.6 |
| Corporate and other . . . . . . . . . | (24.0) | 9.0 | (10.4) | 31.0 |
| Total . . . . . . . . . . . . . . . . . . . | $ (117.9) | $ 280.7 | $(102.1) | $ 509.6 |



13. Legal Proceedings and Contingent Liabilities:

INSURANCE RELATED

Tobacco Litigation

Four CNA insurance subsidiaries are defendants in a lawsuit arising out of policies allegedly issued to Liggett Group, Inc. ("Liggett"). The lawsuit was filed by Liggett and its current parent, Brooke Group Holding Inc., in the Delaware Superior Court, New Castle County, on January 26, 2000. The lawsuit, which involves numerous insurers, concerns coverage issues relating to over 1,000 tobacco related claims asserted against Liggett over the past 20 years. However, Liggett only began submitting claims for coverage under the policies in January 2000. The trial court granted the CNA insurance subsidiaries' summary judgment motions asserting that they have no duty to defend or to indemnify as to a number of representative lawsuits. On May 16, 2002, the Delaware Supreme Court affirmed the trial court's grant of summary judgment to CNA and other insurers.

IGI Contingency

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

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

As noted, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program. CNA believes it has valid and enforceable

~~reinsurance contracts with the AAHRU Facility and other reinsurers with respect to the IGI Program, including the United States workers compensation carve out business. However, certain reinsurers dispute their liabilities to CNA, and CNA has commenced arbitration proceedings against such reinsurers.~~



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

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

~~California Wage and Hour Litigation~~

~~In Ernestine Samora, et al. v. Continental Casualty Company, Case No. BC 242487, Superior Court of California, County of Los Angeles, California and Brian Wenzel v. Galway Insurance Company, Superior Court of California, County of Orange No. BC01CC08868 (coordinated), two former CNA employees filed lawsuits in Los Angeles Superior Court on behalf of purported classes of CNA employees asserting they worked hours for which they should have been compensated at a rate of 1 1/2 times their base hourly wage over a four year period. The cases were coordinated and an amended complaint was filed which alleges overtime claims under California law over a four year period. In June 2002, CNA filed a responsive pleading denying the material allegations of the amended complaint. CNA intends to defend this case vigorously. Due to the recent commencement of discovery and the uncertainty of California law as applied to the facts of these cases, an estimate of the extent of losses or the probability of success on liability is subject to considerable uncertainty. Based on facts and circumstances currently known, in the opinion of management, the outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.~~

~~Voluntary Market Premium Litigation~~

~~CNA, along with dozens of other insurance companies, is a defendant in sixteen purported class action cases brought by large policyholders, which generally allege that the defendants, as part of an industry-wide conspiracy, included improper charges in their retrospectively rated and other loss sensitive insurance premiums. Fourteen lawsuits were brought as class actions in state courts and one in federal court. Among the claims asserted were violations of state antitrust laws, breach of contract, fraud and unjust enrichment. In two of the cases, the defendants won dismissals on motions and, in three others, class certification was denied after hearing. Plaintiffs voluntarily dismissed their claims in three states. In the federal court case, Sandwich Chef of Texas, Inc., at al. v. Reliance National Indemnity Insurance Company, et al., Civil Action No. H-98-1484, United States District Court for the Southern District of Texas, the district court certified a multi-state class. The U.S. Court of Appeals for the Fifth Circuit granted leave for an interlocutory appeal. An estimate of the extent of losses or the probability of success on liability is subject to considerable uncertainty. Based on facts and circumstances currently known, in the opinion of management, the outcome of the voluntary market premium litigation cases will not materially affect the equity of the Company, although results of operations may be adversely affected.~~



~~Other Contingencies~~

~~CNA has a commitment to purchase a $100.0 floating rate note issued by the California Earthquake Authority in the event California earthquake-related insurance losses exceed $4,900.0 prior to December 31, 2002.~~

~~CNA is obligated to make future payments totaling $433.0 for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $50.0 in 2002; $85.0 in 2003; $65.0 in 2004; $57.0 in 2005; and $176.0 in 2006 and beyond. Additionally, CNA has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication services, amounting to approximately $34.0. Estimated future minimum purchases under these contracts are as follows: $8.0 in 2002; $13.0 in~~

~~2003; $10.0 in 2004; and $3.0 in 2005.~~

~~NON INSURANCE~~

~~TOBACCO RELATED~~

~~Approximately 4,575 product liability cases are pending against cigarette manufacturers in the United States; Lorillard is a defendant in approximately 4,185 of these cases. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Some of the lawsuits also name the Company as a defendant. Among the 4,575 product liability cases are approximately 1,200 cases pending in a West Virginia court. Another group of approximately 2,800 cases has been brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits and is a defendant in most of the cases pending in West Virginia.~~

~~Excluding the flight attendant and West Virginia suits, approximately 570 product liability cases are pending against U.S. cigarette manufacturers. Of these 570 cases, Lorillard is a defendant in approximately 240 cases. The Company is a defendant in approximately 45 of these actions, although it has not received service of process in approximately 10 of them.~~

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

~~Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects resulting from an individual's use of cigarettes and/or smokeless tobacco products, addiction to smoking or exposure to environmental tobacco smoke. These cases are generally referred to as "conventional product liability cases." In other cases, plaintiffs have brought claims as purported class actions on behalf of large numbers of individuals for damages allegedly caused by smoking.~~



~~These cases are generally referred to as purported "class action cases." In other cases, plaintiffs are U.S. and foreign governmental entities or entities such as labor unions, private companies, hospitals or hospital districts, American Indian tribes, or private citizens suing on behalf of taxpayers. Plaintiffs in these cases seek reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages. These cases are generally referred to as "reimbursement cases." In addition, there are claims for contribution and/or indemnity in relation to asbestos claims filed by asbestos manufacturers or the insurers of asbestos manufacturers. These cases are generally referred to as "claims for contribution."~~

~~In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time, ending more than 40 years ago. These cases are generally referred to as "filter cases." Approximately 40 filter cases are pending against Lorillard. The number of pending filter cases has approximately doubled during 2002. The Company is a defendant in one of the pending filter cases.~~

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

~~While Lorillard intends to defend vigorously all smoking and health~~

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

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

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

~~SIGNIFICANT RECENT DEVELOPMENTS~~

~~During August of 2002, the California Supreme Court issued two rulings in separate cases in which it addressed the effect of an amendment to a~~



~~statute in effect in the state between January 1, 1988, and December 31, 1997 (the "immunity period"). In one of its rulings, the California Supreme Court held that the amendment conferred immunity to cigarette manufacturers in product liability actions for conduct engaged in during the immunity period, regardless of when a plaintiff may have sustained or discovered an injury allegedly caused by the cigarette manufacturers. In the second decision issued during August of 2002, the California Supreme Court held that, within the immunity period, immunity does not extend to allegations that the cigarette manufacturers "used additives that exposed smokers to dangers beyond those commonly known to be associated with cigarette smoking." The California Supreme Court did not precisely define the term "additives," nor did it expressly state how the phrase "dangers beyond those commonly known to be associated with cigarette smoking" should be considered.~~

~~During July of 2002, the U.S. District Court for the Eastern District of New York issued a ruling in a reimbursement suit filed by private citizens, Mason v. The American Tobacco Company, Inc., et al., that denied plaintiffs' motion for class certification on behalf of U.S. taxpayers and granted defendants' motion to dismiss the case. Plaintiffs have noticed an appeal to the U.S. Court of Appeals for the Second Circuit.~~

~~During June of 2002, a jury impaneled by the Circuit Court of Dade County, Florida, returned a verdict in favor of the plaintiff in a suit filed by a flight attendant, French v. Philip Morris Incorporated, et al. The jury awarded plaintiff $2.0 for past damages and $3.5 for future damages. The suit was filed pursuant to the settlement agreement in the Broin case and plaintiff was not permitted to seek recovery of punitive damages. The defendants, including Lorillard, have filed a joint motion to set aside the verdict and for entry of judgment in accordance with their motions for directed verdict. In the alternative, defendants seek a new trial and/or remittitur of the damages awarded to the plaintiff. The Circuit Court of Dade County, Florida has heard argument of this motion and has taken it under advisement.~~

~~During June of 2002, a jury impaneled by the Circuit Court of Dade County, Florida, returned a verdict in favor of the plaintiffs and against the defendants in a suit by individuals against other cigarette manufacturers, Lukacs v. Brown & Williamson Tobacco Corporation, et al. Plaintiffs were awarded $0.5 in economic damages, $24.5 in non economic damages and $12.5 in damages for loss of consortium. Plaintiffs did not seek punitive damages at trial as they contend they are entitled to a portion of the amount awarded in the Engle case. A final judgment will not be entered in the case until the Engle appeal is resolved. Neither the Company nor Lorillard were defendants in this suit at trial.~~

~~During June of 2002, an intermediate court of appeal in Oregon affirmed the verdict returned in favor of the plaintiff in the case of Williams v. Philip Morris Incorporated and reinstated the jury's award of $79.5 in punitive damages. Philip Morris has filed a petition for rehearing with the Oregon Court of Appeals that asks the court to reconsider its June decision. As of August 1, 2002, the Oregon Court of Appeals had not ruled on the petition for rehearing. Neither the Company nor Lorillard were~~

~~defendants in this action.~~

~~During May of 2002, a jury impaneled by the Circuit Court of Pinellas County, Florida, returned a verdict in favor of the defendant in the case of Tune v. Philip Morris Incorporated. A final judgment has not been~~



~~entered and the time for plaintiff to seek post-verdict remedies has not expired. Neither the Company nor Lorillard were defendants in this action.~~

~~During April of 2002, the U.S. District Court for the Middle District of North Carolina granted a motion for class certification on behalf of tobacco farmers in the case of DeLoach v. Philip Morris Inc., et al. The class members contend that U.S. cigarette manufacturers conspired to set the prices they offered to U.S. growers for tobacco. An estimated 500,000 farmers are members of the class. Defendants sought permission to appeal the District Court's class certification decision to the Fourth Circuit Court of Appeals, and in June of 2002 a three judge panel of that court declined to accept the appeal. A motion for reconsideration by the full court was also denied, and discovery is proceeding in the case.~~

~~During March of 2002, a jury impaneled by the Circuit Court of Multnomah County, Oregon, returned a verdict in favor of the plaintiff in a suit brought against another cigarette manufacturer, Schwarz v. Philip Morris Incorporated. The jury awarded plaintiff approximately one hundred nineteen thousand dollars in economic damages, fifty thousand dollars in non-economic damages and $150.0 in punitive damages. Many of plaintiff's claims were directed to allegations that the defendant had made false representations regarding the low tar cigarettes smoked by the decedent. The court granted in part the defendant's motion for elimination or reduction of the punitive damages award and reduced the punitive damages verdict to $100.0. The court denied the defendant's motion for new trial and for judgment notwithstanding the verdict. Philip Morris has noticed an appeal to the Oregon Court of Appeals. Neither the Company nor Lorillard are defendants in this matter.~~

~~During March of 2002, a jury impaneled by the U.S. District Court for the District of Rhode Island returned a verdict in favor of the only defendant in a case against another U.S. cigarette manufacturer, Hyde v. Philip Morris Incorporated. The court denied plaintiffs' motion for new trial. Plaintiff did not notice an appeal from the judgment in favor of Philip Morris Incorporated. Neither the Company nor Lorillard were defendants in this matter.~~

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

~~During February of 2002, a jury impaneled by the U.S. District Court for the District of Kansas returned a verdict in favor of the plaintiff in a case against other U.S. cigarette manufacturers, Burton v. R.J. Reynolds Tobacco Company, et al. The jury awarded plaintiff approximately $0.2 in actual damages and found that plaintiff had presented evidence that entitled him to an award of punitive damages from one of the two defendants in the case. Pursuant to Kansas law, the amount plaintiff was awarded in punitive damages was set by the court. During June of 2002, the court issued an order awarding plaintiff $15.0 in punitive damages from R.J. Reynolds. R.J. Reynolds' post trial motions were denied and it has~~



~~noticed an appeal to the U.S. Court of Appeals for the Tenth Circuit. Neither the Company nor Lorillard are defendants in this matter.~~

~~During July of 2002, the U.S. District Court for the Northern District of Georgia granted defendants' motion for summary judgment in a case brought against Lorillard and other domestic and international cigarette manufacturers by tobacco product wholesalers for violations of U.S. antitrust laws. The decision entirely dismissed nine cases that were consolidated for pre-trial purposes. The plaintiffs have filed a notice of appeal in the U.S. Court of Appeals for the Eleventh Circuit.~~

~~SETTLEMENT OF STATE REIMBURSEMENT LITIGATION - On November 23, 1998,~~

~~Lorillard, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and R.J. Reynolds Tobacco Company, the "Original Participating Manufacturers," entered into a Master Settlement Agreement with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands to settle the asserted and unasserted health care cost recovery and certain other claims of those states. These settling entities are generally referred to as the "Settling States." The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota, which together with the Master Settlement Agreement are generally referred to as the "State Settlement Agreements."~~

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

~~Lorillard recorded pretax charges of $291.9, $302.1, $587.7 and $581.3 for the three and six months ended June 30, 2002 and 2001, respectively, to account for its obligations under the State Settlement Agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur.~~

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

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

~~In addition, as part of the Master Settlement Agreement, the Original Participating Manufacturers committed to work cooperatively with the tobacco growing community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original~~



~~Participating Manufacturers reached an agreement to establish a $5,200.0 trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 states. Payments to the trust fund are to be allocated among the Original Participating Manufacturers according to their relative market share of domestic cigarette shipments, except that Philip Morris paid more than its market share in 1999 but will have its payment obligations reduced in 2009 and 2010 to make up for the overpayment. Of the total $5,200.0, a total of $1,211.0 was paid since 1999 through June 30, 2002, of which $102.0 was paid by Lorillard. Lorillard believes its remaining payments under the agreement will total approximately $413.0. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and the effect of new increases in state or federal excise taxes on tobacco products that benefit the tobacco growing community.~~

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

~~CONVENTIONAL PRODUCT LIABILITY CASES - Conventional product liability cases are cases in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, due to use of smokeless tobacco products, or due to cigarette or nicotine dependence or addiction. Plaintiffs in most~~

~~conventional product liability cases seek unspecified amounts in compensatory damages and punitive damages. Lorillard is a defendant in approximately 1,270 of these cases. This total includes approximately 1,100 cases pending in West Virginia that are part of a consolidated proceeding. Additional cases are pending against other cigarette manufacturers. The Company is a defendant in seven of the cases filed by individuals, although six of the cases have not been served on the Company. The Company is not a defendant in any of the conventional product liability cases pending in West Virginia.~~

~~Since January 1, 2000, 17 cases filed by individual plaintiffs have been tried. Lorillard was a defendant in three of the 17 cases, and juries returned verdicts in favor of the defendants in each of these three matters. The Company was not a defendant in any of the 17 conventional product liability cases tried since January 1, 2000. As of August 1, 2002, no trials were proceeding in any matter filed by individuals against Lorillard or the Company, or, to our knowledge, against any other U.S. cigarette manufacturer. Lorillard understands that a trial against another cigarette manufacturer has begun in the Superior Court of California, Los Angeles County.~~

~~Lorillard was not a defendant in 14 of the individual cases tried since January 1, 2000. Juries have returned verdicts in favor of the defendants in six of the cases. In one of the suits, a court granted the motion for directed verdict filed by the defendant at the conclusion of plaintiff's evidence. In the seven cases decided in plaintiffs' favor, juries have awarded various amounts. During 2002, an Oregon jury awarded the plaintiff approximately $0.17 in actual damages and $150.0 in punitive damages. In a~~



~~second 2002 trial, a Kansas jury awarded a plaintiff $.2 in actual damages and found that plaintiff had presented evidence that entitled him to recover an award for punitive damages. The court subsequently awarded plaintiff $15.0 in punitive damages. In a third trial in 2002, a jury awarded the plaintiffs $0.5 in economic damages, $24.5 in noneconomic damages and $12.5 in damages for loss of consortium. In 2001, a Florida jury awarded plaintiff $0.17 in actual damages but declined to award punitive damages, while a California jury awarded another plaintiff approximately $5.5 in actual damages and $3,000.0 in punitive damages, although the court subsequently reduced the punitive damages award to $100.0. During 2000, a California jury awarded plaintiffs $21.5 and a Florida jury awarded plaintiff $0.2.~~

~~As a result of pending appeals or post-trial motions, plaintiffs have not been able to execute on any of the judgments reflecting these adverse verdicts. In all but two of these matters, defendants have noticed appeals to the appropriate courts of appeal. In the case in Florida in which plaintiff was awarded $0.2 in 2000, the trial court granted the defendant's post-trial motion and entered judgment in its favor. Plaintiff, however, has noticed an appeal. In one of the matters tried during 2002, the deadline for defendants to notice an appeal has not expired as a final judgment will not be entered until an appeal is resolved in the Engle class action case discussed below.~~

~~Appeals also are pending in two cases in which adverse verdicts were returned prior to January 1, 2000. Neither Lorillard nor the Company is a defendant in either of these matters. In one of these matters, the California Supreme Court issued a ruling during January of 2002 that accepted for review the defendant's appeal from a 1999 judgment by a California court that reflects an award to a California plaintiff of $26.5. The California Court of Appeal, in rulings issued during 2001, affirmed this judgment and subsequently denied the defendant's motion for rehearing. In the second of these matters, the Oregon Court of Appeals issued an order during June of 2002 that affirmed the jury's verdict in favor of the plaintiff and reinstated the full amount of the $79.5 punitive damages award. The defendant has filed a petition for reconsideration of this ruling. As of August 1, 2002, the Oregon Court of Appeals had not ruled on the petition.~~

~~Some cases against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products are scheduled for trial during 2002 and beyond. These trials include a consolidated trial of the cases brought by approximately 1,200 West Virginia smokers or users of smokeless tobacco products that is scheduled to begin during June of 2003. Lorillard is a defendant in some of the cases set for trial, including the consolidated West Virginia trial. The trial dates are subject to change.~~

~~FLIGHT ATTENDANT CASES - There are approximately 2,800 cases pending in the Circuit Court of Dade County, Florida against Lorillard and three other U.S. cigarette manufacturers in which the plaintiffs are present or~~

~~former flight attendants, or the estates of deceased flight attendants, who allege injury as a result of exposure to environmental tobacco smoke in aircraft cabins. The Company is not a defendant in any of the flight attendant cases.~~

~~The suits were filed as a result of a settlement agreement on October 10, 1997 by the parties to Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result~~



~~of exposure to environmental tobacco smoke. The trial court approved the settlement agreement on February 3, 1998. Pursuant to the settlement agreement, among other things, Lorillard and three other U.S. cigarette manufacturers paid approximately $300.0 to create and endow a research institute to study diseases associated with cigarette smoke. In addition, the settlement agreement permitted the plaintiff class members to file individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.~~

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

~~Trial has been held in two of the flight attendant cases. On April 5, 2001, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. The court has entered final judgment in favor of the defendants and has denied plaintiff's post-trial motions. Plaintiff has noticed an appeal to the Florida Third District Court of Appeal. On June 18, 2002, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of the plaintiff and against the defendants, including Lorillard, and awarded her $2.0 for past damages and $3.5 for future damages. The defendants, including Lorillard, have filed a joint motion to set aside the verdict and for entry of judgment in accordance with their motions for directed verdict. In the alternative, defendants seek a new trial and/or remittitur of the damages awarded to the plaintiff. The Circuit Court of Dade County, Florida has heard argument of this motion and has taken it under advisement.~~

~~Additional flight attendant cases are set for trial. As of August 1, 2002, approximately 15 such cases were scheduled for trial between August of 2002 and March of 2003. It is possible that several of the flight attendant cases will be tried during 2002 and thereafter.~~

~~CLASS ACTION CASES - Certain cases have been filed against cigarette manufacturers, including Lorillard, in which plaintiffs purport to seek class certification on behalf of groups of cigarette smokers. Lorillard is a defendant in approximately 20 of these cases, three of which also name the Company as a defendant. One case that names both the Company and Lorillard as defendants has not been served on any of the parties. As of August 1, 2002, three of the purported class actions were on appeal. The remaining purported class actions are in the pre-trial, discovery stage, except that trial proceedings are under way in the case of Scott v. The American Tobacco Company, et al. Most of the suits seek class~~



~~certification on behalf of residents of the states in which the purported class action cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in all but two of the purported class action cases seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. In one of the two remaining purported class action cases, plaintiffs seek class certification on behalf of individuals~~

~~who paid insurance premiums. Plaintiffs in the other remaining suit seek class certification on behalf of U.S. residents under the age of 22 who purchased cigarettes as minors and who do not have personal injury claims. Neither Lorillard nor the Company are defendants in approximately 20 additional class action cases pending against other cigarette manufacturers, many of which assert claims on behalf of smokers of "light" cigarettes. Plaintiffs in a few of the reimbursement cases, which are discussed below, also seek certification of such cases as class actions.~~

~~Various courts have ruled on motions for class certification in smoking and health related cases. In 12 state court cases, which were pending in five states and the District of Columbia, courts have denied plaintiffs' class certification motions. In another 15 cases, cigarette manufacturers have defeated motions for class certification before either federal trial courts or courts of appeal from cases pending in 13 states and the Commonwealth of Puerto Rico. The denial of class certification in a New York federal court case, however, was due to the court's interest in preserving judicial resources for a potentially broader class certification ruling in In re Simon (II) Litigation, which is discussed below. In six cases in which Lorillard is a defendant, plaintiffs' motions for class certification have been granted and appeals either have been rejected at the interlocutory stage, or, in one case, plaintiffs' claims were resolved through a settlement agreement. These six cases are Broin (which is the matter concluded by a settlement agreement and discussed under "Flight Attendant Cases"), Engle, Blankenship, Scott, Daniels and Brown.~~

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

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

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

~~On July 7, 1999, the jury returned a verdict against defendants, including Lorillard, at the conclusion of the first phase. The jury found, among other things, that cigarette smoking is addictive and causes lung~~



~~cancer and a variety of other diseases, that the defendants concealed information about the health risks of smoking, and that defendants' conduct rose to a level that would permit a potential award or entitlement to punitive damages. The verdict permitted the trial to proceed to a second phase. The jury was not asked to award damages in the Phase One verdict.~~

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

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

~~On April 7, 2000, the jury found in favor of the three plaintiffs and awarded them a total of $12.5 in economic damages, pain and suffering~~

~~damages and damages for loss of consortium. After awarding damages to one of the three plaintiffs, the jury appeared to find that his claims were barred by the statute of limitations. The final judgment entered by the trial court on November 6, 2000 reflected the damages award, and held that only a portion of this plaintiff's claims were barred by the statute of limitations.~~

~~The second part of Phase Two of the trial began on May 22, 2000 and was heard by the same jury that heard the trial's prior phases and considered evidence as to the punitive damages to be awarded to the class. On July 14, 2000, the jury awarded approximately $145,000.0 in punitive damages against all defendants, including $16,250.0 against Lorillard.~~

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



~~which included the $100.0 that was posted as collateral for its appellate bond. Accordingly, Lorillard recorded a pretax charge of $200.0 in the second quarter of the year ended December 31, 2001.~~

~~In the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Lorillard in the Engle agreement would terminate and the class would be free to challenge the Florida legislation. As of June 30, 2002, Lorillard, Inc. had a balance sheet net worth of approximately $1,404.5.~~

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

~~Now that the jury has awarded punitive damages and final judgment has been entered, Lorillard believes that it is unclear how the Punitive Damages Order will be implemented. The Punitive Damages Order provides that the lump sum punitive damages amount, if any, will be allocated equally to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damages amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The Punitive Damages Order does not address whether defendants would be required to pay the punitive damages award, if any, prior to a determination of claims of all class members, which is Phase Three of the trial plan, a process that could take years to conclude. The final judgment entered by the court on November 6, 2000 directs that the amounts awarded by the jury are to be paid immediately. Phase Three would address potentially hundreds of thousands of other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual-specific issues regarding entitlement to damages, in individual trials before separate juries.~~

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

~~during Phase Three of the Engle case and should be stayed while the Engle appeal is proceeding. Trial has been held in one of the cases in which Lorillard was not a party. During June of 2002, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of the plaintiffs and awarded them $0.5 in economic damages, $24.5 in noneconomic damages and $12.5 in damages for loss of consortium. No post trial motions are scheduled to be filed as a final judgment reflecting the verdict will not be entered until the Engle appeal is resolved.~~

~~Lorillard remains of the view that the Engle case should not have been certified as a class action. Lorillard believes that class certification in the Engle case is inconsistent with the majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged the class~~



~~certification, as well as numerous other legal errors that it believes occurred during the trial. As of August 1, 2002, briefing in defendants' appeal was scheduled to conclude during August of 2002. The Florida Third District Court of Appeal has not scheduled the appeal for oral argument. Lorillard believes that an appeal of these issues on the merits should prevail.~~

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

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), the trial court certified a class comprised of residents of the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages. Jury selection began during June of 2001. A twelve member jury and ten alternate jurors were selected, but the Louisiana Court of Appeals and the Louisiana Supreme Court, in response to writ applications initiated by the defendants, excused a total of 14 jurors or alternate jurors. In their writ applications, defendants contended that several selected jurors had family members who were potential members of the class certified by the trial court, and that the selected jury was biased against the defendants. The Louisiana Supreme Court directed the trial court to re-open the jury selection process in order to select additional jurors. The Louisiana Supreme Court, however, has denied defendants' motion to declare a mistrial due to issues related to the jury selection process. The trial court has not announced when the jury as finally constituted would begin hearing evidence in the trial. As of August 1, 2002, a full complement of jurors had not been selected. Lorillard is a defendant in the case.~~

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

~~During April of 2001, the Superior Court of San Diego County, California in the case of Brown v. The American Tobacco Company, Inc., et al., granted in part plaintiff's motion for class certification and certified a~~



~~class comprised of adult residents of California who smoked at least one of defendants' cigarettes during the applicable time period and who were~~

~~exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California Business and Professions Code sections 17200 and 17500. The court subsequently defined the applicable class period for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. Trial is scheduled to begin during March of 2003. Lorillard is a defendant in the case.~~

~~REIMBURSEMENT CASES - In addition to the cases settled by the State Settlement Agreements described above, approximately 45 other suits are pending, comprised of cases brought by the U.S. federal government, county governments, city governments, unions, American Indian tribes, hospitals or hospital districts, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds allegedly expended by them to provide health care to individuals with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims, including injunctive relief, indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs in some of these actions seek certification as class actions. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in some of the cases seek medical monitoring. Lorillard is named as a defendant in all of the reimbursement cases except for a few of those filed in U.S. courts by foreign governments. The Company is named as a defendant in approximately 25 of the pending reimbursement cases, although it has not received service of four of these matters.~~

~~U.S. Federal Government Action - The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action. Plaintiff asserted claims under the Medical Care Recovery Act, the Medicare as Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act. The government alleges in the complaint that it has incurred costs of more than $20,000.0 annually in providing health care costs under several federal programs, including Medicare, military and veterans' benefits programs, and the Federal Employee Health Benefits Program. The federal government seeks to recover an unspecified amount of health care costs, and various types of other relief, including disgorgement of profits, injunctive relief and declaratory relief that defendants are liable for the government's future costs of providing health care resulting from the defendants' alleged wrongful conduct.~~

~~During September of 2000, the court granted in part and denied in part defendants' motion to dismiss the complaint. The court dismissed plaintiff's claims asserted under the Medical Care Recovery Act as well as those under the Medicare as Secondary Payer provisions of the Social Security Act. The court denied the motion as to plaintiff's claims under the Racketeering Influenced and Corrupt Organizations Act. Plaintiff sought modification of the trial court's order as it related to the dismissal of the Medical Care Recovery Act claim. In an amended complaint filed during February of 2001, plaintiff attempted to replead the Medicare as Secondary Payer claim. In a July 2001 decision, the court reaffirmed its dismissal of the Medical Care Recovery Act claims. The court also~~



~~dismissed plaintiff's reasserted claims under the Medicare as Secondary Payer Act. The court has denied a motion for intervention and a proposed complaint in intervention filed by the Cherokee Nation Tribe on behalf of a purported nationwide class of American Indian tribes. Trial in this matter is schedule to begin during July of 2003.~~

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

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

~~In addition, Lorillard and the Company were dismissed from three suits that remain pending against other defendants.~~

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

~~Reimbursement Cases by American Indian Tribes - American Indian tribes are the plaintiffs in four pending reimbursement suits. Three of the four cases have been filed in tribal courts. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the pending tribal cases. One of the four cases is pending before a federal court of appeals following plaintiffs' appeal from an order that granted defendants' motion to dismiss the complaint. During July of 2002, the court of appeals affirmed the judgment in favor of the defendants. As of August 1, 2002, the deadline for the plaintiff to seek further appellate review had not expired. The remaining three cases are in the pre-trial discovery stage.~~

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



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

~~Reimbursement Cases by Labor Unions - One case is pending in which the plaintiffs are the trust funds of several labor unions. The Company is not a defendant in this action. Approximately 75 union cases have been dismissed in recent years. Some of these cases were dismissed voluntarily, while others were dismissed as a result of defendants' motions. Appeals were sought from some of these dismissal rulings and defendants have prevailed in each of these appeals. The Second, Third, Fifth, Seventh, Eighth, Ninth and Eleventh Circuit Courts of Appeal have found in favor of the defendants in each of the appeals from dismissal orders entered by the federal trial courts that were submitted to them, and the U.S. Supreme Court has denied petitions for writ of certiorari that sought review of some of these decisions. In addition, the Circuit Court of Appeals for the District of Columbia entered a ruling in 2001 that found in favor of the defendants on an appeal they filed from a ruling by a trial court that refused to dismiss four union cases. During 2001, an intermediate California court of appeal affirmed the final judgment entered in favor of the defendants in a union case, and the California Supreme Court has accepted plaintiffs' appeal. Several cases pending in state courts also~~

~~have been dismissed.~~

~~EASTERN DISTRICT OF NEW YORK LITIGATION - On April 18, 2000, a federal judge in the Eastern District of New York issued an order that consolidated, for settlement purposes only, ten pending cases involving Lorillard as well as other industry defendants. The cases included three smoking and health class actions, three contribution cases, two union cases, one private company case and one private citizen reimbursement case. The judge's April 18, 2000 order invited the federal government to join in the settlement discussions. On July 31, 2000, the federal judge orally proposed the formation of a national punitive damages class action for the purposes of settlement. Pursuant to the judge's proposal, Lorillard entered into discussions with a committee of counsel representing a broad-based group of plaintiffs in an effort to arrive at a comprehensive settlement of all exemplary and punitive damage claims, including claims involved in the Engle class action in Florida described above. The parties were unable to reach an understanding and the negotiations were suspended in late 2000.~~



~~The federal judge directed that a combined suit be filed encompassing all of the claims pending before him that name cigarette manufacturers as defendants. This matter is styled In re Simon (II) Litigation (U.S. District Court, Eastern District, New York, filed September 6, 2000). The Company and Lorillard are defendants in this proceeding. Many of the cases that comprised the In re Simon (II) Litigation have been dismissed. The dismissals have included a test case comprising the claims of 15 individual plaintiffs for trial. In addition, the private company case, Blue Cross and Blue Shield of New Jersey, et al., the private citizen case, Mason v. The American Tobacco Company, et al., and a subsequently dismissed union case, Bergeron v. Philip Morris, Inc., et al., have been severed from In re Simon (II) Litigation. During July of 2002, plaintiffs have filed a third amended complaint on behalf of a purported nationwide class of individual smokers who have been diagnosed with certain specified diseases. Briefing regarding class certification is ongoing.~~

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

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

~~FILTER CASES - A number of cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than 40 years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 40 filter cases are pending in federal and state courts against Lorillard. The Company is a defendant in one of the pending filter cases. The number of pending filter cases has approximately doubled during 2002. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs in most of these cases seek unspecified amounts in compensatory and punitive damages. Trials have been held in 15 such cases, including three since January 1, 2000. Juries have returned verdicts in favor of Lorillard in 11 of the 15 trials. Four verdicts have been returned in plaintiffs' favor. In a 1995 trial, a California jury awarded plaintiffs approximately $1.2 in actual damages and approximately $0.7 in punitive damages. In a 1996 trial, another California jury awarded plaintiff approximately $0.1 in actual damages. In a 1999 trial, a Maryland jury awarded plaintiff approximately $2.2 in actual damages. In a 2000 trial, a California jury awarded plaintiffs $1.1 in actual damages and the case was settled prior to a determination of punitive damages.~~

~~TOBACCO RELATED ANTITRUST CASES - Wholesalers and Direct Purchaser Suits - Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege that defendants conspired to fix the price of cigarettes to wholesalers since 1993 in violation of the Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre-trial purposes in the U.S. District Court for the Northern District of Georgia. The Court has granted class certification for a four-year class (beginning in 1996 and ending in 2000) of domestic direct purchasers. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases. On July 11, 2002, the Court granted motions for summary judgment filed by Lorillard and all other defendants dismissing the actions in their entirety. Plaintiffs have filed a notice of appeal in the U.S. Court of Appeals for the Eleventh Circuit.~~

~~Indirect Purchaser Suits - Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in all but one of these indirect purchaser cases. One indirect purchaser suit, in New York, has been dismissed in its entirety. The Arizona indirect purchaser suit was dismissed by the trial court, but the dismissal was reversed on appeal in May 2002. While one court has granted plaintiff's motion to certify a class of consumers, two other courts have refused to do so, and other motions seeking class certification have been deferred by other courts pending resolution of the federal case discussed above. In Kansas, plaintiffs have filed a Motion to Compel against Lorillard (and one other defendant) seeking certain documents for which Lorillard has claimed a joint defense privilege as well as other unspecified documents. Lorillard is currently preparing a response. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.~~

~~Tobacco Growers Suit - DeLoach v. Philip Morris Inc., et al. (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies are also presently named as defendants, and the plaintiffs have now added the major leaf buyers as defendants. This case was originally filed in U.S. District Court, District of Columbia, and transferred to a North Carolina federal court upon motion by the defendants. The plaintiffs' claims relate to the conduct of the companies in the purchase of tobacco through the auction system under the federal program. The suit seeks an unspecified amount of actual damages, trebled under the antitrust laws, and injunctive relief. On April 3, 2002 the court certified a class consisting of all persons holding a quota (the licenses that a farmer must either own or rent to sell the crop) to grow, and all domestic producers who sold, flue cured or burley tobacco at anytime from February 1996 to present. Defendants' petition to the United States Court of Appeals for the Fourth Circuit seeking permission to appeal the District Court's decision on class certification was denied on June 12, 2002. Pre-trial discovery has commenced and is currently scheduled to be completed on or before July 1, 2003. A trial date has not yet been scheduled.~~



* * * *

~~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.~~

~~14. In the opinion of Management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2002 and December 31, 2001 and the statements of operations for the three and six months and changes in cash flows for the six months ended June 30, 2002 and 2001.~~

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

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

OVERVIEW

The Company reported consolidated net income (including both the Loews Group and Carolina Group) for the 2002 second quarter of $201.9 million, compared to a net loss of $1,415.2 million in 2001. The net loss for the second quarter of 2001 includes a $3.2 billion pretax charge ($1.8 billion after taxes and minority interest) at CNA related to a change in estimate of prior year net loss and allocated loss adjustment expense reserves and retrospective premium accruals, and a $200.0 million pretax charge ($121.0 million after taxes) at Lorillard related to an agreement with the class in the Engle case.

Consolidated net operating income, which excludes net investment (losses) gains and discontinued operations, and excluding the second quarter of 2001 CNA and Lorillard charges discussed above, for the quarter ended June 30, 2002 was $321.0 million, compared to $233.0 million in the second quarter of 2001.

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

Net income attributable to Loews Common Stock for the second quarter of 2002 amounted to $160.5 million or $0.85 per share, compared to a net loss of $1,415.2 million or $7.18 per share in the comparable period of the prior year. Net income in the second quarter of 2002 includes net investment losses attributable to Loews Common Stock of $119.1 million or $0.63 per share, compared to gains of $280.7 million or $1.42 per share in the comparable period of the prior year.

Net operating income attributable to Loews Common Stock, which excludes net investment (losses) gains and discontinued operations, for the quarter ended June 30, 2002, was $279.6 million or $1.48 per share, compared to a loss of $1,697.8 million or $8.61 per share in the comparable period of the prior year.

Net income attributable to Carolina Group Stock for the 2002 second quarter amounted to $41.4 million or $1.03 per Carolina Group share.

Six Months Ended June 30, 2002 compared with 2001

For the six months ended June 30, 2002 consolidated net income (including both the Loews Group and Carolina Group) amounted to $454.8 million, compared to a net loss of $942.9 million in the comparable period of the prior year. The first half of 2002 included a loss for discontinued operations at CNA of $31.0 million or $0.16 per share of Loews Common Stock, compared to income



from discontinued operations of $2.1 million or $0.01 per share of Loews Common Stock in the comparable period of the prior year. The first half of 2001 also included a charge for accounting changes of $53.3 million or $0.27 per share of Loews Common Stock, related to accounting for derivative instruments at CNA, and the CNA and Lorillard charges discussed above.

Consolidated net operating income, which excludes net investment gains (losses), discontinued operations and accounting changes, and excluding the second quarter of 2001 CNA and Lorillard charges discussed above, was $589.4 million in the first half of 2002, compared to $529.5 million in the comparable period of the prior year.

Net operating income attributable to Loews Common Stock, which excludes net investment (losses) gains, discontinued operations and accounting changes, for the first half of 2002, was $530.0 million or $2.80 per share, compared to a loss of $1,401.3 million or $7.10 per share in the comparable period of the prior year.

~~Net income attributable to Carolina Group Stock for the first half of 2002 amounted to $59.4 million or $1.48 per Carolina Group share.~~

~~At June 30, 2002, Loews Common Stock had a book value of $59.18 per share compared to a book value of $50.39 per share at December 31, 2001. The increase in Loews Common Stock book value per share is primarily due to proceeds from issuance of the Carolina Group common stock and the Loews Group's net economic interest in the notional intergroup debt receivable.~~

~~Classes of Common Stock~~

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

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

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



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

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

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

~~RESULTS OF OPERATIONS BY BUSINESS SEGMENT~~

~~CNA Financial~~

~~Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is a 90% owned subsidiary of the Company.~~

~~CNA conducts its operations through five operating groups: Standard Lines, Specialty Lines and CNA Re (these groups comprise the Company's Property-Casualty segment); Group Operations and Life Operations. In addition to these five operating segments, certain other activities are reported in the Other Insurance segment. The Other Insurance segment consists of royalty and administrative service activities related to the personal insurance business that was sold to The Allstate Corporation in 1999, losses and expenses related to centralized adjusting and settlement of asbestos, pollution and mass tort claims, certain insurance operations that are operating in run-off and not conducting new underwriting, interest expense on corporate debt, eBusiness initiatives, and intercompany eliminations. These segments reflect the way CNA manages its operations and makes business decisions.~~

~~During the second quarter of 2002, Group Reinsurance, the business which assumes reinsurance from unaffiliated entities on group life, accident and health products as well as excess medical risk coverages for self funded employers, was transferred from Group Operations to the Other Insurance segment to be included as part of run-off insurance operations. Also, CNA Trust, a limited-operations bank specializing in 401(k) plan administration, was transferred from Life Operations to Group Operations. Segment disclosures of prior periods have been modified to conform with the current period presentation.~~

~~The consolidated operations for the three and six months ended June 30, 2001 were significantly impacted by the second quarter 2001 prior year reserve strengthening, corporate aggregate reinsurance treaties, and restructuring and other related charges. A discussion of these items, along with CNA's current terrorism exposure and description of reserves is presented before the results of operations by business segment.~~



~~Second Quarter 2001 Prior Year Reserve Strengthening~~

~~During the second quarter of 2001, CNA noted the continued emergence of adverse loss experience across several lines of business related to prior years that are discussed in further detail below. CNA completed a number of reserve studies during the second quarter of 2001 for many of its lines of business, including those in which these adverse trends were noted. With respect to environmental pollution and mass tort and asbestos ("APMT") reserves, CNA reviewed internal claims data as well as studies generated by external parties, including a significant industry analysis of asbestos and environmental pollution exposures by an international rating agency. As a result of these various reviews, management concluded that ultimate losses, including losses for APMT claims, would be higher in the range of possible outcomes than previously estimated. CNA recorded a pretax charge of $2.6 billion ($1.5 billion after tax and minority interest) of reserve strengthening, net of the related corporate aggregate reinsurance treaty benefit, associated with a change in estimate of prior year net loss reserves, including $1.2 billion pretax ($0.7 billion after tax and minority interest) related to APMT.~~

~~The non-APMT adverse reserve development was the result of analyses of several lines of business. This development related principally to commercial insurance coverages including automobile liability and multiple-peril, as well as assumed reinsurance and health care-related coverages. A brief summary of these lines of business and the associated reserve development is discussed below and in more detail in the discussion of CNA's segments.~~

~~Approximately $600.0 million of the adverse reserve development, excluding the impact of the corporate aggregate reinsurance treaty, was a result of analyses of several coverages provided to commercial entities written by various segments of CNA. These analyses showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple peril. In addition, the number of commercial automobile liability claims was higher than expected. Finally, several state specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.~~

~~An analysis of CNA Re's assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations and resulted in an increase of net reserves of approximately $560.0 million, excluding the impact of the corporate aggregate reinsurance treaty. The estimated ultimate loss ratios for these recent accident years have been revised to reflect the paid and reported losses.~~

~~Approximately $320.0 million of adverse reserve development, excluding the impact of the corporate aggregate reinsurance treaty, was recorded in Specialty Lines and was caused by coverages provided to health care-related entities. The level of paid and reported losses associated with coverages provided to national long term care facilities was higher than expected. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing health care-related services increased more than expected.~~

~~Concurrent with CNA's review of loss reserves, CNA completed comprehensive studies of estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. The studies included the~~

~~review of all such retrospectively rated insurance policies and the estimates of ultimate losses.~~

~~As a result of this review and changes in premiums associated with the change in estimates for loss reserves, CNA recorded a pretax reduction in premium accruals of $566.0 million. The effect on net earned premiums was $616.0 million offset by a reduction of accrued commissions of $50.0 million. Approximately $188.0 million of this amount resulted from a change in estimate in premiums related to involuntary market facilities, which had an offsetting impact on net losses and therefore had no impact on the net operating results in 2001. Accruals for ceded premiums related to other reinsurance treaties increased $83.0 million due to the reserve strengthening. The remainder of the decrease in premium accruals relates to the change in estimate of the amount of retrospective premium receivables as discussed above.~~

~~Reinsurance~~

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

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

~~Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in investment income, was $57.0 and $86.0 million for the second quarter of 2002 and 2001 and $115.0 and $122.0 million for the six months ended June 30, 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,889.0 and $2,724.0 million at June 30, 2002 and December 31, 2001.~~

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

~~For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of its property casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the~~



~~level of subject premium, but there is a maximum aggregate limit of $1,125.0 million. Maximum ceded premium under the contract is $683.0 million, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0% per annum, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $2.0 and $5.0 million was recorded for the 2002 Cover for the three months and six months ended June 30, 2002.~~

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

~~In 1999, CNA entered into an aggregate reinsurance treaty related to the~~

1999 through 2001 accident years covering substantially all of CNA's property-casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 million of ceded losses with an aggregate limit of $1.0 billion of ceded losses for the three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 million of limit the ceded premium is $230.0 million. The second section of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 million of ceded losses for a maximum ceded premium of $310.0 million. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three-year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.

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



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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Ceded earned premiums . . . . . . . . . . . | | $(418.0) | | $(460.0) |
| Ceded claim and claim adjustment expense . | | 683.0 | | 722.0 |
| Interest charges . . . . . . . . . . . . . | $(12.0) | (53.0) | $(25.0) | (59.0) |
| Pretax impact on operating results . . . . | $(12.0) | $ 212.0 | $(25.0) | $ 203.0 |

In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company pool ("the CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 million of ceded losses. The ceded premiums are a percentage of ceded losses and for the $760.0 million of limit, the ceded premium is $456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $563.0 million have been ceded under the CCC Cover through June 30, 2002.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Ceded earned premiums . . . . . . . . . . . | | $(2.0) | $(61.0) | $ (2.0) |
| Ceded claim and claim adjustment expense . | | | 93.0 | |
| Interest charges . . . . . . . . . . . . . | $(6.0) | | (16.0) | |
| Pretax impact on operating results . . . . | $(6.0) | $(2.0) | $ 16.0 | $ (2.0) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Standard Lines . . . . . . . . . . . . . . . . | $(14.0) | $ 186.0 | $ (28.0) | $182.0 |
| Specialty Lines . . . . . . . . . . . . . . . | (3.0) | (4.0) | (5.0) | (6.0) |
| CNA Re . . . . . . . . . . . . . . . . . . . . | (3.0) | 25.0 | 19.0 | 25.0 |
| Corporate and Other . . . . . . . . . . . . | | 3.0 | | |
| Pretax impact on operating results . . . . | $(20.0) | $ 210.0 | $ (14.0) | $201.0 |

2001 Restructuring

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

IT Plan

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

For the three and six months ended June 30, 2001, CNA incurred $56.1 and $62.1 million pretax of restructuring and other related charges for the IT Plan primarily related to employee severance charges and the write-off of impaired assets.

The following table summarizes the pretax effect of these costs on CNA's operating segments.

| | Three Months Ended June 30, 2001 | Six Months Ended June 30, 2001 |
|---|---|---|
| | (In millions) | |
| Property Casualty Operations | $ 8.0 | $ 8.0 |
| Life Operations | 17.0 | 17.0 |
| Other Insurance | 31.1 | 37.1 |
| Total | $56.1 | $62.1 |



No restructuring and other related charges related to the IT Plan have been incurred in 2002; however, payments were made during the six months ended June 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at June 30, 2002 and the activity in that accrual since inception. Approximately $5.0 of the remaining accrual is expected to be paid during the remainder of 2002.

| | Employee Termination and Related Benefit Costs | Impaired Asset Charges | Other Costs | Total |
|---|---|---|---|---|
| | | (In millions) | | |
| IT Plan initial accrual . . . . . . . . . . . . . | $29.0 | $ 32.0 | $1.0 | $ 62.0 |
| Costs that did not require cash in 2001 . . . . | | (32.0) | | (32.0) |
| Payments charged against liability in 2001 . . . | (19.0) | | | (19.0) |
| Accrued costs at December 31, 2001 . . . . . . . . | 10.0 | | 1.0 | 11.0 |
| Payments charged against liability in 2002 . . . | (1.0) | | | (1.0) |
| Accrued costs at June 30, 2002 . . . . . . . . . | $ 9.0 | | $1.0 | $ 10.0 |

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

2001 Plan

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

No restructuring and other related charges related to the 2001 Plan have been incurred in 2002; however, payments were made during the six months ended June 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of June 30, 2002 and the activity in that accrual since inception. Approximately $35.0 million of the remaining accrual is expected to be paid during the remainder of 2002.



2001 Plan Accrual

| | Employee Termination and Related Benefit Costs | Lease Termination Costs | Impaired Asset Charges | Other Costs | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| 2001 Plan initial accrual . . . . . . | $ 68.0 | $ 56.0 | $ 30.0 | $ 35.0 | $189.0 |
| Costs that did not require cash in 2001 . . . . . . . . . . . . . . . | | | | (35.0) | (35.0) |
| Payments charged against liability in 2001 . . . . . . . . . . . . . . . | (2.0) | | | | (2.0) |
| Accrued costs at December 31, 2001 . | 66.0 | 56.0 | 30.0 | | 152.0 |
| Costs that did not require cash in 2002 . . . . . . . . . . . . . . . | | | (25.0) | | (25.0) |
| Payments charged against liability in 2002 . . . . . . . . . . . . . . . | (45.0) | (10.0) | (1.0) | | (56.0) |
| Accrued costs at June 30, 2002 . . . | $ 21.0 | $ 46.0 | $ 4.0 | | $ 71.0 |

Reserves - Estimates and Uncertainties

CNA maintains loss reserves ("reserves") to cover its estimated ultimate unpaid liability for losses and loss adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled and claims that have been incurred but not reported. Reserves are reflected as liabilities on the Consolidated Condensed

~~Balance Sheets under the heading "Insurance Reserves." Changes in reserves are reflected in the Company's Statement of Operations, during the period in which the change arises.~~

~~The level of reserves maintained by CNA represents management's best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on its assessment of facts and circumstances known to it at that time. Reserves are not an exact calculation of liability but instead are estimates which are derived by CNA, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain. Some of the many uncertain future events about which CNA makes assumptions and estimates are claims severity, frequency of claims, economic inflation, the impact of underwriting policy and claims handling practices and the lag time between the occurrence of an insured event and the time it is ultimately settled (referred to in the insurance industry as the "tail").~~

~~CNA's experience has been that the inherent uncertainties of estimating insurance reserves are generally greater for casualty coverages (particularly long tail casualty risks such as APMT losses) than for property coverages. Estimates of the cost of future APMT claims are highly complex and include an assessment of, among other things, whether certain costs are covered under the policies and whether recovery limits apply, allocation of liability among numerous parties, some of whom are in bankruptcy proceedings, inconsistent court decisions and developing legal theories and tactics of plaintiffs' lawyers. Reserves for property related catastrophes, both natural disasters and man made catastrophes such as terrorist acts, are also difficult to estimate. See the discussion of Environmental Pollution and Mass Tort and~~



~~Asbestos Reserves in the Management Discussion and Analysis for further information on APMT.~~

~~In addition to the uncertainties inherent in estimating APMT and catastrophe losses, CNA is subject to the uncertain effects of emerging or potential claims and coverage issues which arise as industry practices and legal, judicial, social, and other environmental conditions change. These issues can have a negative effect on CNA's business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Either development could require material increases in reserves. Examples of emerging or potential claims and coverage issues include: (i) increases in the number and size of water damage claims related to expenses for testing and remediation of mold conditions; (ii) increases in the number and size of claims relating to injuries from medical products, and exposure to lead and radiation related to cellular phone usage; (iii) expected increases in the number and size of claims relating to accounting and financial reporting, including director and officer errors and omissions insurance claims, in an environment of major corporate bankruptcies; and (iv) a growing trend of plaintiffs targeting insurers in class action litigation relating to claims handling and other practices. The future impact of these and other unforeseen emerging or potential claims and coverage issues is extremely hard to predict and could materially adversely affect the adequacy of CNA's reserves and could lead to future reserve additions.~~

~~CNA's current reserve levels reflect management's best estimate of CNA's ultimate claims and claim adjustment expenses at June 30, 2002, based upon known facts and current law. However, in light of the many uncertainties associated with making the estimates and assumptions necessary to establish reserve levels, CNA reviews its reserve estimates on a regular and ongoing basis and makes changes as experience develops. CNA may in the future determine that its recorded reserves are not sufficient and may increase its reserves in amounts that may be material, which could materially adversely affect the Company's business and financial condition. Any such increase in reserves would be recorded as a charge against the Company's earnings for the period in which the estimate of reserves changes.~~

~~Terrorism Exposure~~

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

~~Without any federal backstop in place, CNA is exposed to potentially~~

material losses arising from a future terrorism event. Accordingly, CNA's results of operations and financial condition could be materially adversely impacted by a future terrorism event. CNA is attempting to mitigate this exposure through its underwriting practices, policy terms and conditions, and the use of reinsurance. CNA is generally prohibited from excluding terrorism exposure from its primary workers compensation, individual life and group life and health policies. CNA's current reinsurance arrangements either exclude terrorism coverage or significantly limit the level of coverage.



Property Casualty

CNA conducts its property casualty operations through the following operating segments: Standard Lines, Specialty Lines and CNA Re. The discussion of underwriting results and ratios reflect the underlying business results of CNA's property casualty insurance subsidiaries. Underwriting ratios are industry measures of property casualty underwriting results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of dividends incurred to net earned premiums.

The following table summarizes key components of the Property Casualty segment operating results for the three and six months ended June 30, 2002 and 2001.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Net written premiums. . . . . . . . . . . . | $1,788.0 | $ 960.0 | $3,578.0 | $ 2,473.0 |
| Net earned premiums . . . . . . . . . . . . | 1,735.0 | 538.0 | 3,396.0 | 2,013.0 |
| Underwriting loss . . . . . . . . . . . . . | (121.0) | (2,089.0) | (225.0) | (2,224.0) |
| Net investment income . . . . . . . . . . . | 258.0 | 189.0 | 455.0 | 491.0 |
| Net operating income (loss) . . . . . . . . | 94.0 | (1,084.4) | 169.5 | (975.0) |
| Ratios: | | | | |
| Loss and loss adjustment expense . . . . | 75.8% | 376.0% | 74.2% | 153.3% |
| Expense . . . . . . . . . . . . . . . . . . | 30.3 | 107.5 | 31.4 | 54.8 |
| Dividend . . . . . . . . . . . . . . . . . | 0.9 | 4.6 | 1.0 | 2.4 |
| Combined . . . . . . . . . . . . . . . . . | 107.0% | 488.1% | 106.6% | 210.5% |
| 2001 adjusted underwriting loss* . . . . . | | $ (167.0) | | $ (299.0) |
| 2001 adjusted ratios* | | | | |
| Loss and loss adjustment expense . . . . | | 72.6% | | 72.6% |
| Expense . . . . . . . . . . . . . . . . . . | | 36.4 | | 35.5 |
| Dividend . . . . . . . . . . . . . . . . . | | 1.6 | | 1.6 |
| Combined . . . . . . . . . . . . . . . . | | 110.6% | | 109.7% |

* The 2001 adjusted underwriting loss and adjusted ratios exclude the impact of the second quarter 2001 reserve strengthening, corporate aggregate reinsurance treaties and restructuring and other related charges.

Net operating results improved $1,178.4 million for the second quarter of 2002 as compared with the same period in 2001. The impact of the second quarter 2001 reserve strengthening, net of the related corporate aggregate reinsurance treaty benefit, was $1,114.5 million after taxes and minority interest. In addition, net operating results for the second quarter of 2001 included $8.7 million related to the cost of the corporate aggregate



reinsurance treaties from core operations and $4.4 million for restructuring and other related charges.

Excluding these 2001 significant items, net operating results increased $50.8 million for the second quarter of 2002 as compared with the same period in 2001. This increase was due primarily to improved underwriting results in both Specialty Lines and the U.S. operations of CNA Re, the impact of better aligning premium earnings patterns with the emergence of claims in Specialty Lines' vehicle warranty line of business which reduced operating results in 2001 and improved net investment income, including $23.0 million related to limited partnership income. These increases were partially offset by a decline in underwriting results in Standard Lines.

The combined ratio decreased 3.6 points for the second quarter of 2002 as compared with the adjusted combined ratio for the same period in 2001, and underwriting results improved by $46.0 million as compared with the adjusted underwriting results for the same period in 2001. This change was due to decreases in both the expense and dividend ratios, partially offset by an increase in the loss ratio. The loss ratio increased 3.2 points due principally to a net cost of reinsurance in 2002 as compared with a significant benefit from the use of reinsurance in 2001 across the property-casualty operating units and prior year reserve development recorded in 2002 in Standard Lines, primarily in the Excess & Surplus lines of business, and in CNA Re. These loss ratio increases were partially offset by rate increases in most property-casualty businesses and improvement in the current accident year loss ratio in CNA Re. The expense ratio decreased 6.1 points primarily as a result of the 2001 write off of unrecoverable deferred acquisition costs in the vehicle warranty line of business in Specialty Lines. Also contributing to the decrease in the expense ratio were decreased acquisition expenses in 2002 and a shift in the business mix resulting in a lower commission rate in CNA Re and lower underwriting expenses resulting from decreased head count due to the 2001 Plan. The dividend ratio decreased 0.7 points due primarily to favorable current accident year dividends and adverse dividend reserve development recorded in Standard Lines in 2001.

Net written premiums increased $828.0 million for the second quarter of 2002 as compared with the same period in 2001. Second quarter results for 2001 included reductions in net written premiums totaling $661.0 million related to the corporate aggregate reinsurance treaties, additional ceded premiums arising from the reserve strengthening and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net written premiums increased $167.0 million. This increase was due primarily to strong rate increases across the property-casualty operating units, lower ceded premiums in Standard Lines, and clients increasing their premium writings above original estimates in CNA Re. These increases were partially offset by the decision made in the third quarter of 2001 to cease new business writings in the CNA Re U.K. subsidiary, and lower net written premiums for the Casualty lines of business in Standard Lines.

Net earned premiums increased $1,197.0 million for the second quarter of 2002 as compared with the same period in 2001. Second quarter results for 2001 included reductions in net earned premiums totaling $1,040.0 million related to the corporate aggregate reinsurance treaties, additional ceded premiums and a change in estimate for retrospective premium accruals arising from the reserve strengthening and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net earned premiums increased $157.0 million due primarily to the increases in net written premiums noted above.



Net operating results improved $1,144.5 million for the six months ended June 30, 2002 as compared with the same period in 2001. The impact of the second quarter 2001 reserve strengthening, net of the related corporate aggregate reinsurance treaty benefit, was $1,114.5 million after taxes and minority interest. In addition, net operating results for the six months ended June 30, 2001 included $12.2 million related to the cost of the corporate aggregate reinsurance treaties from core operations and $4.4 million for restructuring and other related charges.

Excluding these 2001 significant items, net operating results increased $13.4 million for the six months ended June 30, 2002 as compared with the same period in 2001. This increase was due primarily to the impact of the 2001 vehicle warranty charge noted above and improved underwriting results in Specialty Lines and the U.S. operations of CNA Re. In addition, net operating results improved due to an increased benefit from the additional cessions to the CCC Cover as a result of the increase in WTC related losses recorded in the first quarter of 2002 in CNA Re. These increases were partially offset by lower net investment income and declines in underwriting results in Standard Lines.

The combined ratio decreased 3.1 points for the six months ended June 30, 2002 as compared with the adjusted combined ratio for the same period in 2001,

~~and underwriting results improved by $74.0 million as compared with the adjusted underwriting results for the same period in 2001. This change was due to decreases in both the expense and dividend ratios, partially offset by an increase in the loss ratio. The loss ratio increased 1.6 points due principally to a reduced benefit from the use of reinsurance in both Standard Lines and Specialty Lines and the loss development in both Standard Lines and CNA Re noted above. These loss ratio increases were partially offset by rate increases and a $32.0 million net underwriting benefit in CNA Re related to the corporate aggregate reinsurance treaties resulting from the re-estimation of the WTC event. The expense ratio decreased 4.1 points and the dividend ratio decreased 0.6 points primarily as a result of the second quarter activity described above.~~

~~Net written premiums increased $1,105.0 million for the six months ended June 30, 2002 as compared with the same period in 2001. The six months ended June 30, 2001 included reductions in net written premiums totaling $702.0 million related to the corporate aggregate reinsurance treaties, additional ceded premiums arising from the reserve strengthening and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net written premiums increased $403.0 million. This increase was due principally to strong rate increases across the property casualty operating units, a higher level of new business in Standard Lines and Specialty Lines, and clients increasing their premium writings above original estimates in CNA Re.~~

~~Net earned premiums increased $1,383.0 million for the six months ended June 30, 2002 as compared with the same period in 2001. The six months ended June 30, 2001 included reductions in net earned premiums totaling $1,081.0 million related to the corporate aggregate reinsurance treaties, additional ceded premiums and a change in estimate for retrospective premium accruals arising from the reserve strengthening and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net earned premiums increased $302.0 million due primarily to the increases in net written premiums noted above.~~



~~Group~~

~~Net operating results improved $3.3 million for the second quarter of 2002 as compared with the same period in 2001. This improvement was primarily attributable to favorable expenses and increased net investment income.~~

~~Net earned premiums increased $10.0 million for the second quarter of 2002 as compared with the same period in 2001. This growth was due primarily to higher premiums in the Federal Markets mail handlers benefit program, which was driven by increased medical cost trends. This increase was partially offset by lower net earned premiums in the Group Benefits specialty medical line of business.~~

~~Net operating income improved $4.0 million for the six month period ended June 30, 2002 as compared with the same period in 2001. This improvement was primarily attributable to favorable expenses and increased net investment income.~~

~~Net earned premiums increased $106.0 million for the six months ended June 30, 2002 as compared with the same period in 2001. This growth was due primarily to higher premiums in the Federal Markets mail handlers benefit program, which was driven by increased medical cost trends and higher cost containment fees. In addition there was also growth in the disability, life and accident and group long term care lines of business. These increases were partially offset by lower net earned premiums in the Group Benefits specialty medical line of business.~~

~~Effective July 1, 2002 CNA closed on the sale of Claims Administration Corporation and the transfer of the National Postal Mail Handlers Union group benefits plan to First Health Group Corporation. CNA received $2.2 billion of revenue and recorded $8.7 million of net operating income from this contract in 2001. The loss of this contract is not anticipated to have an adverse material impact on 2002 net operating income.~~

~~Life~~

~~Net operating results improved $10.0 million for the second quarter of 2002 as compared with the same period in 2001. This improvement related primarily to restructuring and other related charges of $9.1 million that occurred in 2001. Excluding restructuring and other related charges, net operating results improved $.9 million due primarily to higher net investment income, partially offset by increased acquisition costs.~~

Sales volume decreased $546.0 million for the second quarter of 2002 as compared with the same period in 2001. This decrease was attributable primarily to lower sales of synthetic guaranteed investment contracts and structured settlement annuities, along with reduced sales in the variable products business, which CNA decided to exit in the fourth quarter of 2001. These decreases were partially offset by increased sales in the Life core and Long Term Care businesses. Net earned premiums increased $6.0 million for the second quarter of 2002 as compared with the same period in 2001, attributable primarily to growth in the Long Term Care business, partially offset by decreased sales in the Retirement Services and structured settlements businesses.

Net operating results improved $4.1 million for the six months ended June 30, 2002 as compared with the same period in 2001. This improvement related



primarily to the absence of restructuring and other related charges of $9.1 million that were recorded in 2001. Excluding restructuring and other related charges, net operating results declined $5.0 million due primarily to increased acquisition expenses and favorable 2001 results in the Index 500 product, partially offset by increased net investment income in 2002.

Sales volume decreased $578.0 million for the six months ended June 30, 2002 as compared with the same period in 2001. This decrease was attributable primarily to the second quarter 2001 decreases in sales volume noted above. Net earned premiums increased $32.0 million for the six months ended June 30, 2002 as compared with the same period in 2001 attributable primarily to growth in the Long Term Care business, partially offset by decreased sales in the Retirement Services business.

## Other Insurance

Net operating results improved $740.0 million for the second quarter of 2002 as compared with the same period in 2001. The after tax impact of the second quarter 2001 reserve strengthening on the Other Insurance segment was $695.2 million, including $644.7 million for APMT. See the Environmental Pollution and Mass Tort and Asbestos Reserves section following for a discussion of this prior year reserve strengthening. Net operating results for 2001 also included $17.4 million of restructuring and other related charges. Excluding these 2001 significant items, net operating results improved $27.4 million for the second quarter of 2002 as compared with the same period in 2001. This improvement was due primarily to reduced expenses for e-Business initiatives and increased net investment income, partially offset by decreased operating results for CNA UniSource.

Total operating revenues increased $7.0 million for the second quarter 2002 as compared with the same period in 2001. This increase was due primarily to higher net earned premiums in Group Reinsurance and increased net investment income, partially offset by reduced revenues for CNA UniSource.

Net operating results improved $774.7 million for the six months ended June 30, 2002 as compared with the same period in 2001. Included in the 2001 results were $695.2 million related to the second quarter 2001 reserve strengthening, including $644.7 million for APMT, and $20.9 million of restructuring and other related charges. Excluding these 2001 significant items, net operating results improved $58.6 million for the six months ended June 30, 2002 as compared with the same period in 2001. This improvement was due primarily to the second quarter improvement described above.

Total operating revenues increased $24.0 million for the six months ended June 30, 2002 as compared with the same period in 2001. This increase was due primarily to the second quarter increase described above.

In the second quarter of 2001, CNA planned the disposition of CNA UniSource, a payroll processor and professional employer organization ("PEO"). After exploring possible transactions to dispose of its PEO business, CNA UniSource exited the PEO business as of March 31, 2002. As of that date, substantially all existing PEO client contracts were terminated. All obligations related to the PEO operation are being run off in an orderly manner and the associated costs are included in continuing operations. The Company anticipates additional operating losses from the PEO run-off for the remainder of 2002. CNA UniSource's payroll processing business, which has annual revenues of approximately $11.0 million, remains designated as held for sale.



## Environmental Pollution and Mass Tort and Asbestos Reserves

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

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

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

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

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

~~As of June 30, 2002 and December 31, 2001, CNA carried approximately $559.0 and $617.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort development for the three and six months ended June 30, 2002. Unfavorable~~



~~environmental pollution and mass tort development for the three and six months ended June 30, 2001 amounted to $449.0 and $453.0 million.~~

~~The reserve strengthening in the second quarter of 2001 for environmental pollution and mass tort reserves was due to reviews completed during the year, which indicated that paid and reported losses were higher than expectations based on prior year reviews. Factors that have led to this development include a number of declaratory judgments filed in 2001 due to an increasingly favorable legal environment for policyholders in certain courts involving environmental pollution and mass tort claims and other unfavorable decisions regarding cleanup issues. Due to the uncertainties created by these factors, the ultimate liability of CNA for mass tort claims may also vary substantially from the amount currently recorded.~~

~~CNA's property-casualty insurance subsidiaries also have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due~~

~~to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of June 30, 2002 and December 31, 2001, CNA carried approximately $1,219.0 million and $1,204.0 million of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos related claims. There was no asbestos net claim and claim adjustment expense development for the three and six months ended June 30, 2002. Unfavorable asbestos net claim and claim adjustment reserve development for the three and six months ended June 30, 2001 amounted to $748.0 million and $769.0 million. CNA has attempted to manage its asbestos related exposures by aggressively resolving older claims.~~

~~The reserve strengthening in the second quarter of 2001 for asbestos related claims was based on a management review of developments with respect to these exposures conducted in the second quarter. This analysis indicated a significant increase in claim counts for asbestos related claims. The factors that led to the deterioration in claim counts included, among other things, intensive advertising campaigns by lawyers for asbestos claimants and the addition of new defendants such as the distributors and installers of asbestos containing products. New claim filings increased significantly in 2000 over 1999 and that trend continued in 2001. The volume of new claims caused the bankruptcies of numerous asbestos defendants. Those bankruptcies also may result in increased liability for remaining defendants under principles of joint and several liability. In some bankruptcy proceedings asbestos claimants may assert an entitlement to policy proceeds upon confirmation of a plan of reorganization, rather than when claims would ordinarily be paid to all claimants. If such assertions are made successfully, they could have the effect of accelerating claims payment patterns.~~

~~In addition, some asbestos related defendants asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos related claims fall within so called "non-~~



~~products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non-products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non-products" claims outside the products liability aggregate will succeed.~~

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

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

~~Lorillard~~

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

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

~~Revenues increased by $23.1 and $73.5 million, or 2.3% and 3.8%, and net income increased by $123.8 and $126.1 million, respectively, for the quarter and six months ended June 30, 2002, as compared to the corresponding periods of the prior year.~~

~~Revenues increased due to higher net sales, partially offset by lower investment income. Net sales increased by $35.9 and $103.7 million for the quarter and six months ended June 30, 2002 due to higher average unit prices which resulted in an aggregate increase of approximately $79.8 and $116.8 million, or 8.1% and 6.2%, including $24.1 and $46.6 million from an increase in federal excise taxes effective January 1, 2002. The increased unit prices were partially offset by increased promotional expenses, mostly in the form of coupons and other discounts provided to retailers and passed through to the consumer. The price increases were also partially offset by unit sales volume declines of approximately $43.9 and $13.1 million, or 4.4% and 0.7%, for the quarter and six months ended June 30, 2002, as compared to 2001. During 2002, Lorillard increased its net wholesale price of cigarettes by an average of $7.86 per thousand cigarettes ($.16 per pack of 20 cigarettes), or 6.7%,~~



~~before the impact of any promotional activities. Federal excise taxes are included in the price of cigarettes and on January 1, 2002, the federal excise tax on cigarettes increased by $2.50 per thousand cigarettes ($0.05 per pack of 20 cigarettes) to $19.50 per thousand cigarettes. All of the states also levy excise taxes on cigarettes. Various states and municipalities have proposed, and some have recently passed, increases in their tobacco excise taxes. Such actions may adversely affect Lorillard's volume, net sales and net income.~~

~~Lorillard's overall unit sales volume decreased 2.9% and 0.6% for the quarter and six months ended June 30, 2002, as compared to 2001. Newport's unit sales volume increased by 1.9% and 4.4% for the quarter and six months ended June 30, 2002, primarily as a result of the introduction of additional offerings from Newport's Medium line extension, strengthened promotional support, inventory replenishment following the January 1, 2002 federal excise tax increase and above average purchases by some wholesale customers in advance of various state excise tax increases. Overall unit sales volume reflects lower unit sales of Lorillard's Maverick and Old Gold brands in the discount market segment due primarily to increased competition in the discount segment and continued limitations imposed by Philip Morris's merchandising arrangements and general competitive conditions. Overall, industry unit sales volume decreased by 2.3% for the six months ended June 30, 2002.~~

~~Lorillard's share of wholesale cigarette shipments was 9.62% for the six months ended June 30, 2002, as compared to 9.45% for 2001. Newport, a premium brand, accounted for approximately 88% of Lorillard's unit sales for the six months ended June 30, 2002, compared to 85% for the year ended December 31, 2001. Newport's market share of the premium segment was 11.5% for the six months ended June 30, 2002, compared to 10.9% for the year ended December 31, 2001.~~

~~Lorillard recorded pretax charges of $291.9, $302.1, $587.7 and $581.3 million ($176.5, $180.7, $357.2 and $351.5 million after taxes), for the quarter and six months ended June 30, 2002 and 2001, respectively, to accrue its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. Funds required for the industry payment obligations have been provided by Lorillard's operating activities.~~

~~The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and places significant restrictions on their ability to market and sell cigarettes. The Company believes that the implementation of the State Settlement Agreements will materially adversely affect its consolidated results of operations and cash flows in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in U.S. cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to all of the payments of the State Settlement Agreements. See Note 13 of the Notes to Consolidated Condensed Financial Statements in Part I.~~



~~Loews Hotels~~

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

~~Revenues decreased by $9.2 and $16.8 million, or 10.1% and 9.5%, and net income decreased by $2.9 and $2.4 million, or 30.2% and 15.9%, for the quarter and six months ended June 30, 2002, as compared to the corresponding periods of the prior year.~~

~~Revenue per available room declined by $11.93 and $12.97, or 8.6% and 9.5%, to $126.66 and $123.29 for the quarter and six months ended June 30, 2002, respectively, as compared to the corresponding periods of the prior year, primarily due to lower average room rates and occupancy rates. Net income decreased due to the lower revenues, partially offset by improved results at the Universal Orlando properties and the Loews Philadelphia Hotel, as well as lower interest expense.~~

~~Diamond Offshore~~

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

~~Revenues decreased by $51.5 and $71.8 million, or 21.5% and 15.5%, and net income decreased by $16.1 and $22.1 million, or 90.4% and 68.0%, for the quarter and six months ended June 30, 2002, respectively, as compared to the corresponding periods of the prior year.~~

~~Revenues from high specification floaters and other semisubmersible rigs decreased by $29.9 and $24.8 million, or 12.5% and 5.3%, for the quarter and six months ended June 30, 2002, as compared to the corresponding periods of the prior year. The decrease reflects lower dayrates ($9.0 and $8.5 million) and lower utilization ($32.4 and $30.2 million) partially offset by revenues generated by the Ocean Baroness which completed a conversion to a high specification semisubmersible drilling unit ($11.5 and $13.9 million), for the quarter and six months ended June 30, 2002, as compared to the corresponding periods of the prior year.~~

~~Revenues from jack up rigs decreased by $20.6 and $34.6 million, or 8.6% and 7.5%, due primarily to decreased dayrates ($12.2 and $23.6 million) and lower utilization ($8.4 and $11.0 million) for the quarter and six months ended June 30, 2002.~~

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

~~On April 22, 2002, the Ocean Baroness experienced a parting of its marine riser during operations offshore Malaysia in 5,700 feet of water. No injuries were sustained and the well was secured without incident and successfully plugged. The drilling unit was undamaged and known damage was limited to subsurface elements of the riser. The rig resumed normal operations on May 19, 2002 after retrieving its marine riser. On May 30, 2002, Diamond Offshore filed a lawsuit against the manufacturer of the marine riser seeking to recover damages Diamond Offshore incurred as a result of the incident.~~

~~On August 9, 2002, Diamond Offshore's jack up drilling unit the Ocean King, while conducting routine operations offshore Louisiana, experienced a well~~



~~control event and fire. The rig's standing emergency action plan was initiated and all personnel on board the rig were safely evacuated. There were no reported injuries and no apparent pollution. The fire burned a short time and the rig was reboarded later that day by a limited crew. Early assessments reveal that damage was localized, primarily affecting electrical systems on the aft end of the cantilever structure. At this time, primary rig systems do not appear to be affected.~~

~~Bulova~~

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

~~Revenues increased by $9.5 and $9.0 million, or 30.0% and 13.9%, respectively, for the quarter and six months ended June 30, 2002. Net income increased $0.8 million or 44.4% for the second quarter of 2002 and net income remains unchanged at $4.2 million for the six months ended June 30, 2002. Revenues and net income increased due primarily to the addition of the Wittnauer watch brand, acquired in the third quarter of 2001, increased sales of Harley Davidson licensed product associated with the license agreement signed in May 2001, and increased clock unit sales volume as compared to the~~

corresponding periods of the prior year. These increases were partially offset by unit volume decreases in the Bulova brand as compared to 2001.

Corporate

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Revenues: | | | | |
| Derivative instruments . . . . . . . . | $ (13.2) | $ (4.0) | $ (3.2) | $ 4.2 |
| Fixed maturities . . . . . . . . . . . | 11.1 | 4.6 | 7.2 | 11.9 |
| Equity securities, including short positions . . . . . . . . . . . . . . . | (47.4) | 9.8 | (38.3) | 25.0 |
| Short term investments, primarily U.S. government securities . . . . . . . . | 16.8 | 6.7 | 24.1 | 12.7 |
| | (32.7) | 17.1 | (10.2) | 53.8 |
| Income tax expense . . . . . . . . . . . | 11.4 | (6.0) | 3.5 | (18.8) |
| Minority interest . . . . . . . . . . . | (2.7) | (2.1) | (3.7) | (4.0) |
| Net income (loss) . . . . . . . . . | $ (24.0) | $ 9.0 | $ (10.4) | $ 31.0 |



Exclusive of investment gains (losses), revenues decreased $23.4 and $52.8 million and net loss increased $19.7 and $39.7 million for the quarter and six months ended June 30, 2002, compared to the corresponding periods of the prior year, due primarily to lower revenues from a shipping joint venture reflecting reduced demand and charter rates in the crude oil tanker markets, and lower investment income.

Liquidity and Capital Resources:

CNA Financial

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

For the six months ended June 30, 2002 net cash provided by operating activities was $435.0 million as compared with net cash used by operating activities of $826.0 million for the same period in 2001. The improvement related primarily to federal tax refunds received in 2002 as compared to taxes paid in 2001, partially offset by increased paid claims.

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

For the six months ended June 30, 2002, net cash used by investing activities was $410.0 million as compared with net cash provided by investing activities of $1,106.0 million for the same period in 2001. This decrease was due primarily to less net sales of equity securities and $264.0 million of net proceeds related to the sale of 180 Maiden Lane, New York facility in 2001.

Cash flows from financing activities include proceeds from the issuance of debt or equity securities, outflows for dividends or repayment of debt and outlays to reacquire equity instruments.

For the six months ended June 30, 2002, net cash used by financing

~~activities was $22.0 million as compared with $301.0 million for the same period in 2001. Cash used by financing for the six months ended June 30, 2001 included $262.0 million of principal payments on debt.~~

~~CNA is monitoring the cash flows related to claims and reinsurance recoverables from the WTC event. It is anticipated that significant claim payments will be made prior to receipt of the corresponding reinsurance recoverables. CNA does not anticipate any liquidity problems resulting from these payments. Approximately 37.0%, 36.0% and 24.0% of the reinsurance recoverables on the estimated losses related to the WTC event are from companies with S&P ratings of AAA, AA or A. As of August 2, 2002, CNA has paid $341.0 million in claims and recovered $144.0 million from reinsurers.~~

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

~~The terms of CNA's credit facility requires it to maintain certain financial ratios and combined property casualty company statutory surplus levels. At~~



~~June 30, 2002 and December 31, 2001, CNA was in compliance with all restrictive debt covenants.~~

~~In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At June 30, 2002 there were approximately $276.0 million of outstanding letters of credit.~~

~~CNA has committed approximately $172.0 million to future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.~~

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

~~CNA is obligated to make future payments totaling $433.0 million for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $50.0 million in 2002; $85.0 million in 2003; $65.0 million in 2004; $57.0 million in 2005; and $176.0 million in 2006 and beyond. Additionally, CNA has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication services, amounting to approximately $34.0 million. Estimated future minimum purchases under these contracts are as follows: $8.0 million in 2002; $13.0 million in 2003; $10.0 million in 2004; and $3.0 million in 2005.~~

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

~~CCC is the lead insurance company subsidiary within the CCC Pool and is the main source of CNAF dividends. All other insurance companies within the CCC Pool are subsidiaries of CCC and are subject to the dividend rules of their applicable state of domicile. Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department, may be paid only from earned surplus, which is calculated by removing unrealized gains (under which statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus. As of June 30, 2002, CCC is in a negative earned surplus position. In February 2002, the Illinois Department approved an extraordinary dividend in the amount of $117.0 million to be used to fund CNA's 2002 debt service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Illinois Department.~~

~~In addition, by agreement with the New Hampshire Insurance Department ("New Hampshire Department"), as well as certain other state insurance departments, dividend paying capacity for the subsidiary companies within the CIC Pool are restricted to internal (intercompany) and external debt service requirements through September 2003, up to a maximum of $85.0 million annually, without the prior approval of the New Hampshire Department.~~

~~Lorillard~~

~~Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation and regulatory issues. Approximately 4,575 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,200 cases are pending in a West Virginia court, and approximately 2,800 cases are brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits served to date and is a defendant in most of the cases pending in West Virginia.~~

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

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

~~The principal source of liquidity for Lorillard's business and operating needs is internally generated funds from its operations. Lorillard's cash provided by operating activities amounted to $372.1 million for the six months ended June 30, 2002, compared to $448.0 million for the prior year. The reduced cash flow in 2002 is primarily due to increased cash payments for tobacco settlements. Lorillard believes that cash flows from operating activities will be sufficient for the foreseeable future to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict its cash requirements related to any future settlements or judgments, including cash required to bond any appeals, if necessary, and can make no assurance that it will be able to meet all of those requirements.~~

~~Loews Hotels~~

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

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



~~Diamond Offshore~~

~~At June 30, 2002, cash and marketable securities totaled $1.2 billion, up from $1.1 billion at December 31, 2001. Cash provided by operating activities for the six months ended June 30, 2002 increased by $26.8 million to $165.6 million, as compared to $138.8 million in 2001. The increase in cash flow was primarily due to a change in prepaid expenses and other current assets, and collection of accounts receivable in 2002, partially offset by the reduced net income.~~

~~During the six months ended June 30, 2002, Diamond Offshore purchased 500,000 shares of its common stock at an aggregate cost of $20.0 million, upon the exercise of put options sold in February 2001. Depending on market conditions Diamond Offshore may, from time to time, purchase shares of its common stock in the open market or otherwise.~~

~~During the first half of 2002, Diamond Offshore spent $93.1 million, including capitalized interest expense, for rig upgrades, of which $38.3 million was for the conversion of the Ocean Rover and $30.1 million was for the completion of the conversion of the Ocean Baroness. Diamond Offshore spent~~

~~$22.5 million in the first six months of 2002 to upgrade six of Diamond Offshore's jack up rigs. Diamond Offshore expects to spend approximately $275.0 million for rig upgrade capital expenditures during 2002, primarily for costs associated with upgrades of its Ocean Rover semisubmersible rig and six jack up rigs.~~

~~Diamond Offshore took delivery of the Ocean Baroness in January 2002 and it was accepted by the customer on March 17, 2002, at which time it began its current contract offshore Malaysia. The approximate cost of the upgrade was $170.0 million. In January 2002, the Ocean Rover arrived at a shipyard in Singapore for a major upgrade to water depths and specifications similar to the enhanced Ocean Baroness. The estimated cost of this upgrade is approximately $200.0 million with approximately $135.0 million to be spent in 2002. The upgrade is expected to take approximately 19 months to complete with delivery estimated in the third quarter of 2003.~~

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

~~During the six months ended June 30, 2002, Diamond Offshore expended $24.7 million for its continuing rig enhancement program and to meet other corporate capital expenditure requirements. Diamond Offshore has budgeted $100.0 million for 2002 capital expenditures associated with these items.~~

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



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

~~Bulova~~

~~For the six months ended June 30, 2002, net cash provided from operating activities was $5.2 million as compared with $16.5 million in the comparable period of 2001. Bulova's cash and cash equivalents, and investments amounted to $24.0 million at June 30, 2002, compared to $18.9 million at December 31, 2001. The decrease in net cash flow is primarily the result of an increase in the level of accounts receivable related to higher net sales resulting primarily from the introduction of the new Wittnauer brand product line and Harley Davidson licensed product, and an increase in inventory purchases, partially offset by a change in the timing of accounts payable and accrued expenses. Funds for capital expenditures and working capital requirements are expected to be provided from operations and existing cash balances.~~

~~Majestic Shipping~~

~~As previously reported in the Company's 2001 Annual Report on Form 10-K, a subsidiary of the Company entered into agreements for new building of four supertankers, the total cost of the four ships was estimated to amount to approximately $360.0 million. In March 2002, the contracts for the four supertankers were sold at the Company's carrying value, excluding pretax capitalized interest expense of $3.1 million, to Hellespont Shipping Corporation, an affiliated entity.~~

~~Parent Company~~

~~As of June 30, 2002, there were 186,103,400 shares of Loews Common Stock outstanding. During the quarter and six months ended June 30, 2002, the Company purchased 3,302,400 and 5,401,600 shares of Loews Common Stock at an aggregate cost of $187.2 and $310.1 million, respectively. During the quarter and six months ended June 30, 2002, the Company purchased 2,664,376 shares of CNA common stock at an aggregate cost of $71.7 million. Depending on market conditions, the Company from time to time purchases shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.~~

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

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



Investments:

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments, and are carried at fair value. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the income statement.

The Company enters into short sales and invests in certain derivative instruments for a number of purposes, including; (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy, and (iii) to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

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

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



Insurance

The components of CNA's net investment income for the three and six months ended June 30, 2002 and 2001 are presented in the following table.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Fixed maturity securities: | | | | |
| Bonds: | | | | |
| Taxable . . . . . . . . . . . . . . . . . . . | $ 458.0 | $ 400.0 | $ 872.0 | $ 809.0 |
| Tax exempt . . . . . . . . . . . . . . . . . | 38.0 | 28.0 | 71.0 | 62.0 |
| Limited Partnerships . . . . . . . . . . . . | 37.0 | (4.0) | 44.0 | 32.0 |
| Short term investments . . . . . . . . . . . | 11.0 | 37.0 | 27.0 | 79.0 |
| Other, including interest on funds withheld and other deposits . . . . . . . . . . . . | (30.0) | (46.0) | (60.0) | (44.0) |
| Gross investment income . . . . . . . . . . | 514.0 | 415.0 | 954.0 | 938.0 |
| Investment expense . . . . . . . . . . . . . | (12.0) | (13.0) | (26.0) | (29.0) |
| Net investment income . . . . . . . . . . . | $ 502.0 | $ 402.0 | $ 928.0 | $ 909.0 |

CNA experienced higher net investment income for the three and six months ended June 30, 2002 as compared with the same periods in 2001. The increase was due primarily to increased limited partnership income and reduced interest costs on funds withheld and other deposits related to certain reinsurance contracts. Other investment income includes interest costs on funds withheld reinsurance contracts. See the Reinsurance section under "Results of Operations" for additional information. The interest cost on these contracts increased significantly in the second quarter of 2001 because of ceded losses resulting from the second quarter 2001 reserve strengthening. The bond segment of the investment portfolio yielded 6.1% in the first six months of 2002 as compared with 6.5% during the same period in 2001.

Other invested assets include investments in limited partnerships and certain derivative securities. CNA's limited partnership investments are recorded at fair value and typically reflect a reporting lag of up to three months. Fair value of CNA's limited partnership investments represents CNA's equity in the partnership's net assets as determined by the general partner. The carrying value of CNA's limited partnership investments was $1,400.0 and $1,307.0 million as of June 30, 2002 and December 31, 2001.

Limited partnerships are a relatively small portion of CNA's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. CNA is a passive investor in such partnerships and does not have influence over the partnerships' management, who are committed to operate them according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships. Due to unfavorable market conditions since the close of the 2002 second quarter, based upon current trends, CNA expects that



limited partnership income in the third quarter will likely be down significantly from the level reported in the second quarter.

The components of CNA's net investment (losses) gains for the three and six months ended June 30, 2002 and 2001 are presented in the following table:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In millions) | | | |
| Investment gains (losses): | | | | |
| Fixed maturity securities: | | | | |
| U.S. Government bonds . . . . . . . . . . . | $ 44.0 | $ (21.0) | $ 49.0 | $ 107.0 |
| Corporate and other taxable bonds . . . . | (258.0) | 1.0 | (249.0) | (7.0) |
| Tax exempt bonds . . . . . . . . . . . . . | 14.0 | (15.0) | 16.0 | 38.0 |
| Asset backed bonds . . . . . . . . . . . . | 19.0 | 4.0 | 28.0 | 55.0 |
| Redeemable Preferred Stock . . . . . . . . | (1.0) | (21.0) | (15.0) | (21.0) |
| Total fixed maturity securities . . . . . . | (182.0) | (52.0) | (171.0) | 172.0 |
| Equity securities . . . . . . . . . . . . | 42.0 | 1,015.0 | 49.0 | 1,087.0 |
| Derivative securities . . . . . . . . . . . | (13.0) | 8.0 | (34.0) | 3.0 |
| Other invested assets . . . . . . . . . . . | (9.0) | (404.0) | (5.0) | (324.0) |
| Total realized investment (losses) gains . | (162.0) | 567.0 | (161.0) | 938.0 |
| Income tax benefit (expense) . . . . . . . | 57.0 | (255.0) | 58.0 | (389.0) |
| Minority interest . . . . . . . . . . . . . . | 11.0 | (41.0) | 11.0 | (71.0) |
| Net investment (losses) gains . . . . . . . | $ (94.0) | $ 271.0 | $ (92.0) | $ 478.0 |

Net realized investment gains decreased $365.0 for the second quarter of 2002 compared with the same period in 2001. This decline was due primarily to $292.0 million of impairment losses recorded in the second quarter of 2002 principally on corporate bonds, contrasted with large gains realized in the second quarter of 2001 from closing out the hedge agreements, entered into in early 2000, related to CNA's investment in Global Crossing Ltd. common stock.

~~As noted in the general account investments table below, corporate bonds comprise a significant portion of CNA's investment portfolio. The Company regularly reviews the market value of each investment compared to its carrying value. When the market value is less than the carrying value, the Company makes a determination as to whether the decline is other than temporary. When a decline in value is determined to be other than temporary, investments are written down to net realizable value and losses are recognized in income. Included in the second quarter of 2002 impairment writedowns were $129.0 million related to debt securities issued by WorldCom Inc. and $74.0 million related to Adelphia Communications Corporation, both of which have recently filed for bankruptcy. These securities were written down to estimated net realizable value of $33.0 and $29.0 million, respectively. The remaining $89.0 million of impairment writedowns relates primarily to issuers in the telecommunications sector. The Company may be subject to future impairment losses that could materially adversely impact its results of operations.~~



~~Management believes any future impairment losses would not have a material impact on the Company's overall financial position.~~

~~During the second quarter of 2001, CNA announced its intention to sell certain businesses. The assets being held for disposition included CNA Re U.K. and certain other businesses. Based upon the impairment analyses performed at that time, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these sales, CNA estimated the net realizable value of each business being held for sale. An estimated after tax and minority interest loss of $278.4 million was initially recorded in the second quarter of 2001. This loss was reported in other realized investment losses.~~

~~CNA continues to monitor the impairment losses analyses recorded for these businesses and perform updated impairment analyses. Based on the analyses, the impairment loss has been reduced by approximately $170.0 million, primarily because the net assets of the businesses had been significantly diminished by their operating losses, including adverse development recognized by CNA Re U.K. in the fourth quarter of 2001.~~

~~In the fourth quarter of 2001, CNA sold certain businesses as planned. The realized after-tax and minority interest loss applicable to these businesses recognized in the second quarter of 2001 was $33.1 million. Revenues of these businesses included in the three and six months ended June 30, 2001 totaled approximately $18.0 million and $25.0 million. Net operating losses related to these businesses included in the three and six months ended June 30, 2001 were approximately $12.2 million and $14.8 million.~~

~~At June 30, 2002, CNA Re U.K. and certain other businesses remain held for sale. On July 15, 2002, CNA announced that it signed a share purchase agreement to sell CNA Re U.K. to Tawa U.K. Limited, a subsidiary of Artemis Group, a French conglomerate. The share purchase agreement includes all remaining business underwritten since inception by CNA Re U.K., The sale is subject to approval in the United Kingdom by the Financial Services Authority. Additionally, certain aspects of the transaction also require approval by the Illinois Insurance Department (the "Illinois Department"), which will also conduct a comprehensive review of the terms of the transaction. While there can be no assurance that the transaction will close, management believes that all conditions necessary to close, including regulatory approvals, will be satisfied and that such closing will occur by the end of 2002. This sale does not impact CNA Re's on going U.S. based operations.~~

~~CNA Re U.K. will be sold for one dollar, subject to a completion adjustment at closing primarily driven by certain operating results between January 1, 2002 and closing, and changes in interest rates. No additional impairment loss is expected based on the terms of the sale agreement.~~

~~Concurrent with the sale, several reinsurance agreements under which CCC had provided retrocessional protection to CNA Re U.K. will be commuted. As part of the sale, CNA Re U.K.'s net exposure to all IGI Program liabilities will be ceded to CCC, and CCC will provide a $100.0 million stop loss cover attaching at carried reserves on CNA Re U.K.'s 2001 underwriting year exposures, both for the benefit of the buyer.~~

~~A primary objective in the management of the fixed maturity portfolio is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities or credit~~



~~considerations. This activity will produce realized gains and losses depending on market conditions including interest rates.~~

Substantially all invested assets are marketable securities classified as available for sale in the accompanying financial statements. Accordingly, changes in fair value for these securities are reported in other comprehensive income.

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

| | June 30, 2002 | December 31, 2001 | Change in Unrealized Gains (Losses) |
|---|---|---|---|
| | (In millions) | | |
| Fixed maturity securities: | | | |
| U.S. Treasury securities and obligations of government agencies . | $ 6,297.0 | $ 5,081.0 | $ 50.0 |
| Asset backed securities . . . . . . . | 8,075.0 | 7,723.0 | 91.0 |
| Tax exempt securities . . . . . . . . | 3,713.0 | 2,720.0 | 70.0 |
| Taxable securities . . . . . . . . . | 12,102.0 | 13,403.0 | (244.0) |
| Redeemable preferred stock . . . . . | 32.0 | 48.0 | (13.0) |
| Options embedded in convertible debt securities . . . . . . . . . . | 111.0 | 189.0 | |
| Total fixed maturity securities . | 30,330.0 | 29,164.0 | (46.0) |
| Equity securities . . . . . . . . . . . | 1,149.0 | 1,338.0 | (89.0) |
| Short term and other investments . . . | 5,765.0 | 5,324.0 | 18.0 |
| Total . . . . . . . . . . . . . . . | $37,244.0 | $35,826.0 | $(117.0) |

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| | (In millions) | |
| Short term and other investments: | | |
| Commercial paper . . . . . . . . . . . . . . . . . | $ 2,041.0 | $ 1,194.0 |
| Money market funds . . . . . . . . . . . . . . . . | 1,455.0 | 1,641.0 |
| U.S. Treasury securities . . . . . . . . . . . . | 8.0 | 175.0 |
| Others . . . . . . . . . . . . . . . . . . . . . . . | 593.0 | 730.0 |
| Other investments . . . . . . . . . . . . . . . . . . . | 1,668.0 | 1,584.0 |
| Total short term and other investments . . . . | $ 5,765.0 | $ 5,324.0 |



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

Total net unrealized gain of the general account investments was $228.0 million at June 30, 2002 compared with $345.0 million at December 31, 2001. The unrealized position at June 30, 2002 was composed of a net unrealized gain $148.0 million for fixed maturities, a net unrealized gain of $81.0 million for equity securities and a net unrealized loss of $1.0 million for short term investments.

CNA's investment policies for both the general and separate accounts emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

The general account portfolio consists primarily of high quality (rated BBB or higher) bonds, 92.0% of which were rated as investment grade at both June 30, 2002 and December 31, 2001.

At both June 30, 2002 and December 31, 2001, approximately 98.0% of the general account portfolio were U.S. Government agencies or were rated by Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's"). The remaining bonds were rated by other rating agencies, outside brokers or CNA management.

Below investment grade bonds are high yield securities rated below BBB by rating agencies, as well as other unrated securities that, in the opinion of management, are below investment grade. High yield securities generally involve a greater degree of risk than investment grade securities. However, expected returns should compensate for the added risk. This risk is also considered in the interest rate assumptions for the underlying insurance products.

Included in CNA's general account fixed maturity securities at June 30, 2002 are $8,075.0 million of asset-backed securities, at fair value, consisting of approximately 73.0% in collateralized mortgage obligations ("CMOs"), 13.0% in corporate asset-backed obligations 10.0% in U.S. Government agency issued pass-through certificates, and 4.0% in corporate mortgage-backed pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker-dealers.

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

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



## Accounting Standards

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

## Forward-Looking Statements

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

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

~~companies under reinsurance contracts; the effects of corporate bankruptcies and/or accounting restatements (such as Enron and WorldCom) on the financial markets, and the resulting decline in value of securities held by the Company which may result in additional charges for impairment; the effects of corporate bankruptcies and/or accounting restatements on the markets for directors and officers and errors and omissions coverages; limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies; regulatory limitations and restrictions upon CNA and its insurance subsidiaries generally; judicial decisions and rulings; the~~



~~possibility of downgrades in CNA's ratings by ratings agencies and changes in rating agency policies and practices, and the results of financing efforts.~~

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

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

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



## ~~Item 3. Quantitative and Qualitative Disclosures about Market Risk.~~

~~The Company is a large diversified financial services company. As such, it and its subsidiaries have significant amounts of financial instruments that involve market risk. The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Changes in the trading portfolio would be recognized as investment gains (losses) in the Consolidated Condensed Statements of Income. Market risk exposure is presented for each class of financial instrument held by the Company at June 30, 2002 and December 31, 2001, assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.~~

~~Equity Price Risk - The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes. Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at June 30, 2002 and December 31, 2001, with all other variables held constant.~~

~~Interest Rate Risk - The Company has exposure to interest rate risk, arising~~

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

~~The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on June 30, 2002 and December 31, 2001 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant.~~

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



~~The Company's long term debt, including interest rates swap agreements, as of June 30, 2002 and December 31, 2001 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $382.8 and $395.0 million at June 30, 2002 and December 31, 2001, respectively. A 100 basis point decrease would result in an increase in market value of $450.7 and $464.6 million at June 30, 2002 and December 31, 2001, respectively.~~

~~Foreign Exchange Rate Risk - Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. The Company has foreign exchange rate exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds, and the European Monetary Unit. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at June 30,2002 and December 31, 2001, with all other variables held constant.~~

~~Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in gold options. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous change of 20% from their levels at June 30, 2002 and December 31, 2001.~~



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

~~Trading portfolio:~~

| ~~Category of risk exposure:~~ | ~~Fair Value Asset (Liability)~~ | | ~~Market Risk~~ | |
|---|---|---|---|---|
| | ~~June 30, 2002~~ | ~~December 31, 2001~~ | ~~June 30, 2002~~ | ~~December 31, 2001~~ |
| ~~(Amounts in millions)~~ | | | | |
| ~~Equity markets (1):~~ | | | | |
| ~~Equity securities . . . . . . . . . . . . .~~ | ~~$ 408.8~~ | ~~$ 290.1~~ | ~~$(102.0)~~ | ~~$(73.0)~~ |

| | | | | |
|---|---|---|---|---|
| Options - purchased . . . . . . . . . . . | 17.7 | 17.5 | (7.0) | 6.0 |
| - written . . . . . . . . . . . | (14.6) | (7.8) | 9.0 | (3.0) |
| Index futures - long | | | (1.0) | (2.0) |
| Short sales . . . . . . . . . . . . . . . . | (208.5) | (193.4) | 52.0 | 48.0 |
| Separate Accounts - Equity securities (a) | 18.0 | 11.7 | (4.0) | (2.0) |
| - Other invested assets | 329.1 | 342.1 | (6.0) | (6.0) |
| Interest rate (2): | | | | |
| Fixed maturities . . . . . . . . . . . . . | 925.1 | 677.8 | (37.0) | (27.0) |
| Options on government securities - short | | (2.5) | | (2.0) |
| Separate Accounts - Fixed maturity securities . . . . . . . . . . . . . . . . | 221.0 | 308.4 | (4.0) | (5.0) |
| Commodities: | | | | |
| Gold (3): | | | | |
| Options - purchased . . . . . . . . . . . | 0.9 | 2.6 | (1.0) | (3.0) |
| - written . . . . . . . . . . . . . . . . | (0.9) | (0.4) | 1.0 | |

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% at June 30, 2002 and December 31, 2001, (2) an increase in interest rates of 100 basis points and (3) an increase in gold prices of 20%. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

(a) In addition, the Separate Accounts carry positions in equity index futures. A decrease in equity prices of 25% would result in market risk amounting to $(162.0) and $(217.0) at June 30, 2002 and December 31, 2001, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.



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

Other than trading portfolio:

Other than trading portfolio:

| Category of risk exposure: | Fair Value Asset (Liability) | | Market Risk | |
|---|---|---|---|---|
| | June 30, 2002 | December 31, 2001 | June 30, 2002 | December 31, 2001 |
| (Amounts in millions) | | | | |
| Equity markets (1): | | | | |
| Equity securities: | | | | |
| General accounts (a) . . . . . . . . . . | $ 1,148.5 | $ 1,338.4 | $ (284.0) | $ (322.0) |
| Separate accounts . . . . . . . . . . | 125.5 | 148.6 | (32.0) | (37.0) |
| Other invested assets . . . . . . . . . | 1,498.6 | 1,306.9 | (167.0) | (134.0) |
| Separate accounts - Other invested assets | 473.3 | 533.0 | (118.0) | (133.0) |
| Interest rate (2): | | | | |
| Fixed maturities (a) (b) . . . . . . . . | 31,361.1 | 30,513.2 | (1,843.0) | (1,533.0) |
| Short term investments (a) . . . . . . . | 8,433.7 | 6,734.8 | (1.0) | (1.0) |
| Other derivative securities . . . . . . | (14.0) | 16.3 | (44.0) | (19.0) |
| Separate accounts (a): | | | | |
| Fixed maturities . . . . . . . . . . | 1,917.9 | 2,038.8 | (109.0) | (120.0) |
| Short term investments . . . . . . . . | 138.0 | 98.0 | | |
| Long term debt . . . . . . . . . . . . . . | (5,740.2) | (5,399.0) | | |

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

(a) Certain securities are denominated in foreign currencies. An assumed 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(142.0) and $(114.0) at June 30, 2002 and December 31, 2001, respectively.

(b) Certain fixed maturities positions include options embedded in convertible debt securities. A decrease in underlying equity prices of 25% would result in market risk amounting to $(119.0) and $(50.0) at June 30, 2002 and December 31, 2001, respectively.

## ~~PART II. OTHER INFORMATION~~

### ~~Item 1. Legal Proceedings.~~

~~1. CNA is involved in various lawsuits including environmental pollution claims. Information involving such lawsuits is incorporated by reference to Note 9 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

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

~~CLASS ACTIONS -~~

~~In the case of Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997), the court has dismissed the case.~~

~~In the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, County, West Virginia, filed January 31, 1997), the plaintiffs have noticed an appeal to the Supreme Court of Appeals of West Virginia from the judgment entered in favor of the defendants following a 2001 trial.~~

~~In the case of Christensen v. Philip Morris Companies, Inc., et al. (U.S. District Court, Nevada, filed April 3, 1998), the court has dismissed the case.~~

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

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

~~In the case of Creekmore v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, Buncombe County, North Carolina, filed July 31, 1998), the court has entered an order granting plaintiffs' motion to voluntarily dismiss the case pursuant to a tolling agreement. The dismissal order tolls the individual claims of the purported class representatives for one year.~~

~~In the case of Johnson v. Newport Lorillard, et al. (U.S. District Court, Southern District, New York, filed October 31, 2001), the court has entered an order dismissing the case.~~

~~In the case of Norton v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Madison County, Indiana, filed May 3, 1996), the court has granted plaintiffs' motion to voluntarily dismiss the case. The Company was a defendant in the case.~~



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

~~In the case of Trivisonno v. Philip Morris, Incorporated, et al. (U.S. District Court, Northern District, Ohio, filed on or about January 14, 2002), the court entered an order during July of 2002 that granted defendants' motion to dismiss the case and entered final judgment in favor of the defendants. As of August 1, 2002, the deadline for plaintiffs to seek appellate review of the dismissal had not expired.~~

~~REIMBURSEMENT CASES -~~

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

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

~~Private Citizens' Reimbursement Cases~~

~~In the case of Mason v. The American Tobacco Company, et al. (filed in U.S. District Court, Northern District, Texas; transferred to U.S. District Court, Eastern District, New York, filed December 23, 1997), the court entered an order during July of 2002 that denied plaintiffs' motion for class certification and granted defendants' motion to dismiss the complaint. Plaintiffs have noticed an appeal to the U.S. Court of Appeals for the Second Circuit.~~

~~Reimbursement Cases Filed by Private Companies~~

~~In the case of Group Health Plan, Inc., et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed March 11, 1998), plaintiffs have noticed an appeal to the U.S. Court of Appeal for the Eighth Circuit from the trial court's order that granted defendants' motion for summary judgment.~~

~~Reimbursement Cases Filed by Labor Unions~~

~~In the case of Bergeron, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed September 29, 1999), the court has entered the parties' stipulation of dismissal with prejudice. The Company was a defendant in the case. Plantiffs were the trustees of the Massachusetts State Carpenters Health Benefits Fund.~~

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

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

~~In the case of National Asbestos Workers, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed February 27, 1998), plaintiffs have voluntarily dismissed the case. The Company was a defendant in the case.~~



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

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

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

~~CONTRIBUTION CASES~~

~~In the case of Gasket Holdings, Inc., et al. v. RJR Nabisco, Inc., et al. (Chancery Court, Claiborne County, Mississippi, filed April 18, 2001), plaintiffs have voluntarily dismissed the case without prejudice.~~

~~In the case of Raymark Industries v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Duval County, Florida, filed September 15, 1997), plaintiff has voluntarily dismissed the case. The Company was a defendant in the case but never received service of process.~~

~~In the case of Raymark Industries v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Duval County, Florida, filed December 31, 1997), plaintiff has voluntarily dismissed the case.~~

~~In the case of Raymark Industries v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed January 30, 1998), the court has entered the parties' stipulation of dismissal with prejudice.~~

~~TOBACCO-RELATED ANTITRUST CASES~~

~~Wholesalers And Direct Purchaser Suits~~

~~In the case of Holiday Markets, Inc., et al. v. Philip Morris Companies, Inc., et al (U.S. District Court, Northern District, Georgia, filed March 17, 2000), and eight other separate cases that were brought in federal courts by~~

tobacco product wholesalers against cigarette manufacturers alleging violations of antitrust laws, and consolidated together for pre-trial purposes in the U.S. District Court for the Northern District of Georgia, the court granted defendants motion for summary judgment and dismissed the cases in their entirety.

Indirect Purchaser Suits -

In the case of Shafer v. Philip Morris Companies, Inc. et al. (District Court, South Central Judicial District, Morton County, North Dakota, filed April 18, 2000), the court denied defendants' motion to dismiss.

In the case of Del Serrone v. Philip Morris Companies, Inc. et al, (Circuit Court, Wayne County, Michigan, filed February 8, 2000) the court denied plaintiff's motion for class certification.

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



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

Set forth below is information relating to the 2002 Annual Meeting of Shareholders of the Registrant.

The annual meeting was called to order at 11:00 A.M., May 14, 2002. Represented at the meeting, in person or by proxy, were shares representing 177,019,284 votes, approximately 90.5% of the votes represented by issued and outstanding shares entitled to vote.

The following business was transacted:

Election of Directors

Over 82% of the votes cast for directors were voted for the election of the following directors. The number of votes for and withheld with respect to each director was as follows:

| | Votes For | Votes Withheld |
|---|---|---|
| Joseph L. Bower | 173,833,214 | 3,186,070 |
| John Brademas | 174,473,405 | 2,545,879 |
| Paul J. Fribourg | 173,852,414 | 3,166,870 |
| Bernard Myerson | 174,481,445 | 2,537,839 |
| Edward J. Noha | 174,467,000 | 2,552,284 |
| Michael F. Price | 173,875,018 | 3,144,266 |
| Gloria R. Scott | 173,467,614 | 3,191,109 |
| Andrew H. Tisch | 146,542,192 | 30,477,092 |
| James S. Tisch | 146,468,147 | 30,551,137 |
| Jonathan M. Tisch | 146,460,028 | 30,559,256 |
| Laurence A.Tisch | 146,447,725 | 30,571,559 |
| Preston R. Tisch | 146,470,098 | 30,549,186 |
| Fred Wilpon | 174,498,819 | 2,520,465 |

Ratification of the appointment of Independent Certified Public Accountants

Approved - 173,137,782 votes, approximately 97.8% of the votes cast, voted to ratify the appointment of Deloitte & Touche, LLP as independent certified public accountants for the Company. 3,694,086 votes, approximately 2.1 % of the votes cast, voted against, and shares representing 187,416 votes, approximately 0.1% of the votes cast, abstained.

Shareholder proposal relating to political contributions

Rejected - 154,289,675 votes, approximately 96.6% of the votes cast, voted against this shareholder proposal. 3,581,222 votes, approximately 2.2% of the votes cast, were cast for, and shares representing 1,878,426 votes, approximately 1.2% of the votes cast, abstained. In addition, there were shares representing 17,269,961 votes as to which brokers indicated that they did not have authority to vote ("broker non-votes").



Shareholder proposal relating to an independent board of directors

Rejected - 103,025,647 votes, approximately 64.5% of the votes cast, voted against this shareholder proposal. 55,989,839 votes, approximately 35.1% of the votes cast, were cast for, and shares representing 733,838 votes, approximately 0.5% of the votes cast, abstained. In addition, there were shares representing 17,269,960 broker non-votes.

Shareholder proposal relating to independent directors and committees

Rejected - 96,452,899 votes, approximately 60.4% of the votes cast, voted against this shareholder proposal. 62,803,397 votes, approximately 39.3% of the votes cast, were cast for, and shares representing 493,028 votes, approximately 0.3% of the votes cast, abstained. In addition, there were 17,269,960 broker non-votes.

Shareholder proposal relating to the directors' strategy development role

Rejected - 154,369,550 votes, approximately 96.6% of the votes cast, voted against this shareholder proposal. 4,233,831 votes, approximately 2.7% of the votes cast, were cast for, and shares representing 1,145,944 votes, approximately 0.7% of the votes cast, abstained. In addition, there were 17,269,959 broker non-votes.

Shareholder proposal relating to a nominating committee

Rejected - 101,883,745 votes, approximately 63.8% of the votes cast, voted against this shareholder proposal. 57,319,987 votes, approximately 35.9% of the votes cast, were cast for, and shares representing 545,593 votes, approximately 0.3% of the votes cast, abstained. In addition, there were 17,269,959 broker non-votes.

Shareholder proposal relating to inserts in cigarette packaging

Rejected - 142,112,461 votes, approximately 89.0% of the votes cast, voted against this shareholder proposal. 5,889,900 votes, approximately 3.7% of the votes cast, were cast for, and shares representing 11,746,964 votes, approximately 7.4% of the votes cast, abstained. In addition, there were 17,269,959 broker non-votes.

Shareholder proposal relating to environmental tobacco smoke

Rejected - 142,125,126 votes, approximately 89.0% of the votes cast, voted against this shareholder proposal. 5,901,402 votes, approximately 3.7% of the votes cast, were cast for, and shares representing 11,722,797 votes, approximately 7.3% of the votes cast, abstained. In addition, there were 17,269,959 broker non-votes.



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

(a) Exhibits -

(3) By-Laws of the Registrant as amended through May 14, 2002.

(b) Current reports on Form 8-K - There were no reports on Form 8-K filed for the three months ended June 30, 2002.

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: August 13, 2002 By /s/ Peter W. Keegan

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

~~Exhibit 3~~

~~AS AMENDED THROUGH~~
~~May 14, 2002~~

~~LOEWS CORPORATION~~

~~By Laws~~

~~BY LAWS~~

~~OF~~

~~LOEWS CORPORATION~~
~~(A Delaware Corporation)~~

~~ARTICLE 1~~

~~DEFINITIONS~~

~~As used in these By laws, words of any gender (masculine, feminine, neuter) mean and include correlative words of the other genders, and unless the context otherwise requires, the term:~~

~~1.1 "Board" means the Board of Directors of the Corporation.~~

~~1.2 "By laws" means the initial by laws of the Corporation, as amended, supplemented or restated, from time to time.~~

~~1.3 "Certificate of Incorporation" means the initial certificate of incorporation of the Corporation, as amended, supplemented or restated from time to time.~~

~~1.4 "Corporation" means Loews Corporation.~~

~~1.5 "Directors" means directors of the Corporation.~~

~~1.6 "General Corporation Law" means the General Corporation Law of the State of Delaware, as amended from time to time.~~

~~1.7 "Office of the Corporation" means the executive office of the Corporation, anything in Section 131 of the General Corporation Law to the contrary notwithstanding.~~

~~1.8 "Stockholders" means stockholders of record of the Corporation.~~

~~1.9 "Whole Board" means the total number of directors which the Corporation would have if there were no vacancies on the Board of Directors.~~



~~ARTICLE 2~~

~~STOCKHOLDERS~~

~~2.1 Place of Meetings. Every meeting of Stockholders shall be held at the Office of the Corporation or at such other place within or without the State of Delaware as shall be specified or fixed in the notice of such meeting or in the waiver of notice thereof.~~

~~2.2 Annual Meeting. A meeting of Stockholders shall be held annually for the election of directors and the transaction of other business at such hour as may be designated in the notice of meeting, on the second Tuesday in May in each year (or, if such date falls on a legal holiday, on the first business day thereafter which is not a Saturday, Sunday or legal holiday), or on such other date, as may be fixed by the Board.~~

~~2.3 Special Meetings. A special meeting of Stockholders, unless otherwise prescribed by statute, may be called at any time by the Board or by the Chairman of the Board, the President, or by the Secretary and shall be called by the Chairman of the Board, the President, or by the Secretary on the written request of holders of a majority of the shares of capital stock of the Corporation entitled to vote in an election of directors, which written request shall state the purpose or purposes of such meeting. At any special meeting of Stockholders only such business may be transacted which is related to the purpose or purposes of such meeting set forth in the notice thereof given pursuant to Section 2.5 of the By laws or in any waiver of notice thereof given pursuant to the General Corporation Law.~~

~~2.4 Fixing Record Date. For the purpose of determining the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or for the purpose of determining Stockholders entitled to receive payment of any dividend or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix a date as the record date for any such determination of Stockholders. Such date shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no such record date is fixed:~~

~~2.4.1 The record date for determining Stockholders entitled to notice of or to vote at a meeting of Stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;~~

~~2.4.2 The record date for determining Stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed;~~



~~2.4.3 The record date for determining Stockholders for any purpose other than specified in Sections 2.4.1 and 2.4.2 shall be at the close of business on the day on which the Board adopts the resolution relating thereto.~~

~~When a determination of Stockholders entitled to notice of or to vote at any~~

~~meeting of Stockholders has been made as provided in this Section 2.4 such determination shall apply to any adjournment thereof, unless the Board fixes a new record date for the adjourned meeting.~~

~~2.5 Notice of Meetings of Stockholders. Except as otherwise provided in Sections 2.3 and 2.4 of the By-laws, whenever under the General Corporation Law or the Certificate of Incorporation or the By-laws, Stockholders are required or permitted to take any action at a meeting, written notice shall be given stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. A copy of the notice of any meeting shall be given, personally or by mail not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to notice of or to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, with postage prepaid, directed to the stockholder at the address of such Stockholder as it appears on the records of the Corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice required by this section has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called. If, however, the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.~~

~~2.6 List of Stockholders. The Secretary shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of Stockholders, a complete list of the Stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each Stockholder and the number of shares registered in the name of each Stockholder. Such list shall be open to the examination of any Stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at the principal place of business of the Corporation or on a reasonably accessible electronic network, provided that, in the latter case, information required to gain access to such list is provided with the notice of the meeting. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.~~

~~2.7 Quorum of Stockholders; Adjournment. The holders of a majority of the shares of stock entitled to vote at any meeting of Stockholders, present in person or represented by proxy, shall constitute a quorum for the transaction of any business at~~



~~such meeting. When a quorum is once present to organize a meeting of Stockholders, it is not broken by the subsequent withdrawal of any Stockholders. The chairman of any meeting of Stockholders, or the holders of a majority of the shares of stock present in person or represented by proxy at any meeting of Stockholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.~~

~~2.8 Voting; Proxies. Unless otherwise provided in the Certificate of Incorporation, every Stockholder shall be entitled at every meeting of Stockholders to one vote for each share of capital stock held by such Stockholder as of the record date determined in accordance with Section 2.4 of the By-laws. If the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, every reference in the By-laws or the General Corporation Law to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock. The provisions of Sections 212 and 217 of the General Corporation Law shall apply in determining whether any shares of capital stock may be voted and the persons, if any, entitled to vote such shares; but the Corporation shall be protected in treating the persons in whose names shares of capital stock stand on the record of Stockholders as owners thereof for all purposes. At any meeting of Stockholders, a quorum being present, all matters, except as otherwise provided by law or by the Certificate of Incorporation or by the By-laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon. All elections of directors shall be by written ballot, unless otherwise provided in the Certificate of Incorporation; if authorized by the Board of Directors, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such~~

~~electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the Stockholder or proxy holder. Each written ballot shall be signed by the Stockholder voting or by the proxy of such Stockholder, and shall state the number of shares voted. On all other questions, the voting may be voice vote. Every Stockholder entitled to vote at a meeting of Stockholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with the General Corporation Law.~~

~~2.9 Selection and Duties of Inspectors at Meetings of Stockholders. The Board, in advance of any meeting of Stockholders, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at such meeting may, and on the request of any stockholder entitled to vote thereat shall, appoint one or more inspectors. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspector or inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a~~



~~quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all Stockholders. On request of the person presiding at the meeting or any stockholder entitled to vote thereat, the inspector or inspectors shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them. Any report or certificate made by the inspector or inspectors shall be prima facie evidence of the facts stated and of the vote as certified by him or them.~~

~~2.10 Organization. At every meeting of Stockholders, unless otherwise directed by the Board, the President, or in the absence of the President, the Chairman of the Board, or in the absence of either of them, the Chairman of the Executive Committee, or in the absence of all of them the most senior Vice President (based on term of service as Vice President) present shall act as chairman of the meeting. The Secretary, or in the absence of the Secretary, one of the Assistant Secretaries, shall act as secretary of the meeting. In case none of the officers above designated to act as chairman or secretary of the meeting, respectively, shall be present a chairman or a secretary of the meeting, as the case may be, shall be chosen by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.~~

~~2.11 Order of Business. The order of business at all meetings of Stockholders shall be as determined by the chairman of the meeting, but the order of business to be followed at any meeting at which a quorum is present may be changed by a majority of the votes cast at such meeting by the holders of shares of capital stock present in person or represented by proxy and entitled to vote at the meeting.~~

## ~~ARTICLE 3~~

## ~~DIRECTORS~~

~~3.1 General Powers. Except as otherwise provided in the Certificate of Incorporation, the business and affairs of the Corporation shall be managed by or under the direction of the Board. The Board may adopt such rules and regulations, not inconsistent with the Certificate of Incorporation or the By-laws or applicable laws, as it may deem proper for the conduct of its meetings and the management of the Corporation. In addition to the powers expressly conferred by the By-laws, the Board may exercise all powers and perform all acts which are not required, by the By-laws or the Certificate of Incorporation or by law, to be exercised and performed by the Stockholders.~~

~~3.2 Number; Qualification; Term of Office. The Board shall consist of one or more members. The number of directors shall be fixed initially by the Board and may thereafter be changed from time to time by action of the Stockholders~~

~~or by a majority of the Whole Board. Directors need not be Stockholders. Each director shall hold office~~



~~until his successor is elected and qualified or until his earlier death, resignation or removal.~~

~~3.3 Election. Directors shall except as otherwise required by law or by the Certificate of Incorporation, be elected by a plurality of the votes cast at a meeting of Stockholders by the holders of shares entitled to vote in the election.~~

~~3.4 Newly Created Directorships and Vacancies. Unless otherwise provided in the Certificate of Incorporation, newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board for any reason, including the removal of directors without cause, may be filled by vote of a majority of the directors then in office, although less than a quorum, at any meeting of the Board or may be elected by a plurality of the votes cast by the holders of shares of capital stock entitled to vote in the election at a special meeting of Stockholders called for that purpose. A director elected to fill a vacancy shall be elected to hold office until his successor is elected and qualified, or until his earlier death, resignation or removal.~~

~~3.5 Resignations. Any director may resign at any time by notice given in writing to the Corporation. Such resignation shall take effect at the time therein specified, and the acceptance of such resignation shall not be necessary to make it effective.~~

~~3.6 Removal of Directors. Any or all of the directors may be removed, with or without cause, by vote of the Stockholders.~~

~~3.7 Remuneration. Unless otherwise expressly provided by resolution adopted by the Board, none of the directors or of the members of any committee of the Corporation contemplated by the By laws or otherwise provided for by resolution of the Board shall as such receive any stated remuneration for his services; but the Board may at any time or from time to time by resolution provide that remuneration shall be paid to, or on behalf of, any director of the Corporation or to any member of any such committee who shall not be in the employ of the Corporation or of any of its subsidiary companies, either as his annual remuneration as such director or member or as remuneration for his attendance at each meeting of the Board or of such committee. The Board may also likewise provide that the Corporation shall reimburse each such director or member of such committee for any expenses paid by him on account of his attendance at any such meeting. Nothing in this Section contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.~~

~~3.8 Place and Time of Meetings of the Board. Meetings of the Board, regular or special, may be held at any place within or without the State of Delaware. The times and places for holding meetings of the Board may be fixed from time to time by resolution of the Board or (unless contrary to resolution of the Board) in the notice of the meeting.~~



~~3.9 Annual Meetings. On the day when and at the place where the annual meeting of Stockholders for the election of directors is held, or as soon as practicable thereafter, the Board may hold its annual meeting, without notice of such meeting, for the purposes of electing officers and transacting other business. The annual meeting of the Board may be held at any other time and place specified in a notice given as provided in Section 3.11 of the By laws for special meetings of the Board or in a waiver of notice thereof.~~

~~3.10 Regular Meetings. Regular meetings of the Board may be held at such times and places as may be fixed from time to time by the Board. Unless otherwise required by the Board, regular meetings of the Board may be held without notice. If any day fixed for a regular meeting of the Board shall be a Saturday or Sunday or a legal holiday at the place where such meeting is to be held, then such meeting shall be held at the same hour at the same place on the first business day thereafter which is not a Saturday, Sunday or legal holiday.~~

~~3.11 Special Meetings. Special meetings of the Board shall be held~~

~~whenever called by the Chairman of the Board, the President, or by the Secretary or by any two or more directors. Notice of each special meeting of the Board shall be given to each director at the address designated by him for that purpose or, if none is designated, at his last known business or residence address, in writing by first-class or overnight mail or courier service, facsimile or electronic transmission, hand delivery or orally by telephone. If mailed, such notice shall be deemed adequately delivered when deposited in the United States mails, with postage thereon prepaid, at least two days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when delivered to the overnight mail or courier service company at least one day before such meeting. If by facsimile or electronic transmission, such notice shall be deemed adequately delivered when transmitted at least 12 hours prior to the time set for the meeting. If by hand delivery or telephone, the notice shall be given at least 12 hours prior to the time set for the meeting. Every such notice shall state the time and place of the meeting but need not state the purposes of the meeting, except to the extent required by law. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting.~~

~~3.12 Adjourned Meetings. A majority of the directors present at any~~

~~meeting of the Board, including an adjourned meeting, whether or not a quorum is present may adjourn such meeting to another time and place. Notice of any adjourned meeting of the Board need not be given to any director whether or not present at the time of the adjournment. Any business may be transacted at any adjourned meeting that might have been transacted at the meeting as originally called.~~

~~3.13 Waiver of Notice. Whenever notice is required to be given to any~~

~~director or member of a committee of directors under any provision of the General Corporation Law or of the Certificate of Incorporation or By laws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be~~



~~deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice or any waiver by electronic transmission.~~

~~3.14 Organization. At each meeting of the Board, the Chairman of the~~

~~Board, or in the absence of the Chairman of the Board, the President of the Corporation, or in the absence of the President, the Chairman of the Executive Committee, or in the absence of all of them a chairman chosen by the majority of the directors present, shall preside. The Secretary shall act as secretary at each meeting of the Board. In case the Secretary shall be absent from any meeting of the Board, an Assistant Secretary shall perform the duties of secretary at such meeting; and in the absence from any such meeting of the Secretary and Assistant Secretaries, the person presiding at the meeting may appoint any person to act as secretary of the meeting.~~

~~3.15 Quorum of Directors. A majority of the directors then in office shall~~

~~constitute a quorum for the transaction of business or of any specified item of business at any meeting of the Board.~~

~~3.16 Action by the Board. All corporate action taken by the Board or any~~

~~committee thereof shall be taken at a meeting of the Board, or of such committee, as the case may be, except that any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or of such committee, as the case may be, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other and participation in a~~

~~meeting pursuant to this Section 3.16 shall constitute presence in person at such meeting. Except as otherwise provided by the Certificate of Incorporation or by law, the vote of a majority of the directors present (including those who participate by means of conference telephone or other communications equipment) at the time of the vote, if a quorum is present (including those who participate by means of conference telephone or other communications equipment) at such time, shall be the act of the Board.~~



~~ARTICLE 4~~

~~COMMITTEES OF THE BOARD~~

~~4.1 Executive Committee; Appointment, Term of Office, etc.~~

~~(a) The Board may designate an Executive Committee consisting of the Chairman of the Executive Committee, if any, and such other directors as it may designate. Each member of the Executive Committee shall continue to be a member thereof only so long as he remains a director and at the pleasure of the Board. Any vacancies on the Executive Committee may be filled by the Board. The designation and authority of the Executive Committee shall be governed by Section 141(c)(2) of the General Corporation Law.~~

~~(b) The Executive Committee, between meetings of the Board, shall have and may exercise the powers of the Board in the management of the property, business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it. Without limiting the foregoing, the Executive Committee shall have the express power and authority to declare a dividend, to authorize the issuance of stock, and to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law.~~

~~(c) Regular meetings of the Executive Committee, of which no notice shall be necessary, shall be held on such days and at such places, within or without the State of Delaware, as shall be fixed by resolution adopted by a majority of the Executive Committee. Special meetings of the Executive Committee shall be held whenever called by the Chairman of the Board, the President, or the Chairman of the Executive Committee, and shall be called by the Secretary of the Corporation on the request of a majority of the members of the Executive Committee. Notice of each special meeting of the Executive Committee shall be given to the members thereof in the same manner as prescribed for the delivery of notice of a special meeting of the Board pursuant to Section 3.11 of the By laws. Notice of any such meeting need not, however, be given to any member of the Executive Committee if he shall be present at such meeting. Any meeting of the Executive Committee shall be a legal meeting without any notice thereof having been given if all the members of the Executive Committee shall be present thereat. Such notice shall specify the time and place of the meeting, but except as otherwise expressly provided by law, the purposes thereof need not be stated in such notice. Subject to the provisions of the By laws, the Executive Committee may fix its own rules of procedure, and it shall keep a record of its proceedings and report them to the Board at the next regular or special meeting thereof after such proceedings shall have been taken. All such proceedings shall be subject to revision or alteration by the Board; provided, however, that third parties shall not be prejudiced by any such revision or alteration.~~

~~(d) Except as otherwise provided by law, a majority of the Executive Committee then in office shall constitute a quorum for the transaction of business, and the act of a majority of those present at a meeting thereof shall be the act of the Executive~~



~~Committee. In the absence of a quorum, a majority of the members of the Executive Committee present thereat may adjourn such meeting from time to time until a quorum shall be present thereat. Notice of any adjourned meeting need not be given. The Executive Committee shall act only as a committee, and the individual members shall have no power as such.~~

~~(e) Any member of the Executive Committee may resign therefrom at any time by giving written notice of his resignation to the Chairman of the Board, the President, or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, it shall take effect immediately upon its receipt; and the acceptance of such resignation shall not be necessary to make it effective.~~

~~(f) In addition to the foregoing, in the absence or disqualification of a member of the Executive Committee, the members present at any meeting and not~~

~~disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.~~

~~4.2 Other Committees of the Board. The Board may designate one or more other committees, which shall in each case consist of such number of directors, but not less than two, and shall have and may exercise such powers for such periods, as the Board may determine in the resolution designating such committee. A majority of the members of any such committee may fix its rules of procedure, determine its action, fix the time and place, whether within or without the State of Delaware, of its meetings and specify what notice thereof, if any, shall be given, unless the Board shall otherwise provide. Each member of any such committee shall continue to be a member thereof only so long as he remains a director and at the pleasure of the Board. Any vacancies on any such committee may be filled by the Board. The designation and authority of the committees created hereunder shall be governed by Section 141(c)(2) of the General Corporation Law.~~

~~4.3 Other Committees. Nothing hereinbefore contained in this Article 4 shall be deemed to preclude the designation by the President of committees, other than committees of the Board, which may include officers and employees who are not directors.~~



~~ARTICLE 5~~

~~OFFICERS~~

~~5.1 Officers. The Board shall elect a Chairman of the Board, a President, a Chairman of the Executive Committee, a Secretary and a Treasurer, and as many Assistant Secretaries and Assistant Treasurers as the Board may deem necessary, and may elect or appoint one or more Vice Presidents and such other officers as it may determine. The Board may designate one or more Vice Presidents as Senior Vice President or Executive Vice President, and may use descriptive words or phrases to designate the standing, seniority or area of special competence of the Vice Presidents elected or appointed by it. Each officer shall hold his office until his successor is elected and qualified or until his earlier death, resignation or removal in the manner provided in Section 5.2 of the By-laws. Any two or more offices may be held by the same person. The Board may require any officer to give a bond or other security for the faithful performance of his duties, in such amount and with such sureties as the Board may determine. All officers as between themselves and the Corporation shall have such authority and perform such duties in the management of the Corporation as may be provided in the By-laws or as the Board may from time to time determine.~~

~~5.2 Removal of Officers. Any officer elected or appointed by the Board may be removed by the Board with or without cause. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights.~~

~~5.3 Resignations. Any officer may resign at any time in writing by notifying the Board, the Chairman of the Board, the President, or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at such later time as is therein specified, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective. The resignation of an officer shall be without prejudice to the contract rights of the Corporation, if any.~~

~~5.4 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in the By laws for the regular election or appointment to such office.~~

~~5.5 Compensation. Salaries or other compensation of the officers may be fixed from time to time by the Board. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that he is also a director.~~

~~5.6 Chairman of the Board. The Chairman of the Board shall, if present, preside at all meetings of the Board. He may, with the Secretary or the~~

~~Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and~~



~~execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed and, in general, he shall perform all duties incident to the office of Chairman of the Board and such other duties as from time to time may be assigned to him by the Board. The Board may designate two persons to serve as Co-Chairmen of the Board of the Corporation in which case each reference in the By-laws to the "Chairman of the Board" shall mean either "Co-Chairman of the Board". Where both individuals holding such office are present, the individual with greater seniority shall exercise the powers of the office, unless otherwise directed by the Board.~~

~~5.7 President and Chief Executive Officer. The President shall be the Chief Executive Officer of the Corporation and as such shall have the general powers and duties of supervision and management usually vested in the office of President and Chief Executive Officer. The President, if present, shall preside at all meetings of the Stockholders. The President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and shall perform such other duties as from time to time may be assigned to him by the Board.~~

~~5.8 Chairman of the Executive Committee. The Chairman of the Executive Committee shall have the powers and duties incident to that office and shall have other powers and duties as may be prescribed from time to time by the Board of Directors. He shall be a member of the Executive Committee and shall preside at all meetings of the Executive Committee at which he is present. In the event of the absence or disability of the President, he shall perform the duties of the President, unless the Board of Directors shall have designated another person to perform such duties.~~

~~5.9 Vice Presidents. Each Vice President shall have such powers and shall perform such duties as shall be assigned to such person by the President or the Board of Directors. Any Vice President may also, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board, except in cases where the signing and execution thereof is expressly delegated by the Board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed.~~

~~5.10 Secretary. The Secretary, if present, shall act as secretary of all meetings of the Stockholders and of the Board, and shall keep the minutes thereof in the proper book or books to be provided for that purpose; he shall see that all notices required to be given by the Corporation are duly given and served; he may, with the Chairman of the Board, the President, or a Vice President, sign certificates for shares of capital stock of~~



~~the Corporation; he shall be custodian of the seal of the Corporation and may seal with the seal of the Corporation, or a facsimile thereof, all certificates for shares of capital stock, of the Corporation and all documents the execution of which on behalf of the Corporation under its corporate seal is authorized in accordance with the provisions of the By-laws; he shall have charge of the stock ledger and also of the other books, records and papers of the Corporation relating to its organization and management as a Corporation, and shall see that the reports, statements and other documents required by law are properly kept and filed; and shall, in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or by the President.~~

~~5.11 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any~~

~~sources whatsoever; deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the By laws; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositaries of the Corporation signed in such manner as shall be determined in accordance with any provisions of the By laws, and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books to be kept by him or under his direction full and adequate accounts of all moneys received or paid by him for the account of the Corporation; have the right to require, from time to time reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President, or the Board, whenever the President, or the Board, respectively, require him so to do, an account of the financial condition of the Corporation and of all his transactions as Treasurer; exhibit at all reasonable times his books of account and other records to any of the directors upon application at the Office of the Corporation where such books and records are kept; and in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board, or by the President; and he may sign, with the Chairman of the Board, the President, or a Vice President, certificates for shares of capital stock of the Corporation.~~

~~5.12 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the Board, or the President. Assistant Secretaries and Assistant Treasurers may, with the Chairman of the Board, the President, or a Vice President, sign certificates for shares of capital stock of the Corporation.~~

~~ARTICLE 6~~

~~CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.~~



~~6.1 Execution of Contracts. The Board may authorize any officer, employee or agent, in the name and on behalf of the Corporation, to enter into any contracts or execute and satisfy any instrument, and any such authority may be general or confined to specific instances, or otherwise limited.~~

~~6.2 Loans. The Chairman of the Board, the President, or any other officer, employee or agent authorized by the By laws or by the Board may effect loans and advances at any time for the Corporation from any bank, trust company or other institutions or from any firm, corporation or individual and for such loan and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, and when authorized so to do may pledge and hypothecate or transfer any securities or other property of the Corporation as security for any such loans or advances. Such authority conferred by the Board may be general or confined to specific instances or otherwise limited.~~

~~6.3 Checks, Drafts, Etc. All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all notes or other evidences of indebtedness of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board.~~

~~6.4 Deposits. The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation in such banks, trust companies or other depositories as the Board may select or as may be selected by an officer, employee or agent of the Corporation to whom such power may from time to time be delegated by the Board.~~

~~ARTICLE 7~~

~~STOCKS AND DIVIDENDS~~

~~7.1 Certificates Representing Shares. The shares of capital stock of the Corporation shall be represented by certificates in such form (consistent with~~

~~the provisions of Section 158 of the General Corporation Law) as shall be approved by the Board. Such certificates shall be signed by the Chairman of the Board, the President, or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the Corporation or a facsimile thereof. The signatures of the officers upon a certificate may be facsimiles, if the certificate is countersigned by a transfer agent or registrar other than the Corporation itself or its employee. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may, unless otherwise ordered by the Board, be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.~~



~~7.2 Transfer of Shares. Transfers of shares of capital stock of the Corporation shall be made only on the books of the Corporation by the holder thereof or by his duly authorized attorney appointed by a power of attorney duly executed and filed with the Secretary or a transfer agent of the Corporation, and on surrender of the certificate or certificates representing such shares of capital stock properly endorsed for transfer and upon payment of all necessary transfer taxes. Every certificate exchanged, returned or surrendered to the Corporation shall be marked "Canceled," with the date of cancellation, by the Secretary or an Assistant Secretary or the transfer agent of the Corporation. A person in whose name shares of capital stock shall stand on the books of the Corporation shall be deemed the owner thereof to receive dividends, to vote as such owner and for all other purposes as respects the Corporation. No transfer of shares of capital stock shall be valid as against the Corporation, its Stockholders and creditors for any purpose, except to render the transferee liable for the debts of the Corporation to the extent provided by law, until such transfer shall have been entered on the books of the Corporation by an entry showing from and to whom transferred.~~

~~7.3 Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agents and registry offices or agents at such place or places as may be determined from time to time by the Board.~~

~~7.4 Lost, Destroyed, Stolen and Mutilated Certificates. The holder of any shares of capital stock of the Corporation shall immediately notify the Corporation of any loss, destruction, theft or mutilation of the certificate representing such shares, and the Corporation may issue a new certificate to replace the certificate alleged to have been lost, destroyed, stolen or mutilated. The Board may, in its discretion, as, a condition to the issue of any such new certificate, require the owner of the lost, destroyed, stolen or mutilated certificate, or his legal representatives, to make proof satisfactory to the Board of such loss, destruction, theft or mutilation and to advertise such fact in such manner as the Board may require, and to give the Corporation and its transfer agents and registrars, or such of them as the Board may require, a bond in such form, in such sum and with such surety or sureties as the Board may direct, to indemnify the Corporation and its transfer agents and registrars against any claim that may be made against any of them on account of the continued existence of any such certificate so alleged to have been lost, destroyed, stolen or mutilated and against any expense in connection with such claim.~~

~~7.5 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with the By laws or with the Certificate of Incorporation, concerning the issue, transfer and registration of certificates representing shares of its capital stock.~~

~~7.6 Restriction on Transfer of Stock. A written restriction on the transfer or registration of transfer of capital stock of the Corporation, if permitted by Section 202 of the General Corporation Law and noted conspicuously on the certificate representing such capital stock, may be enforced against the holder of the restricted capital stock or any successor or transferee of the holder including an executor, administrator, trustee, guardian or other fiduciary entrusted with like responsibility for the person or estate of~~



~~the holder. Unless noted conspicuously on the certificate representing such capital stock, a restriction, even though permitted by Section 202 of the General Corporation Law, shall be ineffective except against a person with actual knowledge of the restriction. A restriction on the transfer or~~

~~registration of transfer of capital stock of the Corporation may be imposed either by the Certificate of Incorporation or by an agreement among any number of Stockholders or among such Stockholders and the Corporation. No restriction so imposed shall be binding with respect to capital stock issued prior to the adoption of the restriction unless the holders of such capital stock are parties to an agreement or voted in favor of the restriction.~~

~~7.7 Dividends. Subject to the provisions of the Certificate of Incorporation and of the General Corporation Law, the Board may, from time to time, declare, and the Corporation may pay, dividends and other distributions on the Corporation's outstanding shares of capital stock.~~

## ~~ARTICLE 8~~

## ~~INDEMNIFICATION~~

~~8.1 Indemnification of Officers and Directors. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or an officer of the Corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which such director or officer may be entitled apart from the foregoing provisions. The foregoing provisions of this Section 8.1 shall be deemed to be a contract between the Corporation and each director and officer who serves in such capacity at any time while this Article 8 and the relevant provisions, of the General Corporation law and other applicable law, if any, are in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing, with respect to any state of facts then or theretofore existing, or any action, suit or proceeding theretofore, or thereafter brought or threatened based in whole or in part upon any such state of facts.~~

~~8.2 Indemnification of Other Persons. The Corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was an employee or agent of the Corporation, or is or was, serving at the request of the Corporation, as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such~~



~~action, suit or proceeding to the extent and in the manner set forth in and permitted by the General Corporation Law, and any other applicable law, as from time to time in effect. Such right of indemnification shall not be deemed exclusive of any other rights to which any such person may be entitled apart from the foregoing provisions.~~

## ~~ARTICLE 9~~

## ~~BOOKS AND RECORDS~~

~~9.1 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of the Stockholders, the Board and any committee of the Board. The Corporation shall keep at the office designated in the Certificate of Incorporation or at the Office of the Corporation or at the office of the transfer agent or registrar of the Corporation, a record containing the names and addresses of all Stockholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.~~

~~9.2 Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, computer databases, electronic servers or any other information storage device provided that the records so kept can be~~

~~converted into clearly legible written form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.~~

~~9.3 Inspection of Books and Records. Except as otherwise provided by law, the Board shall determine from time to time whether, and, if allowed, when and under what conditions and regulations, the accounts, books, minutes and other records of the Corporation, or any of them, shall be open to the inspection of the Stockholders.~~

~~ARTICLE 10~~

~~SEAL~~

~~The Board may adopt a corporate seal which shall be in the form of a circle and shall bear the full name of the Corporation, the year of its incorporation and the word "Delaware".~~

~~ARTICLE 11~~

~~FISCAL YEAR~~



~~The fiscal year of the Corporation shall begin on the 1st day of January and shall terminate on the 31st day of December in each year, or such other period as may be fixed by resolution of the Board.~~

~~ARTICLE 12~~

~~VOTING OF SHARES HELD~~

~~Unless otherwise provided by resolution of the Board, the Chairman of the Board, or the President, or any Vice President, may, from time to time, appoint one or more attorneys or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as a stockholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of stock or other securities of such other corporation, or to consent, in writing to any action by any such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, consents, waivers or other instruments as he may deem necessary or proper in the premises; or the Chairman of the Board, or the President, or any Vice President may himself attend any meeting of the holders of the stock or other securities of any such other corporation and thereat vote or exercise any or all other powers of the Corporation as the holder of such stock or other securities of such other corporation.~~

~~ARTICLE 13~~

~~BUSINESS COMBINATIONS WITH INTERESTED STOCKHOLDERS~~

~~Pursuant to the provisions of Section 203 (b) (2) of the General Corporation Law, the Corporation, by action of the Board, expressly elects not to be governed by Section 203 of the General Corporation Law, dealing with business combinations with interested Stockholders. Notwithstanding anything to the contrary in the By laws, the provisions of this Article 13 may not be further amended by the Board, except as may be specifically authorized by the General Corporation Law.~~

~~ARTICLE 14~~

~~AMENDMENTS~~

~~The By laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by vote of the holders of the shares entitled to vote in the election of directors. The By laws may be altered, amended, supplemented or repealed, or new By-laws may be adopted, by the Board, provided that the vote of a majority of the Whole~~

~~Board shall be required to change the number of authorized directors. Any By-laws adopted, altered, amended, or supplemented by the Board may be altered, amended, supplemented or repealed by the Stockholders entitled to vote thereon.~~