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, 1997

OR

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

For the transition period from to

Commission file number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(212) 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 1, 1997
Common stock, $1 par value	115,000,000 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions of dollars)	June 30, 1997	December 31, 1996
Assets:		
Investments:		
Fixed maturities, amortized cost of $27,685.2 and $29,319.3	$27,753.8	$29,478.3
Equity securities, cost of $854.9 and $981.8	957.8	1,136.3
Other investments	958.0	997.9
Short-term investments	11,002.5	8,304.9
Total investments	40,672.1	39,917.4
Cash	478.2	305.7
Receivables-net	14,198.6	13,862.1
Property, plant and equipment-net	2,437.2	2,225.1
Deferred income taxes	1,092.1	1,138.0
Goodwill and other intangible assets-net	548.6	562.4
Other assets	1,916.4	1,697.2
Deferred policy acquisition costs of insurance subsidiaries	2,122.9	1,854.2
Separate Account business	6,023.3	6,120.9
Total assets	$69,489.4	$67,683.0
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	$40,971.6	$40,415.1
Accounts payable and accrued liabilities	1,909.7	3,110.9
Payable for securities purchased	1,831.8	966.4
Securities sold under repurchase agreements	1,618.6	548.3
Long-term debt, less unamortized discount	4,489.9	4,370.7
Deferred credits and participating policyholders' equity	1,727.1	1,538.6
Separate Account business	6,023.3	6,120.9
Total liabilities	58,572.0	57,070.9
Minority interest	2,049.6	1,880.9
Shareholders' equity	8,867.8	8,731.2
Total liabilities and shareholders' equity	$69,489.4	$67,683.0

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Income

(Amounts in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
Revenues:				
Insurance premiums:				
Property and casualty	$2,529.4	$2,478.6	$4,999.9	$ 4,986.4
Life	817.5	840.8	1,692.5	1,625.0
Investment income, net of expenses	604.3	606.8	1,219.8	1,235.5
Investment (losses) gains	(295.4)	178.4	(266.6)	490.2
Manufactured products (including excise taxes of $124.3, $121.9, $234.4 and $231.2)	625.5	588.4	1,166.6	1,109.2
Other	467.8	351.6	876.0	642.8
Total	4,749.1	5,044.6	9,688.2	10,089.1
Expenses:				
Insurance claims and policyholders' benefits	2,860.1	2,774.5	5,752.5	5,561.4
Amortization of deferred policy acquisition costs	595.9	484.4	1,116.2	1,057.0
Cost of manufactured products sold	260.9	251.2	498.1	481.9
Selling, operating, advertising and administrative expenses	750.8	806.3	1,542.1	1,523.3
Interest	76.3	69.8	151.1	160.6
Total	4,544.0	4,386.2	9,060.0	8,784.2
	205.1	658.4	628.2	1,304.9
Income taxes	69.7	226.4	196.1	445.1
Minority interest	71.6	53.3	129.0	112.3
Total	141.3	279.7	325.1	557.4
Net income	$ 63.8	$ 378.7	$ 303.1	$ 747.5
Net income per share	$ .55	$ 3.25	$ 2.63	$ 6.38
Cash dividends per share	$ .25	$ .25	$ .50	$ .50
Weighted average number of shares outstanding	115.0	116.6	115.0	117.2

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Six Months Ended June 30,	
	1997	1996
Operating Activities:		
Net income	$ 303.1	$ 747.5
Adjustments to reconcile net income to net cash provided by operating activities-net	518.4	(194.9)
Changes in assets and liabilities-net:		
Reinsurance receivable	366.2	52.7
Other receivables	(475.8)	(427.1)
Deferred policy acquisition costs	(268.7)	(204.6)
Insurance reserves and claims	563.7	311.5
Accounts payable and accrued liabilities	(1,200.9)	(447.3)
Trading securities	(364.5)	(41.6)

Other-net	25.3	207.9
	(533.2)	4.1
Investing Activities:		
Purchases of fixed maturities	(19,476.5)	(16,863.6)
Proceeds from sales of fixed maturities	20,419.1	17,127.6
Proceeds from maturities of fixed maturities	1,105.4	1,311.3
Change in securities sold under repurchase agreements	1,070.3	135.1
Purchases of equity securities	(563.9)	(602.1)
Proceeds from sales of equity securities	781.5	779.0
Change in short-term investments	(2,330.2)	(1,424.1)
Purchases of property, plant and equipment	(399.8)	(209.5)
Change in other investments	46.3	293.3
	652.2	547.0
Financing Activities:		
Dividends paid to shareholders	(57.5)	(58.7)
Purchases of treasury shares		(137.6)
Issuance of long-term debt	395.3	9.1
Principal payments on long-term debt	(204.1)	(320.3)
Net change in revolving line of credit	(63.0)	70.0
Net change in short-term debt	(10.0)	(4.8)
Receipts credited to policyholders	4.3	8.6
Withdrawals of policyholder account balances	(11.5)	(17.9)
	53.5	(451.6)
Net change in cash	172.5	99.5
Cash, beginning of period	305.7	241.7
Cash, end of period	$ 478.2	$ 341.2

See accompanying Notes to Consolidated Condensed Financial Statements.

(Dollars in millions, except per share data)

1. Reference is made to Notes to Consolidated Financial Statements in the 1996 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

   Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 1997.

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

   The ceding of insurance does not discharge the primary liability of the original insurer. CNA places reinsurance with other carriers only after careful review of the nature of the contract and a thorough assessment of the reinsurers' credit quality and claim settlement performance. Further, for carriers that are not authorized reinsurers in its states of domiciles, CNA receives collateral primarily in the form of bank letters of credit, securing a large portion of the recoverables.

   The effects of reinsurance on earned premiums, are as follows:

					%					%
	Direct	Assumed	Ceded	Net	Assumed	Direct	Assumed	Ceded	Net	Assumed
	Six Months Ended June 30,									

	1997					1996				
Life	$ 435.4	$ 60.5	$ 56.7	$ 439.2	13.8%	$ 353.9	$ 57.2	$ 15.2	$ 395.9	14.4%
Accident and health	1,856.1	57.3	65.2	1,848.2	3.1	1,658.4	89.4	33.2	1,714.6	5.2
Property and casualty ..	4,303.5	560.0	458.5	4,405.0	12.7	4,249.1	1,002.8	751.0	4,500.9	22.3
Total	$6,595.0	$ 677.8	$ 580.4	$6,692.4	10.1%	$6,261.4	$1,149.4	$799.4	$6,611.4	17.4%

Three Months Ended June 30,

	1997					1996				
Life	$ 208.1	$ 31.8	$ 32.4	$ 207.5	15.3%	$ 209.6	$ 30.3	$ 10.8	$ 229.1	13.2%
Accident and health	911.0	29.7	34.3	906.4	3.3	827.2	44.6	4.5	867.3	5.1
Property and casualty ..	2,139.5	323.6	230.1	2,233.0	14.5	2,043.4	588.1	408.5	2,223.0	26.5
Total	$3,258.6	$ 385.1	$ 296.8	$3,346.9	11.5%	$3,080.2	$ 663.0	$423.8	$3,319.4	20.0%

Insurance claims and policyholders' benefits are net of reinsurance recoveries of $146.5, $125.5, $394.0 and $604.0 for the three and six months ended June 30, 1997 and 1996, respectively.

In the above table, life premium revenue is primarily from long duration contracts and the property and casualty earned premium is from short duration contracts. Approximately three quarters of accident and health earned premiums are from short duration contracts.

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

	June 30, 1997	December 31, 1996
Reinsurance	$ 6,598.8	$ 6,965.0
Other insurance	6,458.3	5,942.5
Security sales	525.9	299.7
Accrued investment income	451.3	534.3
Other	456.0	412.0
Total	14,490.3	14,153.5
Less allowance for doubtful accounts and cash discounts	291.7	291.4
Receivables-net	$14,198.6	$13,862.1

4. Shareholders' equity:

	June 30, 1997	December 31, 1996
Preferred stock, $.10 par value, Authorized--100,000,000 shares		
Common stock, $1 par value: Authorized--400,000,000 shares Issued and outstanding--115,000,000 shares .	$ 115.0	$ 115.0
Additional paid-in capital	165.8	165.8
Earnings retained in the business	8,462.4	8,216.8
Unrealized appreciation	124.6	233.6
Total	$8,867.8	$8,731.2

5. Legal Proceedings and Contingent Liabilities-

INSURANCE RELATED

Fibreboard Litigation

CNA's primary property and casualty subsidiary, Continental Casualty Company ("Casualty"), has been party to litigation with Fibreboard Corporation ("Fibreboard") involving coverage for certain asbestos-related claims and defense costs (San Francisco Superior Court, Judicial Council Coordination Proceeding 1072). As described below, Casualty, Fibreboard, another insurer (Pacific Indemnity, a subsidiary of the Chubb Corporation), and a negotiating committee of asbestos claimant attorneys (collectively referred to as "Settling Parties") have reached a Global Settlement (the "Global Settlement") to resolve all future asbestos-related bodily injury claims involving Fibreboard, which is subject to court approval.

Casualty, Fibreboard and Pacific Indemnity have also reached an agreement (the "Trilateral Agreement"), on a settlement to resolve the coverage litigation in the event the Global Settlement does not obtain final court approval or is subsequently successfully attacked. The implementation of either the Global Settlement or the Trilateral Agreement would have the effect of settling Casualty's litigation with Fibreboard.

On July 27, 1995, the United States District Court for the Eastern District of Texas entered judgment approving the Global Settlement Agreement and the Trilateral Agreement. As expected, appeals were filed as respects both of these decisions. On July 25, 1996, a panel of the United States Fifth Circuit Court of Appeals in New Orleans affirmed the judgment approving the Global Settlement Agreement by a 2 to 1 vote and affirmed the judgment approving the Trilateral Agreement by a 3 to 0 vote. Petitions for rehearing by the panel and suggestions for rehearing by the entire Fifth Circuit Court of Appeals as respects the decision on the Global Settlement Agreement were denied. Two petitions for certiorari were filed in the Supreme Court as respects the Global Settlement Agreement. On June 27, 1997, the Supreme Court granted these petitions, vacated the Fifth Circuit's judgment as respects the Global Settlement Agreement, and remanded to the Fifth Circuit for reconsideration in light of the Supreme Court's decision in Amchem Products Co. v. Windsor. The Fifth Circuit has not yet rendered a decision on this remand.

No further appeal was filed with respect to the Trilateral Agreement; therefore, court approval of the Trilateral Agreement has become final.

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

On August 27, 1993, the Settling Parties reached an agreement in principle for an omnibus settlement to resolve all future asbestos-related bodily injury claims involving Fibreboard. The Global Settlement Agreement was executed on December 23, 1993. The agreement calls for contribution by Casualty and Pacific Indemnity of an aggregate of $1,530.0 to a trust fund for a class of all future asbestos claimants, defined generally as those persons whose claims against Fibreboard were neither filed nor settled before August 27, 1993. An additional $10.0 is to be contributed to the fund by Fibreboard. As indicated above, the Global Settlement approval is presently before the Fifth Circuit on remand by order of the Supreme Court vacating the Fifth Circuit's previous decision approving the Global

Settlement. There is limited precedent for settlements which determine the rights of future claimants to seek relief.

Through June 30, 1997, Casualty, Fibreboard and plaintiff attorneys had reached settlements with respect to approximately 134,800 claims, for an estimated settlement amount of approximately $1,620.0 plus any applicable interest. Final court approval of the Trilateral Agreement obligates Casualty to pay under these settlements. Approximately $1,530.0 was paid through June 30, 1997, including approximately $590.0 paid in the fourth quarter of 1996 and the first quarter of 1997 as a result of the Trilateral Agreement becoming final. As described above; such payments are partially recoverable from Pacific Indemnity. Casualty may negotiate other agreements with various classes of claimants including groups who may have previously reached agreement with Fibreboard.

Final court approval of the Trilateral Agreement and its implementation has eliminated any further material exposure with respect to the Fibreboard matter, and subsequent reserve adjustments, if any, will not materially affect the results of operations or equity of the Company.

Environmental Pollution and Asbestos - Related Claims

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

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

The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfund") govern the clean-up and restoration of abandoned toxic waste sites and formalize the concept of legal liability for clean-up and restoration by potentially responsible parties ("PRP's"). Superfund and the mini-Superfunds (Environmental Clean-up Laws or "ECLs") establish mechanisms to pay for clean-up of waste sites if PRP's fail to do so, and to assign liability to PRP's. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to clean-up is unknown. To date, approximately 1,300 clean-up sites have been identified by the Environmental Protection Agency on its National Priorities List. On the other hand, the Congressional Budget Office is estimating that there will be 4,500 National Priority List sites, and other estimates project as many as 30,000 sites that will require clean-up under ECLs. Very few sites have been subject to clean-up to date. The extent of clean-up necessary and the assignment of liability has not been established.

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

A number of proposals to reform Superfund have been made by various parties. Despite Superfund taxing authority having expired at the end of 1995, no reforms have yet been enacted by Congress. While the current Congress may

address this issue, no predictions can be made as to what legislation, if any, will result. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental clean-up may be materially reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental clean-up statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result.

Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to clean-up, and the standards for clean-up and liability, the ultimate exposure to CNA for environmental pollution claims cannot be meaningfully quantified.

Claim and claim expense reserves represent management's estimates of ultimate liabilities based on currently available facts and case law. However, in addition to the uncertainties previously discussed, additional issues related to, among other things, specific policy provisions, multiple insurers and allocation of liability among insurers, consequences of conduct by the insured, missing policies and proof of coverage make quantification of liabilities exceptionally difficult and subject to adjustment based on new data.

As of June 30, 1997 and December 31, 1996, CNA carried approximately $882.0 and $907.8, respectively, of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution claims. The reserves relate to claims for accident years 1988 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form which included an absolute pollution exclusion. There was no unfavorable reserve development for the six months ended June 30, 1997 and 1996.

CNA has exposure to asbestos-related claims, including those attributable to the Fibreboard claim (see discussion above). Estimation of asbestos-related claim reserves encounter many of the same limitations discussed above for environmental pollution claims such as inconsistency of court decisions, specific policy provisions, multiple insurers and allocation of liability among insurers, missing policies and proof of coverage.

As of June 30, 1997 and December 31, 1996, CNA carried approximately $1,516.0 and $1,506.2, respectively, of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable reserve development for the six months ended June 30, 1997 and 1996 totaled $25.0 and $26.0, respectively.

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

Other reserve development for the six months ended June 30, 1997 and 1996 was favorable and aggregated $116.0 and $267.0, respectively. Reserve development for the six months ended June 30, 1997 reflects continued favorable claim frequency (rate of claim occurrence) and severity (average cost per claim) experience in the workers' compensation line of business as well as favorable experience in the surety line of business. Reserve development for the six months ended June 30, 1996, was principally due to favorable experience in workers' compensation.

These trends reflect the positive effects of changes in workers' compensation laws, or moderate increases in medical costs, and a generally

strong economy in which individuals return to the workplace more quickly.

CNA, consistent with sound reserving practices, regularly adjusts its reserve estimates in subsequent reporting periods as new facts and circumstances emerge that indicate the previous estimates need to be modified. The following table provides additional data related to CNA's environmental pollution and asbestos-related claims reserves.

	June 30, 1997		December 31, 1996	
	Environmental Pollution	Asbestos	Environmental Pollution	Asbestos
Gross reserves:				
Reported claims	$306.0	$1,517.0	$ 288.9	$1,551.4
Unreported claims	659.0	105.0	714.0	94.0
	965.0	1,622.0	1,002.9	1,645.4
Less reinsurance recoverable	(83.0)	(106.0)	(95.1)	(139.2)
Net reserves	$882.0	$1,516.0	$ 907.8	$1,506.2

NON-INSURANCE

Tobacco Litigation

Lawsuits are being filed with increasing frequency against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes, "addiction" to smoking, or exposure to environmental tobacco smoke. Tobacco litigation includes claims brought by individual plaintiffs ("Conventional Product Liability Cases"); claims brought as class actions on behalf of a large number of individuals ("Class Actions") for damages allegedly caused by smoking; and claims brought on behalf of governmental entities and others, including private citizens suing on behalf of taxpayers, labor unions and tribes of Native Americans, seeking, among other alleged damages, reimbursement of health care costs allegedly incurred as a result of smoking ("Reimbursement Cases"). In addition, claims have been brought against Lorillard seeking damages resulting from exposure to asbestos fibers which had been incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard ("Filter Cases").

There has been a substantial increase in the number of cases filed. For

instance, eight suits seeking class certification that name Lorillard and/or the Company as defendants were filed and served during the last two quarters of 1996; at least twenty-four such suits (some of which have not been served) have been filed during the first two quarters of 1997. Thirteen reimbursement suits were filed by state or local governmental entities during the last two quarters of 1996; at least twenty-eight reimbursement suits have been filed by governmental entities during the first two quarters of 1997 (some of which have not been served) as well as suits by four tribes of Native Americans and seventeen suits by unions, some of which have not been served. Conventional product liability cases also have been filed with greater frequency in recent years. During 1994, approximately 30 such suits were filed and served against U.S. cigarette manufacturers, including Lorillard. Approximately 140 such suits were filed and served during 1995. Approximately 340 such suits were filed and served during 1996. During the

first two quarters of 1997, approximately 275 such suits have been filed and served on the major U.S. cigarette manufacturers, including Lorillard.

In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other things, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability, civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, and failure to warn of the allegedly harmful and/or addictive nature of tobacco products. As noted below, several cases are scheduled for trial in 1997, although trial dates are subject to change.

CONVENTIONAL PRODUCT LIABILITY CASES - There are approximately 500 cases filed by individual plaintiffs against manufacturers of tobacco products pending in the United States federal and state courts in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, or due to nicotine dependence. Lorillard is a defendant in approximately 146 of these cases. The Company is a defendant in seven of these cases.

Plaintiffs in these cases seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as $100.0 in compensatory damages and $600.0 in punitive damages.

On August 9, 1996 the jury in Carter v. Brown & Williamson Tobacco Corporation (District Court, Duval County, Florida), returned a verdict in favor of the plaintiffs and awarded them $0.8 in actual damages. Brown & Williamson Tobacco Corporation, the only defendant in the case, has appealed. The trial court has awarded plaintiffs' counsel $1.7 in attorneys' fees.

On May 5, 1997, the jury in Dana Raulerson, as personal representative of the estate of Jean Connor, deceased, v. R.J. Reynolds Tobacco Company (District Court, Duval County, Florida), returned a verdict in favor of the defendant R.J. Reynolds Tobacco Company. The jury determined that there was no liability on the part of R.J. Reynolds Tobacco Company in the death of Jean Connor. Plaintiff did not notice an appeal from the judgment that ensued from the verdict.

CLASS ACTIONS - In addition to the foregoing cases, there are 49 purported class actions pending against cigarette manufacturers. Most of the suits seek class certification on behalf of residents of the states in which the cases have been filed, although some suits seek class certification on behalf of residents of multiple states. All but one of the purported class actions seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. One case seeks class certification on behalf of individuals who have paid insurance premiums to Blue Cross and Blue Shield organizations.

Theories of liability asserted in the purported class actions 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 several of the purported class actions are represented by a well-funded and coordinated consortium of over 60 law firms from throughout the United States. Lorillard is a defendant in 42 of the 49 cases seeking class certification. Lorillard is a defendant in each purported class action

listed below unless expressly stated to the contrary. The Company is a

defendant in 23 of the purported class actions. Unless otherwise noted, the purported class actions are in the pre-trial, discovery stage.

Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, October 31, 1991). This case is a class action on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke in the cabins of the aircraft. Jury selection commenced on June 2, 1997. Trial began on July 14, 1997. Trial presently is underway.

Castano v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed March 29, 1994). The U.S. District Court for the Eastern District of Louisiana granted plaintiffs' motion for class certification on behalf of U.S. residents who alleged nicotine dependency. This order subsequently was reversed by the U.S. Court of Appeals for the Fifth Circuit, and the class action ordered by the District Court was decertified. The Court of Appeals directed the District Court to dismiss plaintiffs' class action allegations. The Company is a defendant in the case.

Granier v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed September 26, 1994).

Harris v. The American Tobacco Company, et al. (U.S. District Court, Middle District, Pennsylvania, filed March 1, 1996). The Company is a defendant in the case. The court entered an order on its own motion that dismissed the class action allegations. The court has entered an order granting a motion to dismiss filed by several of the defendants named in the complaint, including the Company and Lorillard, but final judgment has not been entered in their favor and the time for plaintiffs to notice an appeal has not begun.

Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). Class certification has been granted as to Florida citizens who allege they, or their survivors, have, have had or have died from diseases and medical conditions caused by smoking cigarettes. The Florida Supreme Court has denied defendants' appeal. Trial is scheduled to begin on September 8, 1997, although the court has informed the parties that it will vacate this trial date due to the pending Broin trial.

Norton v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Madison County, Indiana, filed May 3, 1996). The Company is a defendant in the case.

Richardson v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 24, 1996).

Scott v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Louisiana, filed May 24, 1996). The Company is a defendant in the case. Class certification has been granted by the Circuit Court of Orleans Parish, Louisiana on behalf of Louisiana citizens who require medical monitoring. Defendants have removed the case to U.S. District Court, Eastern District, Louisiana and have asked the federal court to reconsider the state court's class certification order.

Small v. Lorillard, et al., Hoskins v. R.J. Reynolds, et al., Frosina v. Philip Morris, et al., Stewart-Lomanitz v. Brown & Williamson, et al., and Zito v. American Tobacco, et al. (Supreme Court, New York County, New York, filed June 19, 1996). Small is the only one of these cases to name Lorillard as a defendant. The court has heard argument on plaintiffs' motions for class certification on behalf of citizens of the State of New York who allege nicotine dependency on behalf of themselves or their decedents. Trial

is scheduled to begin on January 26, 1998.

Reed v. Philip Morris Incorporated, et al. (Superior Court, District of Columbia, filed June 21, 1996). The Company is a defendant in the case.

Barnes v. The American Tobacco Company, et al. (U.S. District, Eastern District, Pennsylvania, filed August 8, 1996). The Company is a defendant in the case. Plaintiffs' motion for class certification has been denied as to a claim for medical monitoring. Plaintiffs have filed a renewed motion for class certification. Plaintiffs have amended their complaint in response to the denial of class certification. Trial is scheduled to begin on October 14, 1997.

Lyons v. The American Tobacco Company, et al. (U.S. District Court, Southern District, Alabama, filed August 8, 1996).

Chamberlain v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed August 14, 1996). The Company is a defendant in the case.

Masepohl v. American Tobacco Company, Inc., et al. (U.S. District Court, Minnesota, filed September 4, 1996). The Company is a defendant in the case.

Perry v. The American Tobacco Company, et al. (Circuit Court, Coffee County, Tennessee, filed September 30, 1996). Plaintiffs seek class certification on behalf of individuals who have paid medical insurance premiums to a Blue Cross and Blue Shield organization.

Connor v. The American Tobacco Company, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996). The Company was named as a defendant but has been voluntarily dismissed.

Ruiz v. The American Tobacco Company, et al. (U.S. District Court, Puerto Rico, filed October 23, 1996).

Hansen v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Arkansas, filed November 4, 1996). The Company is a defendant in the case.

McCune v. American Tobacco Company, et al. (U.S. District Court, West Virginia, filed January 31, 1997). The Company is a defendant in the case.

Baker v. American Tobacco Company, et al. (Circuit Court, Wayne County, Michigan, filed February 4, 1997).

Ingle v. Philip Morris Incorporated, et al. (U.S. District Court, Southern District, West Virginia, filed February 4, 1997).

Emig v. American Tobacco Company, et al. (U.S. District Court, Kansas, filed February 6, 1997). The Company is a defendant in the case.

Peterson v. American Tobacco Company, et al. (U.S. District Court, Hawaii, filed February 6, 1997). The Company is a defendant in the case.

Walls v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Oklahoma, filed February 6, 1997).

Selcer v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Nevada, filed March 3, 1997). Plaintiffs have filed a motion seeking leave to amend the complaint to add the Company as a defendant. To date, none of the defendants have received service of process.

Insolia v. Philip Morris Incorporated, et al. (U.S. District Court, Wisconsin, filed April 18, 1997).

Geiger v. The American Tobacco Company, et al. (Supreme Court, Queens County, New York, filed April 30, 1997). Plaintiffs' motion for class certification was granted on an interim basis on July 24, 1997 and the court certified a class comprised of New York residents who allege lung cancer or throat cancer as a result of smoking cigarettes. Defendants have noticed an appeal from the ruling.

Cole v. The Tobacco Institute, Inc., et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997).

Clay v. The American Tobacco Company, Inc., et al. (U.S. District Court, Southern District, Illinois, Benton Division, filed May 22, 1997). To date, none of the defendants have received service of process.

Anderson v. The American Tobacco Company, Inc., et al. (U.S. District Court, Eastern District, Tennessee, filed May 23, 1997). The Company is a defendant in the case.

Taylor v. The American Tobacco Company, Inc., et al. (Circuit Court, Wayne County, Michigan; filed May 23, 1997).

Lyons v. Brown & Williamson Tobacco Corporation, et al. (United States District Court, Northern District, Georgia, filed May 27, 1997). The Company is a defendant in the case.

Cosentino v. Philip Morris Incorporated, et al. (Superior Court, Middlesex County, New Jersey, filed May 28, 1997). The Company is a defendant in the case.

Enright v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed May 28, 1997). The Company is a defendant in the case.

Tepper v. Philip Morris Incorporated, et al. (Superior Court, Bergen County,

New Jersey, filed May 28, 1997). The Company is a defendant in the case.

Langdeau v. The American Tobacco Company, et al. (Tribal Court, Lower Brule Sioux Tribe, filed June 4, 1997).

Thomas v. American Tobacco Company, Inc., et al. (filed in Circuit Court, Wayne County, Michigan; removed to U.S. District Court, Eastern District, Michigan; filed June 6, 1997). The Company is a defendant in the case.

Brown v. The American Tobacco Company, Inc., et al. (Superior Court, San Diego County, California, filed June 10, 1997). The Company is a defendant in the case. To date, none of the defendants have received service of process.

Lippincott v. American Tobacco Company, Inc., et al. (Superior Court, Camden County, New Jersey, filed June 13, 1997). The Company is a defendant in the case.

Brammer v. R.J. Reynolds Tobacco Company, et al. (filed in District Court, Polk County, Iowa; removed to U.S. District Court, Southern District, Iowa; filed June 20, 1997). The Company is a defendant in the case.

Knowles v. The American Tobacco Company, et al. (filed in District Court, Orleans Parish, Louisiana; removed to U.S. District Court, Eastern District,

Louisiana, filed June 30, 1997). The Company is a defendant in the case.

Daley v. American Brands, Inc., et al. (Circuit Court, Cook County, Illinois, filed July 7, 1997). The Company is a defendant in the case. To date, none of the defendants have received service of process.

Three additional purported pending class actions have been commenced against other companies and are not pending against either Lorillard or the Company. Class certification has been denied by the U.S. District Court for the Western District of Missouri in one of the cases, Smith v. Brown & Williamson Tobacco Corporation. The other two suits purportedly were filed due to the Liggett Settlement, discussed below (Fletcher v. Liggett, pending in Circuit Court, Mobile County, Alabama, and Walker v. Liggett, pending in U.S. District Court, West Virginia). See "Liggett Settlement." In the case of Walker v. Liggett, the United States District Court for the Southern District of West Virginia issued an order on August 5, 1997 that denied plaintiff's motion for class certification. The August 5, 1997, order also vacated the court's order of May 15, 1997 that granted preliminary approval of plaintiff's motion for class certification.

REIMBURSEMENT CASES - In addition to the above, approximately 65 actions are pending in which governmental entities, private citizens, or other organizations, including labor unions and tribes of Native Americans, seek recovery of funds 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 indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. 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. Lorillard is named as a defendant in all such actions. The Company is named as a defendant in seventeen of them.

State Or Local Governmental Reimbursement Cases - Suits have been filed by 39 states, the Commonwealth of Puerto Rico, the Territory of Guam and the Republic of The Marshall Islands, one of which has been dismissed. Defendants have not received service of process of four of the cases. Cities, counties or other local governmental entities have filed eight such suits, all of which have been served. The Company has been named as a defendant in twelve cases filed by state or local governmental entities. Unless otherwise noted, each pending reimbursement suit is in the pre-trial, discovery stage.

Moore v. The American Tobacco Company, et al. (Chancery Court, Jackson County, Mississippi, filed May 23, 1994). On July 2, 1997, Lorillard and other defendants entered into a memorandum of understanding with the State of Mississippi with regard to an agreement in principle to settle this case. See "Mississippi Settlement" below.

McGraw v. The American Tobacco Company, et al. (Circuit Court, Kanawha County, West Virginia, filed September 20, 1994 by the West Virginia Attorney General and state agencies). The court has granted defendants' motion to dismiss eleven of the fourteen counts of the complaint and has held that two of the plaintiffs in the action, the West Virginia Public

Employee Insurance Agency and West Virginia Department of Health and Human Services, lack standing to sue for personal injuries. The Company is a defendant in the case.

State of Minnesota, et al. v. Philip Morris Incorporated, et al., (District Court, Ramsey County, Minnesota, filed August 17, 1994). Blue Cross and Blue

Shield of Minnesota ("Blue Cross") also is plaintiff in the case. The Minnesota Supreme Court has issued an order ruling that plaintiff Blue Cross does not have standing to pursue tort claims against the defendants. The Minnesota Supreme Court's order permits Blue Cross to proceed with its claims that defendants violated antitrust and consumer protection statutes. The Minnesota Supreme Court's order permits Blue Cross to pursue its equitable claims for injunctive relief but bars Blue Cross from pursuing money damages for the equitable claims. Trial is scheduled to begin on January 19, 1998.

The State of Florida, et al. v. The American Tobacco Company, et al. (Circuit Court, Palm Beach County, Florida, filed February 21, 1995). This case has been brought under a Florida statute that permits the state to sue a manufacturer under theories of negligence and strict liability to recover Medicaid costs incurred by the state that are claimed to result from the use of the manufacturer's product. The statute permits causation and damages to be proven by statistical analysis, abrogates affirmative defenses, adopts a "market share" liability theory but also allows joint and several liability, and eliminates the statute of repose. An action for declaratory judgment was commenced in Florida state court by companies and trade associations in several potentially affected industries challenging the statute. A Florida state court granted in part the motion for declaratory judgment. The Florida Supreme Court affirmed in part and reversed in part the trial court's judgment. The U.S. Supreme Court denied a petition for writ of certiorari filed by the plaintiffs in the declaratory judgment action. Lorillard understands that several other states, and the Congress, have considered or are considering legislation similar to that passed in Florida. In the State of Florida action, the trial court granted the Company's motion to dismiss. Plaintiffs noticed an appeal to the Florida Court of Appeals, which heard argument on July 10, 1997 and took the appeal under advisement. Plaintiffs filed an amended complaint that added certain statutory counts, including one under a Florida RICO statute that permits plaintiffs to seek treble damages and a claim for punitive damages. The trial court has issued several rulings that are adverse to defendants' interests and will substantially limit or restrict the defenses available to them. Additional rulings have been issued that will substantially limit the evidence defendants will be permitted to submit at trial to rebut plaintiffs' claims. Other rulings are favorable to plaintiffs as to the type or quantity of evidence that may be submitted. The court began the jury selection process on August 1, 1997. Opening statements are expected to be made in late August or early September 1997.

Commonwealth of Massachusetts v. Philip Morris Inc., et al. (Superior Court, Middlesex County, Massachusetts, filed December 19, 1995).

Ieyoub v. The American Tobacco Company, et al. (U.S. District Court, Western District, Louisiana, filed March 13, 1996 by the Louisiana Attorney General). The Company is a defendant in the case.

The State of Texas v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Texas, filed March 28, 1996). Trial is scheduled to begin on September 29, 1997.

State of Maryland v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 1, 1996). The court has granted in part defendants' motion to dismiss and has dismissed nine of the thirteen counts of the complaint.

State of Washington v. The American Tobacco Company, et al. (Superior Court, King County, Washington, filed June 5, 1996). The court has granted in part defendants' motion to dismiss and dismissed all of plaintiff's claims except

anti-trust, violations of the Washington Consumers' Protection Act statutes and conspiracy.

City and County of San Francisco, et al. v. Philip Morris Incorporated, et al (U.S. District Court, Northern District, California, filed June 6, 1996 by various California cities and counties). The court has dismissed plaintiffs' breach of implied warranty claim and has dismissed plaintiffs' conspiracy claim as a separate cause of action.

State of Connecticut v. Philip Morris Incorporated, et al. (Superior Court, Litchfield District, Connecticut, filed July 18, 1996).

County of Los Angeles v. R.J. Reynolds Tobacco Company, et al. (Superior Court, San Diego County, filed August 5, 1996). The court has sustained defendants' demurrer to plaintiff's fraud claim.

State of Arizona v. The American Tobacco Company, et al. (Superior Court, Maricopa County, Arizona, filed August 20, 1996). The court has dismissed plaintiff's claims of breach of assumed duty, performance of another's duty, unjust enrichment and restitution, negligence per se, public nuisance and, as to the claims that were dismissed, conspiracy. The court has dismissed without prejudice plaintiffs' claims asserted under the Racketeering Influenced and Corrupt Organizations Act.

State of Kansas v. R.J. Reynolds Tobacco Company, et al. (District Court, Shawnee County, Kansas, filed August 20, 1996).

Kelley v. Philip Morris Incorporated, et al. (Circuit Court, Ingham County, Michigan, filed August 21, 1996 by the Attorney General of Michigan). The court has dismissed plaintiff's claims of violation of the Michigan Antitrust Reform Act, punitive damages and ad damnum allegations. The court ruled that plaintiff is permitted to seek exemplary damages rather than punitive damages.

State of Oklahoma, et al. v. R.J. Reynolds Tobacco Company, et al. (District Court, Cleveland County, Oklahoma, filed August 22, 1996). The Company is a defendant in the case.

People of the State of California v. Philip Morris Incorporated, et al. (Superior Court, San Francisco County, California, filed September 5, 1996 by various California counties and cities and local chapters of various medical societies and associations).

State of New Jersey v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Middlesex County, New Jersey, filed September 10, 1996).

State of Utah v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Central Division, Utah, filed September 30, 1996). The Company is a defendant in the case.

City of New York, et al. v. The Tobacco Institute, et al. (U.S. District Court, Southern District, New York, filed October 17, 1996).

People of the State of Illinois v. Philip Morris, Inc., et al. (Circuit Court, Cook County, Illinois, filed November 12, 1996).

State of Iowa v. R.J. Reynolds Tobacco Company, et al. (District Court, Fifth Judicial District, Polk County, Iowa, filed November 27, 1996). The Company is a defendant in the case.

County of Erie v. The Tobacco Institute, Inc., et al. (Supreme Court, Erie

County, New York, filed January 14, 1997).

State of New York v. The American Tobacco Company, et al. (U.S. District Court, Southern District, New York, filed January 21, 1997).

State of Hawaii v. Brown & Williamson Tobacco Corporation, et al. (Circuit Court, First Circuit, Hawaii, filed January 31, 1997). The Company is a defendant in the case.

State of Wisconsin v. Philip Morris Incorporated, et al. (Circuit Court, Dane County, Wisconsin, filed February 5, 1997).

State of Indiana v. Philip Morris Incorporated, et al. (Superior Court, Marion County, Indiana, filed February 19, 1997).

State of Alaska v. Philip Morris, Incorporated, et al. (Superior Court, First Judicial District, Alaska, filed April 14, 1997).

County of Cook v. Philip Morris, Incorporated, et al. (U.S. District Court, Northern District, Illinois, filed April 18, 1997).

Commonwealth of Pennsylvania v. Philip Morris, Inc., et al. (Court of Common Pleas, Philadelphia County, Pennsylvania, filed April 23, 1997).

State of Arkansas v. The American Tobacco Company, et al. (Sixth Division, Chancery Court, Pulaski County, Arkansas, filed May 5, 1997). To date, none of the defendants have received service of process.

State of Montana v. Philip Morris, Incorporated, et al. (First Judicial Court, Lewis and Clark County, Montana, filed May 5, 1997).

State of Ohio v. Philip Morris, Incorporated, et al. (Court of Common Pleas, Franklin County, Ohio, filed on May 8, 1997).

State of Missouri v. American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed May 12, 1997). The Company is a defendant in the case.

State of South Carolina v. Brown & Williamson Tobacco Corporation, et al. (Court of Common Pleas, Richland County, South Carolina, filed May 12, 1997). The Company is a defendant in the case.

State of Nevada v. Philip Morris, Incorporated, et al. (Second Judicial District, Washoe County, Nevada, filed May 21, 1997). The Company is a defendant in the case.

University of South Alabama v. The American Tobacco Company, et al. (filed in Circuit Court, Mobile County, Alabama; removed to U.S. District Court, Southern District, Alabama; filed May 23, 1997). The Company is a defendant in the case.

State of New Mexico v. The American Tobacco Company, et al. (First Judicial District Court, Santa Fe County, New Mexico, filed May 27, 1997). The Company was named as a defendant but has been voluntarily dismissed.

City of Birmingham, Alabama, and The Greene County Racing Commission v. The American Tobacco Company, et al. (filed in Circuit Court, Greene County, Alabama; removed to U.S. District Court, Northern District, Alabama; filed May 28, 1997). The Company is a defendant in the case.

Unpingco, et al. v. The American Tobacco Company, et al. (United States

District Court, Territory of Guam, filed May 29, 1997).

State of Vermont v. Philip Morris, Incorporated, et al. (Superior Court, Chittenden County, Vermont, filed May 29, 1997).

State of New Hampshire v. R.J. Reynolds Tobacco Company, et al. (Superior Court, Merrimack County, New Hampshire, filed June 4, 1997).

State of Colorado v. R.J. Reynolds Tobacco Co., et al. (District Court, City and County of Denver, Colorado, filed June 5, 1997).

State of Oregon v. The American Tobacco Company, et al. (Circuit Court, Multnomah County, Oregon, filed June 9, 1997).

State of Idaho v. Philip Morris, Inc., et al. (District Court, Fourth Judicial District, Ada County, Idaho, filed June 9, 1997).

People of the State of California v. Philip Morris, Inc., et al. (Superior Court, Sacramento County, California, filed June 12, 1997).

State of Maine v. Philip Morris, Incorporated, et al. (Superior Court, Kennebec County, Maine, filed June 17, 1997) (the caption of the complaint does not list Loews Corporation or Lorillard as defendants but the text of the complaint suggests that plaintiff intended to name both as defendants.) To date, none of the defendants have received service of process.

Rossello, et al. v. Brown & Williamson Tobacco Corporation, et al. (United States District Court, Puerto Rico, filed June 17, 1997).

State of Rhode Island v. American Tobacco Company, Inc., et al. (Superior Court, Providence, Rhode Island, filed June 17, 1997). To date, none of the defendants have received service of process.

Citizens of the Republic of the Marshall Islands v. The American Tobacco Company, et al. (United States District Court, Hawaii, filed June 18, 1997). Plaintiff voluntarily dismissed the action without prejudice on July 29, 1997.

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

Lorillard, other cigarette manufacturers and others have commenced suits in eight states that seek declaratory judgment or injunctive relief as to the

authority of the states or state agencies to commence Reimbursement Cases or to retain private counsel under a contingent fee contract to pursue such actions. Nine such cases have been filed to date, in the states of Alaska, Connecticut, Florida, Hawaii, Maryland, Massachusetts, New Jersey, Texas and Utah. The case in Hawaii is scheduled for trial on December 9, 1997. The suits in Connecticut and Maryland are on appeal following entry of orders that dismissed the actions in favor of the defendant governmental entities. The suits in Florida and Utah were concluded by orders not favorable to the interests of the plaintiff cigarette manufacturers. The suits in Massachusetts and Texas have been stayed until the reimbursement suits filed by the respective states are resolved.

Private Citizens' Reimbursement Cases - Private citizens have filed suit in five states on behalf of taxpayers of their respective states. Governmental entities have filed reimbursement suits in two of the five states. The Company and Lorillard are defendants in each of the five cases.

Each of these cases is in the pre-trial, discovery stage.

Crozier v. The American Tobacco Company, et al. (Circuit Court, Montgomery County, Alabama, filed August 8, 1996). The Company is a defendant in the case.

Coyne v. The American Tobacco Company, et al. (U.S. District Court, Northern District, Ohio, filed September 17, 1996). The Company is a defendant in the case.

White v. Philip Morris, Inc., et al. (U.S. District Court, Southern District, Mississippi, filed April 18, 1997). The Company is a defendant in the case. To date, none of the defendants have received service of process, although one defendant filed an answer to the complaint and removed the case to federal court.

Beckom, et al., ex. rel. State of Tennessee and Tennessee taxpayers v. The American Tobacco Company, et al. (filed in Chancery Court, Monroe County, Tennessee; removed to U.S. District Court, Eastern District, Tennessee; filed May 8, 1997). The Company is a defendant in the case.

Woods v. The American Tobacco Company, et al. (Superior Court, Wake County, North Carolina, filed July 10, 1997). The Company is a defendant in the case.

Reimbursement Cases By Tribes Of Native Americans - Tribes of Native Americans have filed four suits in their tribal courts. Lorillard is a defendant in each of the four cases. The Company is not named as a defendant in any of the four tribal suits filed to date. Each of these cases is in the pre-trial, discovery stage.

The Lower Brule Sioux Tribe v. The American Tobacco Company, et al. (Tribal Court, Lower Brule Sioux Tribe, filed on an unknown date, first amended complaint filed May 28, 1997).

The Crow Tribe v. The American Tobacco Company, et al. (Tribal Court, Crow Tribe, filed June 10, 1997).

Muscogee Creek Nation v. The American Tobacco Company, et al. (District Court, Muscogee Creek Nation, Okmulgee District, filed June 20, 1997).

Chehalis Tribe v. The American Tobacco Company, et al. (Chehalis Tribal Court, Chehalis Indian Reservation, Oakville, Washington, filed June 23, 1997).

Reimbursement Cases By Labor Unions - Labor unions have filed seventeen suits in various states throughout the nation in federal or state courts, although four of them have not been served to date. Lorillard is named as a defendant in each of the suits filed to date by unions. The Company is not a defendant in any of the cases filed to date by unions. Each of these cases is in the pre-trial, discovery stage.

Stationary Engineers Local 39 Health and Welfare Trust Fund v. Philip Morris, Inc., et al. (U.S. District Court, Northern District, California, filed April 25, 1997.

Iron Workers Local Union No. 17 Insurance Fund, et al. v. Philip Morris, Inc., et al. (United States District Court, Northern District, Ohio, Eastern Division, filed May 20, 1997).

Northwest Laborers-Employers Health and Security Trust Fund, et al. v.

Philip Morris, Inc., et al. (United States District Court, Western District, Washington, filed May 21, 1997).

Central Illinois Carpenters Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (filed in Circuit Court, Third Judicial Circuit, Madison County, Illinois; removed to U.S. District Court, Southern District, Illinois; filed May 30, 1997). To date, none of the defendants have received service of process.

Massachusetts Laborers Health and Welfare Fund v. Philip Morris Inc., et al. (filed in Superior Court, Suffolk County, Massachusetts; removed to U.S. District Court, Massachusetts; filed June 2, 1997).

Hawaii Health and Welfare Trust Fund for Operating Engineers v. Philip Morris, Inc., et al. (United States District Court, Hawaii, filed June 13, 1997).

Oregon Laborers -- Employers Health and Welfare Trust Fund, et al. v. Philip Morris, Inc., et al. (filed in Circuit Court, Multnomah County, Oregon; removed to U.S. District Court, Oregon; filed June 18, 1997).

Laborers Local 17 Health and Benefit Fund and The Transport Workers Union New York City Private Bus Lines Health Benefit Trust v. Philip Morris, Inc., et al. (United States District Court, Southern District, New York, filed June 19, 1997).

Ark-La-Miss Laborers Welfare Fund v. Philip Morris, Inc., et al. (United States District Court, Eastern District, Louisiana, filed June 20, 1997).

Iowa Laborers District Council Health and Welfare Fund, et al. v. Philip Morris, Inc., et al. (United States District Court, Central District, Iowa, Southern Division, filed on an unknown date; plaintiff's first amended complaint filed June 20, 1997). To date, none of the defendants have received service of process.

Kentucky Laborers District Council Health and Welfare Trust Fund v. Hill & Knowlton, Inc., et al. (United States District Court, Western District, Kentucky, Louisville Division, filed June 20, 1997).

United Federation of Teachers Welfare Fund, et al. v. Philip Morris, Inc., et al. (United States District Court, Southern District, New York, filed June 25, 1997).

Connecticut Pipe Trades Health Fund and International Brotherhood of Electrical Workers Local 90 Benefit Plan v. Philip Morris, Inc., et al. (United States District Court, Connecticut, filed July 1, 1997).

Seafarers Welfare Plan and United Industrial Workers Welfare Plan v. Philip Morris, Inc., et al. (United States District Court, Maryland, Southern Division, filed July 2, 1997). To date, none of the defendants have received service of process.

Laborers and Operating Engineers Utility Agreement Health and Welfare Trust Fund for Arizona v. Philip Morris Incorporated, et al. (United States District Court, Arizona, filed July 7, 1997).

West Virginia Laborers Pension Fund v. Philip Morris, Inc., et al. (United States District Court, Southern District, West Virginia, Huntington Division, filed July 11, 1997).

Rhode Island Laborers Health and Welfare Fund v. Philip Morris Incorporated,

et al. (Superior Court, Providence, Rhode Island, filed on or about July 20, 1997). To date, none of the defendants have received service of process.

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 forty years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Seventeen such cases are pending in federal and state courts against Lorillard. Allegations of liability against Lorillard include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs seek unspecified amounts in compensatory and punitive damages in many cases, and in other cases damages are stated to amount to as much as $10.0 in compensatory damages and $100.0 in punitive damages. In the one case of this type that has been tried during 1997, the jury returned a verdict in favor of Lorillard. Trials were held in three cases of this type during 1996. In two of the cases, the juries returned verdicts in favor of Lorillard. In the

third case, the jury returned a verdict in favor of plaintiffs. The verdict requires Lorillard to pay the amount of one hundred forty thousand dollars. Lorillard has noticed an appeal to the California Court of Appeals. Trials were held in three cases of this type during 1995. In two of the cases, the juries returned verdicts in favor of Lorillard. In the third case, the jury returned a verdict in favor of plaintiffs. The verdict requires Lorillard to pay an amount between $1.8 and $2.0 in actual and punitive damages. The precise amount to be paid by Lorillard will be determined at a later date if the verdict withstands review by appellate courts. Lorillard has noticed an appeal from the judgment in plaintiffs' favor.

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

LIGGETT SETTLEMENT - On March 20, 1997, Liggett Group, Inc. and its parent company, Brooke Group, Ltd., Inc. ("Liggett"), and the Attorneys General for twenty-two states, announced that they had reached agreement (the "Liggett Settlement") to settle the reimbursement suits pending in those states. The proposed settlements reportedly will require Liggett: to pay to the twenty-two states an aggregate of 25% of its pre-tax profits annually for the next twenty-five years, plus a one time payment of as much as an aggregate of $25.0; to acknowledge that cigarette smoking is addictive (Liggett has supplemented the warning notices it places on its cigarette packages to reflect that acknowledgment); to acknowledge that cigarette smoking causes disease; to acknowledge that cigarette companies have targeted marketing programs towards minors; and to cooperate in suits against the other cigarette manufacturers by releasing Liggett documents to the Attorneys General and to allow its employees to testify in these matters. The Liggett Settlement also purports to be on behalf of "all persons who, prior to or during the term of [the Liggett Settlement], have smoked cigarettes or have used other tobacco products and have suffered or claim to have suffered injury as a consequence thereof."

On March 20, 1997, Lorillard and three other cigarette manufacturers filed suit in the Superior Court of Forsyth County, North Carolina against Liggett. The court entered a temporary restraining order on March 20, 1997 that prohibits Liggett and certain persons related to it or acting in concert with it from misusing or disclosing any privileged or confidential information relating to plaintiffs, or involving matters in which plaintiffs and Liggett share a common interest and resulting from communications between counsel for plaintiffs and Liggett. The court further directed Liggett to appear before the court to identify for an in camera inspection all documents Liggett has disclosed; to show cause why Liggett and certain related persons should not be enjoined from disclosing the privileged or confidential information pending trial in this action; and to disclose to the court under seal the identity of the individuals to whom Liggett has disclosed the confidential and privileged information to date. Liggett has noticed an interlocutory appeal from a preliminary injunction entered by the trial court.

DOCUMENT DISCOVERY ISSUES - Plaintiffs in a number of the cases pending against the tobacco industry, including cases against Lorillard and the Company, have challenged the claims of attorney-client and joint-defense privilege made by defendants as to documents sought by plaintiffs in the course of discovery. These challenges include, among other things, allegations that privileged documents are subject to the so-called crime/fraud exception, which negates the privilege to documents found to have been prepared in furtherance of a crime or fraud. Pursuant to the Liggett Settlement described above, Liggett has submitted numerous documents from its files to courts and defendants in several of the Reimbursement Cases and in other cases as well. Liggett has also served descriptive logs of such documents on counsel for plaintiffs and defendants in those cases. Defendants have reviewed the Liggett logs and the Liggett documents to determine which Liggett documents are subject to a joint-defense privilege claim by other defendants. Plaintiffs in several of these cases have sought court review of any such Liggett documents, as to which other defendants claim a joint-defense privilege, to determine the applicability of the privilege and crime/fraud exception to such documents.

In the case of Butler v. Philip Morris, Inc., et al., a Conventional Product Liability Case, Liggett has, by order of the court, submitted documents in its possession that are subject to claims of joint-defense privilege or other protection from discovery, for in camera review and determination by the court as to the validity of such claims. In addition, a Special Master in the Butler case has reviewed documents for which defendants claim privilege and which relate to Special Projects of the Council for Tobacco Research to determine the validity of the claims of privilege and the applicability of the crime/fraud exception to such documents. The Special Master has filed conclusions under seal, which will be considered by the court before an order on the issue is entered. The court has heard argument on defendants' objections to the Special Master's Report and Recommendation and has taken them under advisement. Butler is a conventional product liability case pending in a state court in Mississippi alleging injury to an individual from exposure to environmental tobacco smoke. The Company and Lorillard are defendants in this case. Trial in this case is scheduled to begin on June 8, 1998.

In the State of Florida v. The American Tobacco Company, et al., a Reimbursement Case, on April 14, 1997, the court issued an order finding that eight documents in an initial set of 13 documents submitted to it by Liggett and to which other defendants claim a joint-defense privilege, were subject to the crime/fraud exception, and therefore should be produced to plaintiffs. Defendants in that case have appealed that ruling to the Fourth District Court of Appeals. The Court of Appeals has entered orders affirming

the trial court's ruling and denying defendants' motion for reconsideration or, in the alternative, for certification of the order to the Florida Supreme Court. Accordingly, those eight documents have been released to the public and have received substantial media attention. Additional documents from the files of Liggett, and other defendants, have also been submitted to the court for a determination of the applicability of the crime/fraud exception.

In State of Minnesota v. Philip Morris Incorporated, et al., a Reimbursement Case, the district court issued an order on May 9, 1997, ordering that documents provided to the court by Liggett, and as to which other defendants claim a joint-defense privilege, be reviewed by a Special Master to determine the validity of the privilege claims as to them, and whether the crime/fraud exception applies to those documents. In addition, the court ordered that the Special Master determine the applicability of the crime/fraud exception to all documents to which defendants claim the attorney-client or joint-defense privilege. The court ordered that the approximately 220,000 documents be divided into several categories and considered by category and not individually. The Special Master heard argument on the Liggett documents during July 16-18, 1997 and took the matters under advisement. Argument before the Special Master on documents produced by other companies, including Lorillard, has not been set.

DEFENSES

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

Lorillard believes that it has a number of various defenses to pending cases, in addition to defenses based on preemption described above, and Lorillard will continue to maintain a vigorous defense in all such litigation. These defenses, where applicable, include, among others,

statutes of limitations or repose, assumption of the risk, comparative fault, the lack of proximate causation, and the lack of any defect in the product alleged by a plaintiff. Lorillard believes that some or all of these defenses may, in many of the pending or anticipated cases, be found by a jury or court to bar recovery by a plaintiff. Conversely, the court in the State of Florida Reimbursement Case has ruled that a substantial number of these defenses are unavailable based upon the Florida state statute under which this case has been brought. (See "Reimbursement Cases -- the State of

Florida" above.) Application of various defenses, including those of preemption, are likely to be the subject of further legal proceedings in the Class Action cases and in the Reimbursement Cases.

PROPOSED RESOLUTION OF CERTAIN REGULATORY AND LITIGATION ISSUES

On June 20, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a Memorandum of Understanding to support the adoption of federal legislation and any necessary ancillary undertakings incorporating the features described in the proposed resolution attached to the Memorandum of Understanding (together, the "Resolution"). The Resolution can be implemented only by federal legislation and is subject to approval of the boards of directors of the participating companies. (Lorillard's Board of Directors approved the Resolution on June 25, 1997.) If enacted into law, the legislation would resolve many of the regulatory and litigation issues affecting the United States tobacco industry thereby reducing uncertainties facing the industry.

The Resolution is currently under review by the White House, Congress, the public health community and other interested parties. The White House and certain members of the public health community have expressed concern with certain aspects of the Resolution and certain members of Congress have indicated that they may offer alternative legislation. There can be no assurance that federal legislation in the form of the Resolution will be enacted, that it will be enacted without modification that is materially adverse to Lorillard, that any modification would be acceptable to Lorillard or that, if enacted, the legislation would not face legal challenges. If such a comprehensive resolution were to be implemented, the Company believes that its consolidated results of operations and financial position would be materially adversely affected. The degree of the adverse impact would depend, among other things, on the final form of implementing federal legislation, the rates of decline in United States cigarette sales in the premium and discount segments and Lorillard's share of the domestic premium and discount cigarette segments. Moreover, the negotiation and signing of the Resolution could affect other federal, state and local regulation of the United States tobacco industry.

The Resolution includes provisions relating to advertising and marketing restrictions, product warnings and labeling, access restrictions, licensing of tobacco retailers, the adoption and enforcement of "no sales to minors" laws by states, surcharges against the industry for failure to achieve underage smoking reduction goals (summarized below), regulation of tobacco products by the Food and Drug Administration (the "FDA"), public disclosure of industry documents and research, smoking cessation programs, compliance programs by the industry, public smoking and smoking in the workplace, enforcement of the Resolution, industry payments (summarized below) and litigation (summarized below). The complete text of the Resolution has been filed with the Securities and Exchange Commission as Exhibit 10 to the Company's Current Report on Form 8-K filed June 24, 1997. That complete text is incorporated herein by reference, and the summary contained herein is qualified by reference to that complete text.

Industry Payments

The Resolution would require participant manufacturers to make substantial payments in the year of implementation and thereafter ("Industry Payments"). Participating manufacturers would be required to make an aggregate $10,000 initial Industry Payment on the date federal legislation implementing the terms of the Resolution is signed. This Industry Payment would be based on relative market capitalizations and Lorillard currently estimates that its

share of the initial Industry Payment would be approximately $750. Thereafter, the companies would be required to make specified annual Industry Payments determined and allocated among the companies based on volume of domestic sales as long as the companies continue to sell tobacco products in the United States. These Industry Payments, which would begin on December 31 of the first full year after implementing federal legislation is signed, would be in the following amounts (at 1996 volume levels): year

1: $8,500; year 2: $9,500; year 3: $11,500; year 4: $14,000; and each year thereafter; $15,000. These Industry Payments would be increased by the greater of 3% or the previous year's inflation rate determined with reference to the Consumer Price Index. The Industry Payments would increase or decrease in proportion to changes from 1996 domestic sales volume levels. Volume declines would be measured based on adult sales volume figures; volume increases would be measured by total sales volume. If sales volume declines but the industry's domestic net operating profit exceeds base year inflation-adjusted levels, the reduction in the annual Industry Payment due to volume decline, if any, would be offset to the extent of 25% of the increased profit. At current levels of sales and prior to any adjustment for inflation, the Resolution would require total Industry Payments of $368,500 over the first 25 years (subject to credits described below in connection with potential civil tort liability).

The Industry Payments would be separate from any surcharges required under the "look back" provision discussed below under the heading "Surcharge for Failure to Achieve Underage Smoking Reduction Goals." The Industry Payments would receive priority and would not be dischargeable in any bankruptcy or reorganization proceeding and would be the obligation only of entities manufacturing and selling tobacco products in the United States (and not their affiliated companies). The Resolution provides that all payments by the industry would be ordinary and necessary business expenses in the year of payment, and no part thereof would be either in settlement of an actual or potential liability for a fine or penalty (civil or criminal) or the cost of a tangible or intangible asset. The Resolution would provide for the pass-through to consumers of the annual Industry Payments in order to promote the maximum reduction in underage use.

Surcharge for Failure to Achieve Underage Smoking Reduction Goals

The Resolution would impose surcharges on the industry if required reductions in underage smoking are not achieved. A "look back" provision would require the following reductions in the incidence of underage smoking from estimated levels over the past decade:, 30% in the fifth and sixth years after enactment of implementing federal legislation, 50% in the seventh, eighth and ninth years, and 60% in the tenth year, with incidence remaining at such reduced levels thereafter. For any year in which these required reductions are not met, the FDA must impose a mandatory surcharge on the participating members of the cigarette industry based upon an approximation of the present value of the profit the companies would earn over the lives of the number of underage consumers in excess of the required reduction. The annual surcharge would be $80 (as adjusted for changes in population and cigarette profitability) for each percentage point by which the reduction in underage smoking falls short of the required reductions (as adjusted to prevent double counting of persons whose smoking has already resulted in the imposition of a surcharge in previous years). The annual surcharge would be subject to a $2,000 annual cap (as adjusted for inflation). The surcharge would be the joint and several obligation of participating manufacturers allocated among participating manufacturers based on their market share of the United States cigarette industry and would be payable on or before July 1 of the year in which it is assessed.

Manufacturers could receive a partial refund of this surcharge (up to 75%) only after paying the assessed amount and only if they could thereafter prove to the FDA that they had fully complied with the Resolution, had taken all reasonably available measures to reduce youth tobacco usage and had not acted to undermine the achievement of the reduction goals.

Effects on Litigation

If enacted, the federal legislation provided for in the Resolution would settle present attorney general health care cost recovery actions (or similar actions brought by or on behalf of any governmental entity), parens patriae and smoking and health class actions and all "addiction"/dependence claims and would bar similar actions from being maintained in the future. However, the Resolution provides that no stay applications will be made in pending governmental actions without the mutual consent of the parties. On July 2, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a Memorandum of Understanding with the State of Mississippi with respect to that state's health care cost recovery action. See Mississippi Settlement discussed below. Lorillard may enter into discussions with certain other states with health care cost recovery actions scheduled to be tried this year with regard to the postponement or settlement of such actions pending the enactment of the legislation contemplated by the Resolution. No assurance can be given whether a postponement or settlement will be achieved, or, if achieved, as to the

terms thereof. The Resolution would not affect any smoking and health class action or any health care cost recovery action that is reduced to final judgment before implementing federal legislation is effective.

Under the Resolution, the rights of individuals to sue the tobacco industry would be preserved, as would existing legal doctrine regarding the types of tort claims that can be brought under applicable statutory and case law except as expressly changed by implementing federal legislation. Claims, however, could not be maintained on a class or other aggregated basis and could be maintained only against tobacco manufacturing companies (and not their retailers, distributors or affiliated companies). In addition, all punitive damage claims based on past conduct would be resolved as part of the Resolution and future claimants could seek punitive damages only with respect to claims predicated upon conduct taking place after the effective date of implementing federal legislation. Finally, except with respect to actions pending as of June 9, 1997, third-party payor (and similar) claims could be maintained only based on subrogation of individual claims. Under subrogation principles, a payor of medical costs can seek recovery from a third party only by "standing in the shoes" of the injured party and being subject to all defenses available against the injured party.

The Resolution contemplates that participating tobacco manufacturers would enter into a joint sharing agreement for civil liabilities relating to past conduct. Judgments and settlements arising from tort actions would be paid as follows: (i) The Resolution would set an annual aggregate cap equal to 33% of the annual base Industry Payment (including any reductions for volume declines). (ii) Any judgments or settlements exceeding the cap in a year would roll over into the next year. (iii) While judgments and settlements would run against the defendant, they would give rise to an 80-cents-on-the-dollar credit against the annual Industry Payment. (iv) Finally, any individual judgments in excess of $1 would be paid at the rate of $1 per year unless every other judgment and settlement could first be satisfied within the annual aggregate cap. In all circumstances, however, the companies would remain fully responsible for costs of defense and certain costs associated with the fees of attorneys representing certain plaintiffs in the litigation that would be settled by the Resolution.

Mississippi Settlement

On July 2, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a memorandum of understanding with the State of Mississippi (the "Mississippi Settlement") setting forth the principal terms and conditions of an agreement in principle to settle and resolve with finality all present and future claims relating to the subject matter of Mississippi's health care cost recovery action pending against Lorillard and others.

Under the Mississippi Settlement, the parties agree to petition the Chancery Court of Jackson County, Mississippi to adjourn all further proceedings in contemplation of their final resolution and termination pursuant to the Mississippi Settlement and the settlement agreement contemplated thereby. Under the Mississippi Settlement the parties agree that the settlement agreement will include the terms summarized below.

The settling defendants have deposited $170, representing the State's estimate of its share of the $10,000 initial payment under the Resolution, in an escrow account ("the Escrow"). This amount was allocated among the settling defendants in accordance with their relative market capitalization, which resulted in a payment by Lorillard of approximately $13 on July 15, 1997. In addition, a payment was made in July 1997 to private lawyers and the State for litigation expenses pursuant to the Mississippi Settlement.

Beginning December 31, 1998, the settling defendants will pay into the Escrow 1.7% of that portion of the annual Industry Payments under the Resolution which is contemplated to be paid to the states. These payments, which are not offset by potential credits for civil tort liability and which would be adjusted, among other things, for changes in volume as provided in the Resolution discussed above, could result in payments by the industry to the State of Mississippi of $68 with respect to 1998 and $76.6 with respect to 1999. These amounts could increase to $136 with respect to 2003 and could continue at that level thereafter. The settling defendants will also reimburse the State's expenses and those of its attorneys, currently estimated to be $15 and will be responsible for the attorneys' fees of counsel for Mississippi (which will be set by a panel of arbitrators). Each of these payments would be allocated among the settling defendants in accordance with their relative volume of domestic cigarette sales.

If legislation implementing the Resolution or its substantial equivalent is enacted, the settlement agreement will remain in place, but the terms of the federal legislation will supersede the settlement agreement and the

foregoing payment amounts will be adjusted so that the State would receive the same payment as it would receive under the Resolution. Similar provision is made in the event of multiple settlements of non-federal governmental health care cost recovery actions, provided that Mississippi is entitled to treatment at least as relatively favorable as such other non-federal governmental entities. If the Resolution is not implemented, then the Mississippi Settlement will remain in place as negotiated with the State.

* * * *

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

Many of the recent developments in relation to smoking and health discussed

above have received wide-spread media attention. These developments may reflect adversely on the tobacco industry and could have adverse effects on the ability of Lorillard and other cigarette manufacturers to prevail in smoking and health litigation.

Except for the effect of the Resolution if implemented as described above, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. 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.

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.

6. 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, 1997 and December 31, 1996 and the results of operations for the three and six months and changes in cash flows for the six months ended June 30, 1997 and 1996, respectively.

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.

Liquidity and Capital Resources:

Insurance

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

For the first six months of 1997, statutory surplus of the property and casualty insurance subsidiaries remained at approximately $6.4 billion. The statutory surplus of the life insurance subsidiaries remained at approximately $1.2 billion.

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

For the first six months of 1997, CNA's operating activities reflect net negative cash flows of approximately $669.7 million, compared to negative cash

flows of $113.0 million in 1996. Negative cash flows in 1997 are primarily the result of substantial claim payments resulting from the settlement of the Fibreboard litigation. CNA believes that future liquidity needs will be met primarily by cash generated from operations.

Net cash flows from operations are invested in marketable securities. Investment strategies employed by CNA's insurance subsidiaries consider the cash flow requirements of the insurance products sold and the tax attributes of the various types of marketable investments.

CNA and the insurance industry are exposed to liability for environmental pollution, primarily related to toxic waste site clean-up. See Note 5 of the Notes to Consolidated Condensed Financial Statements for further discussion of environmental pollution exposures.

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

Lorillard and other cigarette manufacturers continue to be confronted with an increasing level of litigation and regulatory issues.

The volume of lawsuits against Lorillard and other manufacturers of tobacco products seeking damages for cancer and other health effects claimed to have resulted from an individual's use of cigarettes, "addiction" to smoking, or exposure to environmental tobacco smoke has increased substantially in 1997. See Note 5 of the Notes to Consolidated Condensed Financial Statements. In a number of cases, the Company is named as a defendant. Tobacco litigation includes claims brought by individual plaintiffs and claims brought as class actions on behalf of a large number of individuals for damages allegedly caused by smoking; and claims brought on behalf of governmental entities, private citizens, or other organizations seeking reimbursement of health care costs allegedly

incurred as a result of smoking. In addition, claims have been brought against Lorillard seeking damages resulting from exposure to asbestos fibers which had been incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard. In the foregoing actions, plaintiffs claim substantial compensatory and punitive damages in amounts ranging into the billions of dollars.

FDA REGULATIONS

The Food and Drug Administration ("FDA") has published regulations (the "FDA Regulations") severely restricting cigarette advertising and promotion and limiting the manner in which tobacco products can be sold. The FDA premised its regulations on the need to reduce smoking by underage youth and young adults. The FDA Regulations become effective in stages, as follows:

(i) Regulations regarding underage youth smoking, effective February 28, 1997. These regulations make unlawful the sale by retail merchants of cigarettes to anyone under age 18. These regulations also require retail merchants to request proof of age for any person under age 27 who attempts to purchase cigarettes.

(ii) Regulations regarding advertising and billboards, effective August 28, 1997. These regulations limit all cigarette advertising to a black and white, text only format in most publications and outdoor advertising such as billboards. The regulations also prohibit billboards advertising cigarettes within 1,000 feet of a school or playground, require that the established name for the product ("Cigarettes") and an intended use statement ("A Nicotine-Delivery Device For Persons 18 or Older") be included on all cigarette packaging and advertising, ban the use of cigarette brand names, logos and trademarks on premium items and prohibit the furnishing of any premium item in consideration for the purchase of cigarettes or the redemption of proofs-of-purchase coupons.

(iii) Regulations prohibiting the use of cigarette brand names to sponsor sporting and cultural events, effective August 28, 1998.

The FDA has announced that it will contract with states to jointly enforce the FDA Regulations. State regulations narrower in scope and not inconsistent with the FDA Regulations may be exempt from the pre-emptive effect of the federal rules and be enforced concurrently.

Lorillard and other cigarette manufacturers have filed a lawsuit, Coyne Beahm, Inc., et al. v. United States Food & Drug Administration, et al., in the United States District Court for the Middle District of North Carolina challenging the FDA's assertion of jurisdiction over cigarettes and seeking both preliminary and permanent injunctive relief. On April 25, 1997, the Court granted, in part, and

denied, in part, plaintiffs' motion for summary judgment. The Court partially ruled in favor of the defendants, holding that if an adequate factual foundation is established, the FDA has the authority to regulate tobacco products as medical devices under the Federal Food, Drug & Cosmetic Act, may impose restrictions regarding access to tobacco products by persons under the age of 18, and may impose labeling requirements on tobacco products' packaging. The Court, however, partially ruled in favor of the plaintiffs, holding that the FDA is not authorized to regulate the promotion or advertisement of tobacco products. The Court also stayed the effective date for the FDA Regulations which were to take effect on August 28, 1997 pending appeal. Both the plaintiffs and the defendants have filed an appeal of the District Court's ruling to the Fourth Circuit Court of Appeals, and oral argument before this Court was heard on August 11, 1997.

PROPOSED RESOLUTION OF CERTAIN REGULATORY AND LITIGATION ISSUES

On June 20, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a Memorandum of Understanding to support the adoption of federal legislation and any necessary ancillary undertakings, incorporating the features described in the proposed resolution attached to the Memorandum of Understanding.

The Memorandum of Understanding, and the proposed resolution (together, the "Resolution") resulted from negotiations with state attorneys general, representatives of the public health community and attorneys representing plaintiffs in certain smoking and health litigation. The Resolution contains certain regulatory and legislative provisions with which the industry does not necessarily agree, but which the industry has agreed to accept in the interest of achieving the Resolution. The Resolution can be implemented only by federal legislation and is subject to approval of the boards of directors of the participating companies. (Lorillard's Board of Directors approved the Resolution on June 25, 1997.) If enacted into law, the legislation would resolve many of the regulatory and litigation issues affecting the United States tobacco industry thereby reducing uncertainties facing the industry.

The Resolution is currently under review by the White House, Congress, the public health community and other interested parties. The White House and certain members of the public health community have expressed concern with certain aspects of the Resolution and certain members of Congress have indicated that they may offer alternative legislation. There can be no assurance that federal legislation in the form of the Resolution will be enacted or that it will be enacted without modification that is materially adverse to Lorillard or that any modification would be acceptable to Lorillard or that, if enacted, the legislation would not face legal challenges. In any event, the Company believes implementation of the Resolution would materially adversely affect its consolidated results of operations and financial position. The degree of the adverse impact would depend, among other things, on the final form of implementing federal legislation, the rates of decline in United States cigarette sales in the premium and discount segments and Lorillard's share of the domestic premium and discount cigarette segments. Moreover, the negotiation and signing of the Resolution could affect other federal, state and local regulation of the United States tobacco industry.

The following summary of the Resolution is qualified by reference to the complete text, which has been filed with the Securities and Exchange Commission as Exhibit 10 to the Company's Current Report on Form 8-K filed June 24, 1997, and which is incorporated herein by reference. Certain terms of the Resolution would apply to all tobacco products sold in the United States; certain terms would apply only to tobacco manufacturers that consent to participate in the Resolution; other terms would apply only to non-consenting manufacturers.

Advertising and Marketing Restrictions

The Resolution would incorporate certain regulations previously promulgated by the Food and Drug Administration (the "FDA") and add additional restrictions to curtail tobacco product advertising and marketing.

Among other things, it would:

(i) Prohibit the use of human images and cartoon characters, such as Joe Camel and the Marlboro man, in all tobacco-product advertising.

(ii) Ban all outdoor tobacco-product advertising, including advertising in enclosed stadia and advertising inside a retail establishment that is directed outside.

(iii) Except for advertising in adult-only facilities or adult publications, limit tobacco-product advertising to black text on a white

background.

(iv) Ban sponsorships (including concerts and sporting events) in the name, logo or selling message of a tobacco brand.

(v) Ban all non-tobacco merchandise (such as caps, jackets and bags) bearing the name, logo or selling message of a tobacco brand.

(vi) Ban offers of non-tobacco items or gifts based on proof of purchase of tobacco products.

(vii) Ban direct or indirect payments for tobacco product placement in movies, television programs and video games.

(viii) Prohibit direct and indirect payments to "glamorize" tobacco use in media appealing to minors, including live and recorded music performances.

(ix) Prohibit tobacco-product advertising on the Internet unless designed to be inaccessible in or from the United States.

In addition, the Resolution would require that use of currently employed product descriptors such as "low tar" and "light" be accompanied by a mandatory health disclaimer in advertisements, and would prohibit the use of any new descriptors embodying express or implied health claims unless approved by the FDA. The FDA would also have the corresponding power, but not the obligation, to modify advertising restrictions with respect to tobacco products that it concludes present sufficiently reduced health risks. Exemplars of all new advertising and tobacco product labeling would be submitted to the FDA for its ongoing review.

Warnings and Labeling

The Resolution would mandate a new set of rotating warnings to be placed on packages of tobacco products with greater prominence than previous warnings (25% of the front of cigarette packs at the top of the pack). The new rotating warnings would also appear in all advertisements and would occupy 20% of press advertisements. Cigarette packs would also carry the FDA mandated statement of intended use ("Nicotine Delivery Device").

Access Restrictions

The Resolution would restrict access to tobacco products by minors. Without preventing state and local governments from imposing stricter measures, the Resolution would incorporate regulations previously promulgated by the FDA that restrict access to tobacco products and would also add additional restrictions. Taken together, these access restrictions would include the following:

(i) Setting a minimum age of 18 to purchase tobacco products.

(ii) Requiring retailers to check photo identification of anyone under 27 years of age.

(iii) Establishing a requirement of face-to-face transactions for all sales of tobacco products.

(iv) Banning the sale of tobacco products from opened packages, requiring a minimum package size of 20 cigarettes, and banning the sampling of tobacco products.

(v) Banning the distribution of tobacco products through the mail except for sales subject to proof of age (with subsequent FDA review to determine if minors are obtaining tobacco products through the mail).

(vi) Imposing retailer compliance obligations to ensure that all displays, advertising, labeling, and other items conform with all applicable requirements.

(vii) Banning all sales of tobacco products through vending machines.

(viii) Banning self-service displays of tobacco products except in adult-only facilities.

Licensing of Tobacco Retailers

The Resolution would require that any entity that sells tobacco products directly to consumers obtain a license. Sellers would be subject to monetary penalties and suspension or loss of their licenses if they do not comply with the access restrictions. The federal government and state and local authorities would enforce these access and licensing provisions through funding provided by

Industry Payments, as defined below under the heading "Industry Payments".

State Enforcement

The Resolution would require states to adopt "no sales to minors" laws and would contain economic incentives for the states to enforce such laws. If a state does not meet "no sales to minors" performance targets, the FDA may refuse to pay that state certain funds otherwise payable under the Resolution. To comply with the "no sales to minors" law, the state must achieve compliance rate results of 75% by the fifth year after enactment of federal legislation, 85% by the seventh year and 90% by the tenth year and each year thereafter. Compliance would be measured as a percentage of random, unannounced compliance checks in which the retailer refused to sell tobacco products to minors. Funds withheld from states for failure to achieve the performance targets would, in turn, be reallocated to those states that demonstrated superior "no sales to minors" enforcement records.

Surcharge for Failure to Achieve Underage Smoking Reduction Goals

The Resolution would impose surcharges on the industry if required reductions in underage smoking are not achieved. A "look back" provision would require the following reductions in the incidence of underage smoking from estimated levels over the past decade: 30% in the fifth and sixth years after enactment of implementing federal legislation, 50% in the seventh, eighth and ninth years, and 60% in the tenth year, with incidence remaining at such reduced levels thereafter.

For any year in which these required reductions are not met, the FDA must impose a mandatory surcharge on the participating members of the cigarette industry based upon an approximation of the present value of the profit the companies would earn over the lives of the number of underage consumers in excess of the required reduction. The annual surcharge would be $80 million (as adjusted for changes in population and cigarette profitability) for each percentage point by which the reduction in underage smoking falls short of the required reductions (as adjusted to prevent double counting of persons whose smoking has already resulted in the imposition of a surcharge in previous years). The annual surcharge would be subject to a $2 billion annual cap (as adjusted for inflation). The surcharge would be the joint and several obligation of participating manufacturers allocated among participating manufacturers based on their market share of the United States cigarette industry and would be payable on or before July 1 of the year in which it is assessed. Manufacturers

could receive a partial refund of this surcharge (up to 75%) only after paying the assessed amount and only if they could thereafter prove to the FDA that they had fully complied with the Resolution, had taken all reasonably available measures to reduce youth tobacco usage and had not acted to undermine the achievement of the reduction goals. The FDA would use the surcharges to fund its administrative costs and to fund grants to states for additional efforts to reduce underage smoking.

Regulation

Under the Resolution, the FDA would oversee the development, manufacturing, marketing and sale of tobacco products in the United States, including FDA approval of ingredients and imposition of standards for reducing or eliminating the level of certain constituents, including nicotine.

Under the Resolution, tobacco would continue to be categorized as a "drug" and a "device" under the Food, Drug and Cosmetic Act. The FDA's authority to regulate tobacco products as "restricted medical devices" would be explicitly recognized and tobacco products would be classified as a new subcategory of Class II devices.

For a period of at least twelve years after implementing legislation is effective, the FDA would be permitted, subject to certain procedures and judicial review, to adopt performance standards that require the modification of existing tobacco products, including the gradual reduction, but not the elimination, of nicotine yields, and the possible elimination of other constituents or components of the tobacco product, based upon a finding that the modification: (i) will result in a significant reduction of the health risks associated with such products to consumers thereof; (ii) is technologically feasible; and (iii) will not result in the creation of a significant demand for contraband or other tobacco products that do not meet the performance standards.

The Resolution would also require, effective three years after implementing legislation is effective, that no cigarette sold in the United States can exceed a 12 mg. "tar" yield, using the Federal Trade Commission's presently existing methodology to determine "tar" yields.

Beginning twelve years after implementing legislation becomes effective, the

FDA would be permitted to set performance standards that exceed those discussed above, including the elimination of nicotine and the elimination of other constituents or other demonstrated harmful components of tobacco products, based upon a finding that: (i) the safety standard will result in a significant overall reduction of the health risks to tobacco consumers as a group; (ii) the modification is technologically feasible; and (iii) the modification will not result in the creation of a significant demand for contraband or other tobacco products that do not meet the performance standards. An FDA determination to eliminate nicotine would have to be based upon a preponderance of the evidence and be subject to judicial review and a two-year phase-in to permit Congressional review.

The Resolution would require disclosure of non-tobacco ingredients to the FDA, require manufacturers to submit within five years a safety assessment for non-tobacco ingredients currently used, and require manufacturers to obtain the FDA's preapproval for any new non-tobacco ingredients. The FDA would have authority to disapprove an ingredient's safety. The Resolution also outlines legislation that would require companies to notify the FDA of technology they develop or acquire that reduces the risk from tobacco products and that would mandate cross-licensing of technology that the FDA determines reduces the risk from tobacco products and that would authorize the FDA to mandate the introduction of "less hazardous tobacco products" that are technologically feasible.

The Resolution would subject the tobacco industry to "good manufacturing practice" standards, including requirements regarding quality control systems, FDA inspections and record-keeping and reporting.

Public Disclosure

The Resolution would require the tobacco industry to disclose to the public previously confidential internal laboratory research as well as certain other documents relating to smoking and health, "addiction" or nicotine dependency, "safer or less hazardous" cigarettes and underage tobacco use and marketing. The Resolution would also require the industry to disclose all such internal laboratory research generated in the future. The Resolution would provide protection for proprietary information and applicable privileges, and would establish a streamlined process by which interested persons could contest claims of privilege.

Cessation Programs

The Resolution would authorize the Secretary of Health and Human Services to accredit smoking cessation programs and techniques that the agency determines to be potentially effective.

Compliance Programs

Participating tobacco manufacturers would be required to create, and to update each year, plans to ensure compliance with all applicable laws and regulations, to identify ways to reduce underage use of tobacco products, and to provide internal incentives for reducing underage use and for developing products with "reduced risk".

Participating manufacturers would also be required to implement compliance programs setting compliance standards and procedures for employees and agents that are reasonably capable of reducing violations. These programs must assign to specific high-level personnel the overall responsibility for overseeing compliance, forbid delegation of substantial discretionary authority to individuals who have shown a propensity to disregard corporate policies, establish training or equivalent means of educating employees and agents, and institute appropriate disciplinary measures and steps to respond to violations and prevent similar ones from recurring.

Participating manufacturers would be required to promulgate corporate principles that express and explain the company's commitment to compliance, reduction of underage tobacco use, and development of "reduced risk" tobacco products. They would be required to work with retail organizations on compliance, including retailer compliance checks and financial incentives for compliance, and disband certain industry associations and only form new ones subject to regulatory oversight.

Participating manufacturers would be subject to fines and penalties for breaching any of these obligations. Companies would be required to direct their employees to report known or alleged violations to the company compliance officer, who in turn would be required to provide reports to the FDA. Finally, companies would be prohibited from taking adverse action against "whistle blowers" who report violations to the government.

Public Smoking

The Resolution would mandate minimum federal standards governing smoking in public places or at work (with states and localities retaining power to impose stricter requirements). These restrictions, which would be enforced by the Occupational Safety and Health Administration, would:

(i) Restrict indoor smoking in "public facilities" to ventilated areas with systems that exhaust the air directly to the outside, maintain the smoking area at "negative pressure" compared with adjoining areas and do not recirculate the air inside the public facility.

(ii) Ensure that no employee may be required to enter a designated smoking area while smoking is occurring.

(iii) Exempt restaurants (other than fast food restaurants) and bars, private clubs, hotel guest rooms, casinos, bingo parlors, tobacco merchants and prisons.

Enforcement

Violations of the Resolution's terms would carry civil and criminal penalties based upon the penalty provisions of the Food, Drug and Cosmetic Act and, where applicable, the provisions of the United States criminal code. Special enhanced civil penalties of up to ten times the penalties applicable to similar violations by drug companies would attach to violations of the obligations to disclose research about health effects and information about the toxicity of non-tobacco ingredients.

Terms of the Resolution would be embodied in state consent decrees, giving the states concurrent enforcement powers. State enforcement could not impose obligations or requirements beyond those imposed by the Resolution (except where the Resolution specifically does not preempt additional state-law obligations) and would be limited to the penalties specified in the Resolution and by prohibition of duplicative penalties.

Industry Payments

The Resolution would require participating manufacturers to make substantial payments in the year of implementation and thereafter ("Industry Payments"). Participating manufacturers would be required to make an aggregate $10 billion initial Industry Payment on the date federal legislation implementing the terms of the Resolution is signed. This Industry Payment would be based on relative market capitalizations and Lorillard currently estimates that its share of the initial Industry Payment would be approximately $750 million which would be funded from a combination of available cash and borrowings. Thereafter, the companies would be required to make specified annual Industry Payments determined and allocated among the companies based on volume of domestic sales as long as the companies continue to sell tobacco products in the United States. These Industry Payments, which would begin on December 31 of the first full year after implementing federal legislation is signed, would be in the following amounts (at 1996 volume levels): year 1: $8.5 billion; year 2: $9.5 billion; year 3: $11.5 billion; year 4: $14 billion; and each year thereafter: $15 billion. These Industry Payments would be increased by the greater of 3% or the previous year's inflation rate determined with reference to the Consumer Price Index. The Industry Payments would increase or decrease in proportion to changes from 1996 domestic sales volume levels. Volume declines would be measured based on adult sales volume figures; volume increases would be measured by total sales volume. If sales volume declines but the industry's domestic net operating profit exceeds base year inflation-adjusted levels, the reduction in the annual Industry Payment due to volume decline, if any, would be offset to the extent of

25% of the increased profit. At current levels of sales and prior to any adjustment for inflation, the Resolution would require total Industry Payments of $368.5 billion over the first 25 years (subject to credits described below in connection with potential civil tort liability).

The Industry Payments would be separate from any surcharges required under the "look back" provision discussed above under the heading "Surcharge for Failure to Achieve Underage Smoking Goals". The Industry Payments would receive priority and would not be dischargeable in any bankruptcy or reorganization proceeding and would be the obligation only of entities selling tobacco products in the United States (and not their affiliated companies). The Resolution provides that all payments by the industry would be ordinary and necessary business expenses in the year of payment, and no part thereof would be either in settlement of an actual or potential liability for a fine or penalty (civil or criminal) or the cost of a tangible or intangible asset. The Resolution would provide for the pass-through to consumers of the annual Industry Payments in order to promote the maximum reduction in underage use.

The Industry Payments would be made to a central federal authority and then allocated among various programs and entities to provide funds for federal and state enforcement efforts; federal, state and local governments' health benefit programs; public benefits to resolve past punitive damages claims that might be asserted in private litigation; the expenses related to the administration of federal legislation enacted pursuant to the Resolution; and a variety of public and private non-profit efforts to discourage minors from beginning to use tobacco products and to assist current tobacco consumers to quit, including research, public education campaigns, individual cessation programs, and impact grants.

Effects on Litigation

If enacted, the federal legislation provided for in the Resolution would settle present state-wide Reimbursement Cases (or similar actions brought by or on behalf of any governmental entity), parens patriae and smoking and health class actions and all "addiction"/dependence claims and would bar similar actions from being maintained in the future. However, the Resolution provides that no stay applications will be made in pending governmental actions without the mutual consent of the parties. On July 2, 1997, together with other companies in the United States tobacco industry, Lorillard entered into a Memorandum of Understanding with the State of Mississippi with respect to that state's health care cost recovery action. Lorillard may enter into discussions with certain other states with Reimbursement Cases scheduled to be tried this year with regard to the postponement or settlement of such actions pending the enactment of the legislation contemplated by the Resolution. No assurance can be given whether a postponement or settlement will be achieved, or, if achieved, as to the terms thereof. The Resolution would not affect any smoking and health class action or any Reimbursement Case that is reduced to final judgment before implementing federal legislation is effective.

Under the Resolution, the rights of individuals to sue the tobacco industry would be preserved, as would existing legal doctrine regarding the types of tort claims that can be brought under applicable statutory and case law except as expressly changed by implementing federal legislation. Claims, however, could not be maintained on a class or other aggregated basis and could be maintained only against tobacco manufacturing companies (and not their retailers, distributors or affiliated companies). In addition, all punitive damage claims based on past conduct would be resolved as part of the Resolution and future claimants could seek punitive damages only with respect to claims predicated upon conduct taking place after the effective date of implementing federal legislation. Finally, except with respect to actions pending as of June 9, 1997, third-party payor (and similar) claims could be maintained only based on

subrogation of individual claims. Under subrogation principles, a payor of medical costs can seek recovery from a third party only by "standing in the

shoes" of the injured party and being subject to all defenses available against the injured party.

The Resolution contemplates that participating tobacco manufacturers would enter into a joint sharing agreement for civil liabilities relating to past conduct. Judgments and settlements arising from tort actions would be paid as follows: (i) The Resolution would set an annual aggregate cap equal to 33% of the annual base Industry Payment (including any reductions for volume declines). (ii) Any judgments or settlements exceeding the cap in a year would roll over into the next year. (iii) While judgments and settlements would run against the defendant, they would give rise to an 80-cents-on-the-dollar credit against the annual Industry Payment. (iv) Finally, any individual judgments in excess of $1 million would be paid at the rate of $1 million per year unless every other judgment and settlement could first be satisfied within the annual aggregate cap. In all circumstances, however, the companies would remain fully responsible for costs of defense and certain costs associated with the fees of attorneys representing certain plaintiffs in the litigation that would be settled by the Resolution.

Non-participating Manufacturers

The Resolution would contain certain measures to ensure that non-participating manufacturers are not free to undercut the Resolution by selling tobacco products at lower prices because they were not making the Industry Payments.

See Note 5 of the Notes to Consolidated Condensed Financial Statements for information with respect to tobacco related litigation.

PROPOSED FEDERAL EXCISE TAX INCREASE

The United States federal excise tax on cigarettes was $12 per 1,000 cigarettes ($0.24 per pack of 20 cigarettes). In early August of 1997, the

United States Congress approved and the President signed into law an increase in the federal excise tax on cigarettes of $7.50 per 1,000 cigarettes ($0.15 per pack of 20 cigarettes). This increase is phased in at a rate of $5.00 per 1,000 cigarettes in the year 2000 and an additional $2.50 per 1,000 cigarettes in the year 2002. Such action may adversely affect Lorillard's volume, operating revenues and operating income.

Offshore Drilling
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Diamond Offshore expects to spend approximately $189.2 million during 1997 for rig upgrades, including approximately $162.5 million for expenditures in conjunction with the upgrades of three rigs for deep water drilling in the Gulf of Mexico. Diamond Offshore expended $121.3 million on these projects during the six months ended June 30, 1997. In addition, Diamond Offshore expects to spend approximately $25.0 million for a cantilever conversion project on a jack-up rig, of which $.5 million has been expended through June 30, 1997. Diamond Offshore has also budgeted $70.7 million for 1997 capital expenditures associated with its continuing rig enhancement program, spare equipment and other corporate requirements. During the first six months of 1997, $30.9 million was expended on this program.

In April 1997, Diamond Offshore completed a public offering of 1.25 million shares of its common stock for net proceeds of approximately $82.3 million. Diamond Offshore used these funds to acquire the Polyconfidence, a semisubmersible accommodation vessel currently working in the U.K. sector of the North Sea for approximately $81.0 million. As a result of the public offering,

the Company's ownership interest in Diamond Offshore declined to 50.3% and the Company recorded a pre-tax gain of approximately $29.1 million in the second quarter of 1997. Diamond Offshore is in discussions with several oil companies regarding conversion of the Polyconfidence to a semisubmersible drilling unit with advanced capabilities. Such a conversion would be dependent upon the receipt of a term contract commitment at favorable dayrates. Although the extent of the conversion would be dependent upon the particular demands of the customer, the preliminary estimate of conversion cost is approximately $160.0 to $175.0 million. The cash required to fund rig upgrades and Diamond Offshore's continuing rig enhancement program is anticipated to be provided by its operating cash flow, as well as available cash on hand.

In July 1997, Diamond Offshore declared a two-for-one stock split in the form of a stock dividend to stockholders of record on July 24, 1997. Approximately 139.3 million shares will be outstanding after the split. Diamond Offshore declared a cash dividend of $0.14 per common share, on the pre-split shares, payable August 7, 1997 to stockholders of record on July 24, 1997.

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

	June 30, 1997	December 31, 1996	Change in Unrealized Gains (Losses)
	(In millions)		
Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies	$10,460.1	$ 9,835.3	$ (71.9)
Asset-backed securities	4,634.3	6,292.3	15.6
Tax exempt securities	4,424.5	4,951.2	19.6
Taxable	6,421.1	6,641.8	(52.9)
Total fixed maturity securities	25,940.0	27,720.6	(89.6)
Stocks	657.6	859.1	(40.9)
Short-term and other investments	9,943.4	6,830.7	(12.1)
Derivative security investments	.9	2.0	
Total	$36,541.9	$35,412.4	$(142.6)

Short-term investments:		
Commercial paper	$ 3,707.0	$ 3,207.3
Security repurchase collateral	1,635.3	100.5
Escrow	1,092.2	1,062.2
Others	2,578.0	1,483.7
Other investments	930.9	977.0
Total short-term and other investments	$ 9,943.4	$ 6,830.7

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

CNA has the capacity to hold its fixed maturity portfolio to maturity. However, securities may be sold as part of CNA's asset/liability strategies or to take advantage of investment opportunities generated by changing interest rates, tax and credit considerations, or other similar factors. Accordingly, fixed maturity securities are classified as available for sale.

CNA has a securities lending program where securities are loaned to third parties, primarily major brokerage firms. Borrowers of these securities must deposit cash or securities in excess of 100% of the fair value of the securities borrowed. Cash deposits from these transactions are invested in short-term investments (primarily commercial paper). CNA continues to receive the interest on loaned debt securities as beneficial owner and accordingly, loaned debt

securities are included within fixed maturity securities. The liabilities for securities sold subject to repurchase agreements are recorded at their contractual repurchase amounts.

In addition to interest rate swaps used to convert CNA's acquisition debt from variable rate to a fixed rate, CNA holds derivative financial instruments for purposes of enhancing income and total return. These other derivative securities are marked-to-market with valuation changes reported as investment gains and losses. CNA's investment in, and risk in relation to, derivative securities is not significant.

The general account portfolio consists primarily of high quality (BBB or higher) marketable fixed maturity securities, approximately 94% of which are rated as investment grade. At June 30, 1997, tax exempt securities and short-term investments excluding collateral for securities sold under repurchase agreements, comprised approximately 12% and 20%, respectively, of the general account's total investment portfolio compared to 14% and 16%, respectively, at December 31, 1996. Historically, CNA has maintained short-term assets at a level that provided for liquidity to meet its short-term obligations, as well as reasonable contingencies and anticipated claim payout patterns. At June 30, 1997, the major components of the short-term investment portfolio consist primarily of high grade commercial paper and U.S. Treasury bills. Collateral for securities sold under repurchase agreements increased $1,525.1 million to $1,625.6 million at June 30, 1997.

As of June 30, 1997, the market value of CNA's general account investments in fixed maturities was $25.9 billion and was greater than amortized cost by approximately $91.3 million. This compares to a market value of $27.7 billion and $181.0 million of net unrealized investment gains at December 31, 1996. The gross unrealized investment gains and losses for the fixed maturity securities portfolio at June 30, 1997, were $323.6 and $232.3 million, respectively, compared to $443.8 and $262.8 million, respectively, at December 31, 1996. The decline in unrealized investment gains is attributable, in large part, to increases in interest rates which have an adverse effect on bond values.

Net unrealized investment losses on general account fixed maturities at June 30, 1997 include net unrealized investment losses on high yield securities of $10.0 million, compared to net unrealized investment gains of $41.0 million at December 31, 1996. High yield securities are bonds rated as below investment grade by bond rating agencies, plus private placements and other unrated securities which, in the opinion of management, are below investment grade (below BBB). Fair values of high yield securities in the general account were $1.5 billion at June 30, 1997 as compared to $2.0 billion at December 31, 1996.

At June 30, 1997, total Separate Account business cash and investments amounted to approximately $5.8 billion with taxable fixed maturity securities representing approximately 83% of the Separate Accounts' portfolio. Approximately 77% of Separate Account investments are used to fund guaranteed investments for which CNA's life insurance affiliate guarantees principal and a specified return to the contract holders. The duration of fixed maturity

securities included in the guaranteed investment portfolio are matched approximately with the corresponding payout pattern of the guaranteed investment contracts. The fair value of all fixed maturity securities in the guaranteed investment portfolio was $4.0 billion at June 30, 1997 compared to $3.8 billion at December 31, 1996. At June 30, 1997, fair value was greater than amortized cost by approximately $9.2 million. This compares to an unrealized loss of approximately $0.7 million at December 31, 1996. The gross unrealized investment gains and losses for the guaranteed investment fixed maturity securities portfolio at June 30, 1997 were $45.1 and $35.9 million, respectively.

Carrying values of high yield securities in the guaranteed investment

portfolio were $443.5 and $472.0 million at June 30, 1997 and December 31, 1996, respectively. Net unrealized investment losses on high yield securities held in such Separate Accounts were $6.5 million at June 30, 1997, compared to $6.0 million at December 31, 1996.

High yield securities generally involve a greater degree of risk than that of investment grade securities. Expected returns should, however, compensate for the added risk. The risk is also considered in the interest rate assumptions in the underlying insurance products. At June 30, 1997, CNA's investment in high yield bonds, including Separate Accounts, was approximately 3.3% of its total assets. In addition, CNA's investment in mortgage loans and investment real estate are substantially below the industry average, representing less than one quarter of one percent of its total assets.

Included in CNA's fixed maturity securities at June 30, 1997 (general and guaranteed investment portfolios) are $7.1 billion of asset-backed securities, consisting of approximately 52.0% in collateralized mortgage obligations ("CMO's"), 9.0% in corporate asset-backed obligations, and 39.0% in U.S. government issued pass-through certificates. The majority of CMO's held are U.S. government agency issues, which are actively traded in liquid markets and are priced monthly by broker-dealers. At June 30, 1997, the fair value of asset-backed securities was more than amortized cost by approximately $22.2 million compared to net unrealized investment losses of $5.0 million at December 31, 1996. CNA limits the risks associated with interest rate fluctuations and prepayment by concentrating its CMO investments in early planned amortization classes with relatively short principal repayment windows.

Over the last few years, much concern has been raised regarding the quality of insurance company invested assets. At June 30, 1997, 46.0% of the general account's fixed maturity securities portfolio was invested in U.S. government securities, 30.0% in other AAA rated securities and 13.0% in AA and A rated securities. CNA's guaranteed investment fixed maturity securities portfolio is comprised of 4.0% U.S. government securities, 62.0% in other AAA rated securities and 13.0% in AA and A rated securities. These ratings are primarily from Standard and Poor's.

Other
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Investment activities of non-insurance companies include investments in fixed maturities securities, equity securities, derivative instruments and short-term investments. Equity securities which are considered part of the Company's trading portfolio, and derivative instruments are marked-to-market and reported as investment gains or losses in the income statement. The remaining securities are carried at fair value with net unrealized losses of $21.7 and $22.4 million at June 30, 1997 and December 31, 1996, respectively.

The Company invests in certain derivative instruments for income enhancements as part of its portfolio management strategy. These instruments include various swaps, forwards and futures contracts as well as both purchased and written options. These investments subject the Company to market risk for positions where the Company does not hold an offsetting security. The Company controls this risk through monitoring procedures which include daily detailed reports of existing positions and valuation fluctuations. These reports are reviewed by members of senior management to ensure that open positions are consistent with the Company's portfolio strategy.

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

The Company does not believe that any of the derivative instruments utilized by it are unusually complex or volatile, nor do these instruments contain imbedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations -- Other," below, for information with respect

to the impact of derivative instruments on results of operations. See Note 4 of the Notes to Consolidated Financial Statements in the 1996 Annual Report on Form 10-K for additional information with respect to derivative instruments.

Results of Operations:

Revenues decreased by $295.5 and $400.9 million, or 5.9% and 4.0%, and net income decreased by $314.9 and $444.4 million, or 83.2% and 59.5%, respectively, for the quarter and six months ended June 30, 1997 as compared to the prior year. The following table sets forth the major sources of the Company's consolidated revenues and net income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(In millions)			
Revenues (a):				
Property and casualty insurance	$3,256.7	$3,126.3	$6,332.0	$ 6,447.0
Life insurance	988.2	985.4	2,029.6	1,980.6
Cigarettes	604.3	571.7	1,120.8	1,077.1
Hotels	61.1	54.2	107.0	95.7
Offshore drilling	234.0	150.3	441.6	257.8
Watches and clocks	27.9	24.0	57.9	49.5
Investment income-net (non-insurance companies)	(420.7)	144.2	(394.2)	194.3
Other and eliminations-net	(2.4)	(11.5)	(6.5)	(12.9)
	$4,749.1	$5,044.6	$9,688.2	$10,089.1
Net income (a):				
Property and casualty insurance	$ 163.7	$ 151.5	$ 284.4	$ 381.7
Life insurance	42.4	29.0	77.1	94.9
Cigarettes	123.5	114.1	203.0	191.1
Hotels	8.9	4.5	9.1	1.7
Offshore drilling	30.6	12.0	57.4	20.5
Watches and clocks	1.2	.6	2.7	1.3
Investment income-net (non-insurance companies)	(275.1)	93.6	(260.6)	125.1
Corporate interest expense	(16.6)	(15.4)	(32.4)	(34.8)
Unallocated corporate expense and other-net	(14.8)	(11.2)	(37.6)	(34.0)
	$ 63.8	$ 378.7	$ 303.1	$ 747.5

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
Revenues:				
Property and casualty insurance	$ 127.7	$ 63.2	$ 146.0	$279.8
Life insurance	43.4	14.4	72.5	102.0
Investment income-net	(466.5)	100.8	(485.1)	108.4
	$(295.4)	$178.4	$(266.6)	$490.2
Net income:				
Property and casualty insurance	$ 69.4	$ 38.5	$ 79.5	$151.7
Life insurance	22.0	6.8	36.9	47.9
Investment income-net	(303.4)	66.2	(317.3)	70.9
	$(212.0)	$111.5	$(200.9)	$270.5

Insurance
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Property and casualty revenues, excluding investment gains, increased by $65.9 and $18.8 million, or 2.2% and .3%, for the quarter and six months ended June 30, 1997, as compared to the same period a year ago.

Property and casualty premium revenues increased by $50.8 and $13.5 million, or 2.0% and .3%, for the quarter and six months ended June 30, 1997, from the prior year's comparable period. The increase is a result of an increase in commercial operations particularly in professional and specialty, accident and health and reinsurance business, partially offset by a decrease in involuntary risk business. Revenues also benefited from increases in other insurance operations. Net investment income decreased by $8.0 and $29.0 million, or 1.7% and 3.1%, for the quarter and six months ended June 30, 1997, compared with the same period in the prior year. The decrease reflects reduced operating cash flow and a movement to shorter duration investments. The fixed maturities segment of the investment portfolio yielded 6.4% in the first half of 1997 compared with 6.9% for the same period a year ago.

Life insurance revenues, excluding investment gains, decreased by $26.2 million, or 2.7%, and increased $78.5 million, or 4.2%, as compared to the same period a year ago. Life premium revenues decreased by $23.3 million or 2.8% and increased $67.5 million, or 4.2%, for the quarter and six months ended June 30, 1997. The decrease in life revenues for the quarter ended June 30, 1997 is due to a decline in annuity and group reinsurance business, partially offset by an increase in Viaterm life product sales and disability and accident premium. The increase for the six months ended June 30, 1997 is due to continued growth in sales in the Viaterm life product, continued growth in disability and accident premium and an increase in premiums in the Federal Employees Health Benefits Program, due to strong enrollment through the fist six months of 1997, partially offset by a decline in group reinsurance premium. Life net investment income was essentially unchanged for the quarter and increased $7.0 million, or 3.6%, for the six months ended June 30, 1997, compared to the same periods a year ago, due to a larger asset base generated from increased operating cash flows. The fixed maturities segment of the life investment portfolio yielded 6.4% in the first half of 1997 compared with 6.8% for the same period a year ago.

Property and casualty underwriting losses for the quarter and six months ended June 30, 1997 were $277.2 and $570.4 million, compared to $243.0 and $534.0 million for the same period in 1996. The GAAP combined ratio for the six months ended June 30, 1997 was 109.3% as compared to 108.6% for the comparable period in 1996. GAAP expense ratios were 29.8% and 30.0% for the six months ended June 30, 1997 and 1996, respectively. Deterioration in the loss ratios reflect continued competitive pressures on virtually all segments of the insurance market, particularly commercial insurance. Pre-tax catastrophe losses were approximately $45.0 and $76.0 million for the quarter and six months ended June 30, 1997 as compared to $114.5 and $208.0 million in 1996.

The components of CNA's investment gains are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(In millions)			
Bonds:				
U.S. Government	$ 43.1	$(21.9)	$ 49.0	$112.4
Tax exempt	1.7	(10.5)	2.2	9.5
Asset-backed	2.4	3.9	9.2	21.3
Taxable	73.6	17.0	84.0	44.8
Total bonds	120.8	(11.5)	144.4	188.0
Stocks	9.6	74.3	39.3	129.2
Derivative instruments	(4.0)	2.9	(.7)	12.0
Separate Accounts and other	45.6	6.8	55.0	48.6
Total investment gains	$172.0	$ 72.5	$238.0	$377.8

CNA's primary property and casualty subsidiary, Continental Casualty Company, is party to litigation with Fibreboard Corporation involving coverage for

certain asbestos-related claims and defense costs (see Note 5 of the Notes to Consolidated Condensed Financial Statements).

Cigarettes
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Revenues increased by $32.6 and $43.7 million, or 5.7% and 4.1%, and net income increased by $9.4 and $11.9 million, or 8.2% and 6.2%, respectively, for the quarter and six months ended June 30, 1997 as compared to the corresponding periods of the prior year.

The increase in revenues is primarily composed of an increase of approximately $11.8 and $17.9 million, or 2.1% and 1.7%, due to higher unit sales volume and an increase of approximately $21.3 and $31.2 million, or 3.8% and 2.9%, reflecting higher average unit prices for the quarter and six months ended June 30, 1997, as compared to the prior year. These increases were partially offset by lower investment income. Net income increased as a result of the improved revenues, partially offset by higher legal expenses.

Virtually all of Lorillard's sales are in the full price brand category. Discount brand sales have decreased from an average of 37% of industry sales during 1993 to an average of 28% during 1996. At June 30, 1997, they represented 27.5% of industry sales.

Hotels
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Revenues increased by $6.9 and $11.3 million, or 12.7% and 11.8%, and net income increased by $4.4 and $7.4 million for the quarter and six months ended June 30, 1997, as compared to the prior year, due primarily to improved results at the Loews Monte Carlo hotel, as well as higher overall average room and occupancy rates.

Offshore drilling
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Revenues increased by $83.7 and $183.8 million and net income increased by $18.6 and $36.9 million, respectively, for the quarter and six months ended June 30, 1997, as compared to the prior year.

Revenues from semisubmersible rigs increased by $68.8 and $153.8 million, or 45.8% and 59.7%, for the quarter and six months ended June 30, 1997. These increases reflect additional revenues ($17.5 and $56.1 million) from eight semisubmersible rigs acquired through Arethusa, higher dayrates ($30.1 and $45.6 million) recognized by semisubmersible rigs located in the North Sea and the Gulf of Mexico, and increased utilization ($5.7 and $27.4 million) resulting from shipyard repairs in the prior year which reduced the days worked during the comparable period. Revenues from jackup rigs increased by $18.7 and $42.1 million, or 12.5% and 16.3%, due to additional rigs acquired through Arethusa ($3.2 and $13.3 million) and improvements in dayrates in the Gulf of Mexico ($14.8 and $27.6 million).

Net income for the quarter and six months ended June 30, 1997 increased due primarily to the higher revenues discussed above, partially offset by increased operating costs and depreciation expense related to the drilling rigs acquired from Arethusa, and an increased provision for minority interest as a result of the dilutive effect to the Company of Diamond Offshore's acquisition of Arethusa in April 1996.

Watches and Clocks
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Revenues increased by $3.9 and $8.4 million and net income increased by $.6 and $1.4 million, respectively, for the quarter and six months ended June 30, 1997 as compared to the prior year.

Revenues increased for the quarter and six months ended June 30, 1997 due primarily to increased watch unit prices and sales volume.

Net income increased for the quarter and six months ended June 30, 1997 due primarily to the increased revenues discussed above and lower postretirement benefit costs, partially offset by higher administrative, advertising and selling expenses.

Other
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Revenues decreased by $555.8 and $582.1 million and net income decreased by $373.5 and $386.9 million, respectively, for the quarter and six months ended June 30, 1997 as compared to the prior year.

The components of investment (losses) gains included in Investment income-net are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(In millions)			
Revenues:				
Derivative instruments (1)	$(357.4)	$(67.9)	$(380.7)	$(102.9)
Gain on issuance of subsidiary's stock	29.1	186.6	29.1	186.6
Equity securities, including short positions	(135.3)	(28.0)	(149.3)	15.5
Other	(2.9)	10.1	15.8	9.2
	(466.5)	100.8	(485.1)	108.4
Income tax benefit (expense)	163.2	(35.1)	169.7	(37.9)
Minority interest	(.1)	.5	(1.9)	.4
Net income	$(303.4)	$ 66.2	$(317.3)	$ 70.9

(1) Includes losses on equity index futures and options aggregating $350.2, $61.9, $386.2 and $110.1 for the quarter and six months ended June 30, 1997 and 1996, respectively. Since June 30, 1997, the Company has experienced significant losses from its open contracts on these equity index positions.

Exclusive of securities transactions, revenues increased $11.5 and $11.4 million, or 36.1% and 15.6%, for the quarter and six months ended June 30, 1997 due primarily to increased investment interest income. Net loss increased by $3.9 million for the quarter ended June 30, 1997 due primarily to a lower allocation of parent company charges, partially offset by increased investment income. Net loss declined by $1.3 million for the six months ended June 30, 1997 due to the increased investment income and lower interest expenses, partially offset by reduced parent company charges.

Accounting Standards
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In January 1997, the Securities and Exchange Commission expanded existing disclosure requirements with respect to certain derivative instruments. The new rules require enhanced descriptions in the accounting policies footnote to the financial statements and also require qualitative and quantitative disclosure outside the financial statements regarding market risk related to the derivative instruments. The rules are effective for fiscal years ended after June 15, 1997 and will not have a significant impact on the Company.

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share." This Statement establishes standards for computing and presenting earnings per share ("EPS"), which simplifies the

computations originally established in APB Opinion No. 15, and makes them comparable to international EPS standards. It replaces the presentation of primary EPS with basic EPS, which excludes the concept of common stock equivalents. It also requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation between the two computations. This Statement is effective for financial statements issued for periods ending after December 15, 1997 and will not have an impact on the Company.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information about Capital Structure," which codifies standards for disclosing information about an entity's capital structure. This Statement has no impact on the Company.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes accounting standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. This Statement requires

that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. This Statement is effective for fiscal years beginning after December 15, 1997. This Statement will not have a significant impact on the Company.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way that public business enterprises report information about operating segments in interim and annual financial statements. It requires that those enterprises report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets, and that the enterprises reconcile the total of those amounts to the general-purpose financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This Statement is effective for financial statements for periods beginning after December 15, 1997 and will affect the Company's segment disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits in the ordinary course of business. Information involving such lawsuits is incorporated by reference to Note 5 of the Notes to Consolidated Condensed Financial Statements in Part I.

2. Lorillard is involved in various lawsuits involving tobacco products seeking damages for cancer and other health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to Note 5 of the Notes to Consolidated Condensed Financial Statements in Part I.

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

Set forth below is information relating to the 1997 Annual Meeting of Shareholders of the Registrant:

The annual meeting was called to order at 11:00 A.M., May 13, 1997. Represented at the meeting, in person or by proxy, were 104,041,634 shares, approximately 90.5% of the issued and outstanding shares entitled to vote.

The following business was transacted:

Election of Directors

Over 88% 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
Charles B. Benenson	102,526,642	1,514,992
John Brademas	92,344,461	11,697,173
Dennis H. Chookaszian	102,509,535	1,532,099
Bernard Myerson	102,486,652	1,554,982
Edward J. Noha	102,488,585	1,553,049
Gloria R. Scott	101,674,859	2,366,775
Andrew H. Tisch	102,502,839	1,538,795
James S. Tisch	102,534,775	1,506,859
Jonathan M. Tisch	102,529,189	1,512,445
Laurence A. Tisch	102,474,661	1,566,973
Preston R. Tisch	102,471,392	1,570,242

Ratification of the appointment of Independent Certified Public Accountants

Approved-- 103,801,787 shares, approximately 99.7% of the shares voting, voted to ratify the appointment of Deloitte & Touche, LLP as independent certified public accountants for the Company. 67,790 shares, approximately .1% of the shares voting, voted against, and 172,057 shares, approximately .2% of the shares voting, abstained.

Shareholder proposal relating to cumulative voting

Rejected-- 67,991,929 shares, approximately 69.8% of the shares voting, voted against this shareholder proposal. 25,787,340 shares, approximately 26.4% of the

shares voting, were cast for, and 3,716,823 shares, approximately 3.8% of the shares voting, abstained. In addition, there were 6,545,542 shares as to which brokers indicated that they did not have authority to vote ("broker non-votes").

Shareholder proposal relating to director stock ownership

Rejected-- 91,480,624 shares, approximately 94.0% of the shares voting, voted against this shareholder proposal. 3,352,195 shares, approximately 3.4% of the shares voting, were cast for, and 2,481,673 shares, approximately 2.6% of the shares voting, abstained. In addition, there were 6,727,142 broker non-votes.

Shareholder proposal relating to smoking by youth

Rejected-- 81,550,971 shares, approximately 83.6% of the shares voting, voted against this shareholder proposal. 6,331,756 shares, approximately 6.5% of the shares voting, were cast for, and 9,625,064 shares, approximately 9.9% of the shares voting, abstained. In addition, there were 6,533,843 broker non-votes.

Shareholder proposal relating to eliminating benzo(a)pyrene from tobacco products

Rejected-- 82,576,756 shares, approximately 84.7% of the shares voting, voted against this shareholder proposal. 3,164,081 shares, approximately 3.2% of the shares voting, were cast for, and 11,766,983 shares, approximately 12.1% of the shares voting, abstained. In addition, there were 6,533,814 broker non-votes.

Shareholder proposal relating to independent directors

Rejected-- 73,147,028 shares, approximately 75.1% of the shares voting, voted against this shareholder proposal. 21,296,102 shares, approximately 21.8% of the shares voting, were cast for; and 3,005,493 shares, approximately 3.1% of the shares voting, abstained. In addition, there were 6,593,011 broker non-votes.

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

(a) Exhibits--

(3.01) By-Laws

(27) Financial Data Schedule for the six months ended June 30, 1997.

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

The Company filed a report on Form 8-K on June 24, 1997 stating that together with other companies in the United States tobacco industry, the Company's subsidiary, Lorillard Tobacco Company, signed a Memorandum of Understanding ("MOU") to resolve certain regulatory and litigation issues. A copy of the MOU was filed as an exhibit.

The Company also filed a report on Form 8-K on June 26, 1997 stating that the Boards of Directors of its Lorillard, Inc. and Lorillard Tobacco Company subsidiaries had approved the proposal reflected in the MOU. The Company also reported that its Board of Directors had voted to support this proposal.

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 14, 1997

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

officer)

Exhibit 3.01

AS AMENDED THROUGH
May 13, 1997
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LOEWS CORPORATION

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By-Laws
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BY-LAWS

OF

LOEWS CORPORATION
(A Delaware Corporation)

ARTICLE 1

Definitions

As used in these By-laws, unless the context otherwise requires, the term:

1.1 "Assistant Secretary" means an Assistant Secretary of the Corporation.

1.2 "Assistant Treasurer" means an Assistant Treasurer of the Corporation.

1.3 "Board" means the Board of Directors of the Corporation.

1.4 "By-laws" means the initial by-laws of the Corporation, as amended from time to time.

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

1.6 "Corporation" means Loews Corporation.

1.7 "Directors" means directors of the Corporation.

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

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

1.10 "Chairman of the Board" means the Chairman of the Board of Directors of the Corporation.

1.11 "President" means the President of the Corporation.

1.12 "Secretary" means the Secretary of the Corporation.

1.13 "Stockholders" means stockholders of the Corporation.

1.14 "Treasurer" means the Treasurer of the Corporation.

1.15 "Vice President" means a Vice President of the Corporation.

ARTICLE 2

STOCKHOLDERS

2.1 Place of Meetings. Every meeting of the 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 not later than six months after the end of the fiscal year of the Corporation, 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 and Chief Executive Officer, the President or by the Secretary and shall be called by the Chairman of the Board and Chief Executive Officer, the President or by the Secretary on the written request of holders of a majority or more 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 Section 2.4 of the By-laws.

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, in advance, 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 fifty 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 his address as it appears on the records of the Corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer 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 a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. 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 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 of record shall be entitled at every meeting of stockholders to one vote for each share of capital stock standing in his name on the record of stockholders 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. In voting on any other question on which a vote by ballot is required by law or is demanded by any stockholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the stockholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be viva voce. 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 Section 212 of 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, the Chairman of the Board and Chief Executive Officer, or in his absence the President, or in the absence of both of them the Senior Vice President, or in the absence of all of them the Executive Vice President 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 his absence 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 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 of the 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 written notice to the Corporation. Such resignation shall take effect at the time therein specified, and, unless otherwise specified, 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 (i) for cause, by vote of the stockholders or by action of the Board, and (ii) 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 these 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, and as soon as practicable thereafter, the Board may hold its annual meeting, without notice of such meeting, for the purposes of organization the election of officers and the transaction of 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 the Secretary or by any two or more directors. Notice of each special meeting of the Board shall, if mailed, be addressed to each director at the address designated by him for that purpose or, if none is designated, at his last known address at least two days before the date on which the meeting is to be held; or such notice shall be sent to each director at such address by telegraph, cable or wireless, or be delivered to him personally, not later than the day before the date on which such meeting is to be held. 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.

If mailed, each notice shall be deemed given when deposited, with postage

thereon prepaid, in a post office or official depository under the exclusive care and custody of the United States Post Office Department. Such mailing shall be by first-class mail.

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, 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.

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 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, and the writing or writings 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 similar communications equipment by means of which all persons participating in the meeting can hear each others 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 similar communications equipment) at the time of the vote, if a quorum is present at such time, shall be the act of the Board.

ARTICLE 4

COMMITTEES OF THE BOARD

4.1 Executive Committee; Number, Appointment, Term of Office, etc. (a) The Board, by resolution adopted by a majority of the whole Board, may designate an Executive Committee consisting of the Chairman of the Board and Chief Executive Officer 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 a majority of the whole Board. Any vacancies on the Executive Committee may be filled by the majority of the whole Board.

(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 of the State of Delaware.

The Secretary, or if he shall be absent from such meeting, the person (who shall be an Assistant Secretary, if an Assistant Secretary shall be present thereat) whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

(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, if Chief Executive Officer, the President, the Chairman of the Executive Committee and shall be called by the Secretary of the Corporation on the request of a majority of the Executive Committee. Notice of each special meeting of the Executive Committee shall be given to each member thereof by depositing such notice in the United States mail, in a postage prepaid envelope, directed to him at his residence or usual place of business at least two days before the day on which such meeting is to be held or shall be sent addressed to him at such place by telegraph, cable, wireless or other form of recorded communication or be delivered personally or by telephone a reasonable time in advance of the time at which such meeting is to be held. 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 these 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, except as specified therein, 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, by resolution adopted by a majority of the whole 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 by resolution adopted by a majority of the whole Board 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 a majority of the whole Board. Any vacancies on any such committee may be filled by a majority of the whole Board.

4.3 Other Committees. Nothing hereinbefore contained in this Article 4

shall be deemed to preclude the designation by the Chairman of the Board, if Chief Executive Officer, or 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 and Chief Executive Officer, a President, a Chairman of the Executive Committee, a Chairman of the Management 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, 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 and Chief Executive Officer, 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 and Chief Executive Officer. The Chairman of the Board and Chief Executive Officer of the Corporation shall have general supervision over the business of the Corporation, subject, however, to the control of the Board and of any duly authorized committee of directors. The Chairman of the Board and Chief Executive Officer shall, if present, preside at all meetings of the stockholders and 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 Chief Executive Officer 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-Chairman of the Board and Co-Chief Executive Officer of the Corporation in which case each reference in these By-Laws to the "Chairman of the Board and Chief Executive Officer" shall mean the "Co-Chairmen of the Board and Co-Chief Executive Officers". 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. At the request of the Chairman of the Board and Chief Executive Officer, or in his absence, at the request of the Board, the President shall perform all of the duties of the Chairman of the Board and Chief Executive Officer and so acting shall have all the powers of, and be subject to all restrictions upon the Chairman of the Board and Chief Executive Officer. 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 or by the Chairman of 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. In the event of the absence or disability of the Chairman of the Board and Chief Executive Officer and of the President, he shall perform the duties of the Chairman of the Board and Chief Executive Officer and

of the President, unless the Board of Directors shall have designated another person to perform such duties.

5.9 Chairman of the Management Committee. The Chairman of the Management Committee shall have the powers and duties incident to that office. As such he shall consider matters relating to strategic planning, including potential for acquisitions and dispositions of businesses, the management of the Corporation and such other matters as the Board of Directors may from time to time determine. He shall be a member of the Management Committee and shall preside at all meetings of the Management Committee.

5.10 Vice Presidents. At the request of the Chairman of the Board and Chief Executive Officer, or in his absence, at the request of the President, or in the absence of both of them, at the request of the Board, the Vice Presidents shall (in such order as may be designated by the Board or in the absence of any such designation in order of seniority based on age) perform all of the duties of the Chairman of the Board and Chief Executive Officer and so acting shall have all the powers of and be subject to all restrictions upon the Chairman of the Board and Chief Executive Officer. 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 than 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 or by the Chairman of the Board and Chief Executive Officer or the President.

5.11 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 and Chief Executive Officer, 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 Chairman of the Board and Chief Executive Officer or by the President.

5.12 Treasurer. The Treasurer shall have charge and custody of, and be

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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 these 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 amount of all moneys received or paid by him for the amount 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 Chairman of the Board and Chief Executive Officer, the President or the Board, whenever the Chairman of the Board and Chief Executive Officer, the President or the Board, respectively, all 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, the Chairman of the Board and Chief Executive Officer or by the President; and he may sign, with the Chairman of the Board and Chief Executive Officer, the President or a Vice President, certificates for shares of capital stock of the Corporation.

5.13 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries
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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, the Chairman of the Board and Chief Executive Officer, or the President. Assistant Secretaries and Assistant Treasurers may, with the Chairman of the Board and Chief Executive Officer, 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
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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 and Chief Executive Officer, the
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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
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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
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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 and Chief Executive Officer, 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, Surplus, Etc. Subject to the provisions of the Certificate of Incorporation and of law, the Board:

7.7.1 May declare and pay dividends or make other distributions on the outstanding shares of capital stock in such amounts and at such time or times as, in its discretion, the condition of the affairs of the Corporation shall render advisable;

7.7.2 May use and apply, in its discretion, any of the surplus of the Corporation in purchasing or acquiring any shares of capital stock of the Corporation, or purchase warrants therefor, in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness;

7.7.3 May set aside from time to time out of such surplus or net profits such sum or sums as, in its discretion, it may think proper, as a reserve fund to meet contingencies, or for equalizing dividends or for the purpose of maintaining or increasing the property or business of the Corporation, or for any purpose it may think conducive to the best interest of the Corporation.

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 transfer agent or registrar of the Corporation in Delaware, 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 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 and Chief Executive Officer, 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 or 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 and Chief Executive Officer, 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 (a) (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 these 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 entire 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.

ARTICLE 15

OFFICES

The Corporation may have an office or offices at such place or places, within or without the State of Delaware, as the Board of Directors may from time to time designate or the business of the Corporation require.

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6-MOS
DEC-31-1997
JUN-30-1997
478,200
39,714,100
14,490,300
291,700
283,800
0
3,629,700
1,192,500
69,489,400
0
4,489,900
0
0
115,000
8,752,800
69,489,400
1,166,600
9,688,200
498,100
7,366,800
0
0
151,100
628,200
196,100
303,100
0
0
0
303,100
2.63
0