LOEWS CORP
Form 10-Q
April 30, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

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. 10065-8087

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company ____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No X

Class	Outstanding at April 20, 2018
Common stock, $0.01 par value	319,322,226 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	March 31, 2018	December 31, 2017
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of $38,830 and $38,861	$ 41,100	$ 42,133
Equity securities, cost of $1,326 and $1,177	1,333	1,224
Limited partnership investments	3,291	3,278
Other invested assets, primarily mortgage loans	974	945
Short term investments	4,367	4,646
Total investments	51,065	52,226
Cash	451	472
Receivables	7,893	7,613
Property, plant and equipment	15,461	15,427
Goodwill	661	659
Other assets	4,590	2,555
Deferred acquisition costs of insurance subsidiaries	665	634
Total assets	$ 80,786	$ 79,586
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 22,067	$ 22,004
Future policy benefits	10,783	11,179
Unearned premiums	4,256	4,029
Total insurance reserves	37,106	37,212
Payable to brokers	280	60
Short term debt	213	280
Long term debt	11,255	11,253

Deferred income taxes	**734**	749
Other liabilities	**7,350**	5,466
Total liabilities	**56,938**	55,020
Commitments and contingent liabilities		
Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 332,646,800 and 332,487,815 shares	**3**	3
Additional paid-in capital	**3,142**	3,151
Retained earnings	**16,321**	16,096
Accumulated other comprehensive loss	**(417)**	(26)
	19,049	19,224
Less treasury stock, at cost (10,250,033 and 400,000 shares)	**(517)**	(20)
Total shareholders equity	**18,532**	19,204
Noncontrolling interests	**5,316**	5,362
Total equity	**23,848**	24,566
Total liabilities and equity	**$ 80,786**	$ 79,586

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended March 31	**2018**	2017
(In millions, except per share data)		
Revenues:		
Insurance premiums	**$ 1,785**	$ 1,645
Net investment income	**506**	604
Investment gains (losses):		
Other-than-temporary impairment losses	**(6)**	(2)
Other net investment gains	**15**	36
Total investment gains	**9**	34
Operating revenues and other	**1,281**	1,017
Total	**3,581**	3,300
Expenses:		
Insurance claims and policyholders benefits	**1,339**	1,293
Amortization of deferred acquisition costs	**296**	305
Operating expenses and other	**1,400**	1,050
Interest	**141**	142
Total	**3,176**	2,790
Income before income tax	**405**	510
Income tax expense	**(25)**	(119)
Net income	**380**	391
Amounts attributable to noncontrolling interests	**(87)**	(96)
Net income attributable to Loews Corporation	**$ 293**	$ 295
Basic net income per share	**$ 0.89**	$ 0.88
Diluted net income per share	**$ 0.89**	$ 0.87

Dividends per share	**$ 0.0625**	$ 0.0625
Weighted average shares outstanding:		
Shares of common stock	**327.78**	336.88
Dilutive potential shares of common stock	**0.94**	0.80
Total weighted average shares outstanding assuming dilution	**328.72**	337.68

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Three Months Ended March 31	**2018**	2017
(In millions)		
Net income	**$ 380**	$ 391
Other comprehensive income (loss), after tax		
Changes in:		
Net unrealized losses on investments with other-than-temporary impairments	**(9)**	(4)
Net other unrealized gains (losses) on investments	**(429)**	67
Total unrealized gains (losses) on investments	**(438)**	63
Unrealized gains on cash flow hedges	**10**	
Pension liability	**10**	8
Foreign currency translation	**11**	11
Other comprehensive income (loss)	**(407)**	82
Comprehensive income (loss)	**(27)**	473
Amounts attributable to noncontrolling interests	**(43)**	(104)
Total comprehensive income (loss) attributable to Loews Corporation	**$ (70)**	$ 369

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

	Loews Corporation Shareholders						
(In millions)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
Balance, January 1, 2017	$ 23,361	$ 3	$ 3,187	$ 15,196	$ (223)	$ -	$ 5,198
Net income	391			295			96
Other comprehensive income	82				74		8
Dividends paid	(97)			(21)			(76)
Stock-based compensation	-		(19)				19
Other	(3)			(4)			1
Balance, March 31, 2017	$ 23,734	$ 3	$ 3,168	$ 15,466	$ (149)	$ -	$ 5,246
Balance, January 1, 2018, as reported	**$ 24,566**	**$ 3**	**$ 3,151**	**$ 16,096**	**$ (26)**	**$ (20)**	**$ 5,362**
Cumulative effect adjustments from changes in accounting standards (Note 1)	**(91)**			**(43)**	**(28)**		**(20)**
Balance, January 1, 2018, as adjusted	**24,475**	**3**	**3,151**	**16,053**	**(54)**	**(20)**	**5,342**
Net income	**380**			**293**			**87**
Other comprehensive loss	**(407)**				**(363)**		**(44)**
Dividends paid	**(98)**			**(20)**			**(78)**
Purchases of Loews treasury stock	**(497)**					**(497)**	
Stock-based compensation	**-**		**(7)**				**7**
Other	**(5)**		**(2)**	**(5)**			**2**
Balance, March 31, 2018	**$ 23,848**	**$ 3**	**$ 3,142**	**$ 16,321**	**$ (417)**	**$ (517)**	**$ 5,316**

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31 **(In millions)**	**2018**	2017
Operating Activities:		
Net income	**$ 380**	$ 391
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	**185**	318
Changes in operating assets and liabilities, net:		
Receivables	**(147)**	51
Deferred acquisition costs	**(29)**	(24)
Insurance reserves	**311**	135
Other assets	**(56)**	(40)
Other liabilities	**(215)**	(265)
Trading securities	**84**	(567)
Net cash flow operating activities	**513**	(1)
Investing Activities:		
Purchases of fixed maturities	**(2,690)**	(2,097)
Proceeds from sales of fixed maturities	**2,576**	1,359
Proceeds from maturities of fixed maturities	**531**	823
Purchases of limited partnership investments	**(63)**	(18)
Proceeds from sales of limited partnership investments	**69**	62
Purchases of property, plant and equipment	**(230)**	(211)
Dispositions	**2**	2
Change in short term investments	**(25)**	366
Other, net	**(114)**	(13)
Net cash flow investing activities	**56**	273
Financing Activities:		
Dividends paid	**(20)**	(21)
Dividends paid to noncontrolling interests	**(78)**	(76)
Purchases of Loews treasury stock	**(497)**	
Principal payments on debt	**(303)**	(776)
Issuance of debt	**233**	685
Other, net	**74**	
Net cash flow financing activities	**(591)**	(188)
Effect of foreign exchange rate on cash	**1**	1

Net change in cash		**(21)**		85
Cash, beginning of period		**472**		327
Cash, end of period	**$**	**451**	$	412

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (CNA), a 89% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 53% owned subsidiary); transportation and storage of natural gas and natural gas liquids (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 51% owned subsidiary); the operation of a chain of hotels (Loews Hotels Holding Corporation (Loews Hotels & Co), a wholly owned subsidiary); and the manufacture of rigid plastic packaging solutions (Consolidated Container Company LLC (Consolidated Container), a 99% owned subsidiary). Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income attributable to Loews Corporation as used herein means Net income attributable to Loews Corporation shareholders.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company s financial position as of March 31, 2018 and December 31, 2017 and results of operations, comprehensive income and changes in shareholders equity and cash flows for the three months ended March 31, 2018 and 2017. Net income for the first quarter of each of the years is not necessarily indicative of net income for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2017.

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. There were no shares and 0.7 million shares attributable to employee stock-based compensation awards excluded from the diluted weighted average shares outstanding amounts for the three months ended March 31, 2018 and 2017 because the effect would have been antidilutive.

Accounting changes In May of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures about revenue. The standard excludes from its scope the accounting for insurance contracts, financial instruments and certain other agreements that are subject to other guidance in the FASB Accounting Standards Codification, which limits the impact of this change in accounting for the Company.

On January 1, 2018, the Company adopted the updated accounting guidance using the modified retrospective method, with a cumulative effect adjustment to the opening balance sheet. Upon adoption, the new guidance was applied to all contracts subject to the standard that were not completed as of the date of adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. At adoption, the cumulative effect adjustment decreased beginning Retained earnings by $62 million (after tax and noncontrolling interests), resulted in a deferred tax asset of $23 million and increased Other assets by approximately $1.9 billion and Other liabilities by approximately $2.0 billion.

The impact of the new guidance is primarily related to revenue on CNA s non-insurance warranty products and services, which will be recognized more slowly as compared to the historic revenue recognition pattern. For the warranty products in which CNA acts as principal, Operating revenues and other and Operating expenses and other are increased to reflect the gross amount paid by consumers, including the retail seller s markup, which is considered a commission to the Company s agent. This gross-up of revenues and expenses resulted in an increase to Other assets and Other liabilities on the Consolidated Condensed Balance Sheet, as the revenue and expense are recognized over the actuarially determined expected claims emergence pattern. Prior to the adoption of ASU 2014-09, Other assets and Other liabilities would have been $2.6 billion and $5.3 billion as of March 31, 2018, as compared to $2.6 billion and $5.5 billion as of December 31, 2017. The impact of adopting the new guidance resulted in an increase to Operating revenues and other and Operating expenses and other by $131 million and $133 million for the three months ended March 31, 2018. See Note 6 for additional information on revenues from contracts with customers.

In January of 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance primarily changes the model for equity securities by requiring changes in the fair value of equity securities (except those accounted for under the equity method of accounting, those without readily determinable fair values and those that result in consolidation of the investee) to be recognized through the income statement. With the adoption of the new guidance, equity securities are no longer classified as available-for-sale or trading. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. As of January 1, 2018, the Company adopted the updated accounting guidance and recognized a cumulative effect adjustment of $25 million (after tax and noncontrolling interests) as an increase to beginning Retained earnings. For the three months ended March 31, 2018, the Company recognized a pretax loss of approximately $15 million on the Company s Consolidated Condensed Statements of Income as a result of this change. For the three months ended March 31, 2017, a $4 million increase in the fair value of equity securities was recognized in Other comprehensive income.

In October of 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The updated guidance amends the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. As of January 1, 2018, the Company adopted this updated guidance using the modified retrospective approach with a cumulative effect adjustment of $9 million (after noncontrolling interests) as a decrease to beginning Retained earnings with an offset to a deferred income tax liability.

In February of 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02). Current accounting guidance requires the remeasurement of deferred tax liabilities and assets due to a change in tax laws or rates with the effect included in Net income in the reporting period that includes the enactment date. Because the remeasurement of deferred taxes due to a reduction in the federal corporate income tax rate under the Tax Cuts and Jobs Act of 2017 (the Tax Act) is required to be included in Net income, the tax effects of items within Accumulated Other Comprehensive Income (AOCI) do not reflect the appropriate rate (referred to as stranded tax effects). The updated accounting guidance allows a reclassification from AOCI to Retained earnings for the stranded tax effects resulting from the Tax Act. The Company early adopted the updated guidance effective January 1, 2018 and elected to reclassify the stranded tax effects from AOCI to Retained earnings. The impact of the change resulted in a $3 million (after noncontrolling interests) increase in Retained earnings and a corresponding decrease in AOCI. The decrease in AOCI is comprised of a $130 million (after noncontrolling interests) decrease in pension liability and a $127 million (after noncontrolling interests) increase in unrealized gains (losses) on investments. The Company releases tax effects from AOCI utilizing the security-by-security approach for investments and using enacted tax rates based on the pretax adjustments for pension and postretirement benefits.

Recently issued ASUs In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements.

In June of 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The updated accounting guidance requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income. The guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary changes to be the use of the expected credit loss model for the mortgage loan portfolio and reinsurance receivables and the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. Under the allowance method for available-for-sale debt securities the Company will record reversals of credit losses if the estimate of credit losses declines.

Income tax reform update Based on the Company s interpretation of the Tax Act, a non-cash provisional $200 million increase to net income (net of noncontrolling interests) was recorded during the fourth quarter of 2017. This increase included a one-time mandatory repatriation of previously deferred earnings of certain of Diamond Offshore s non-U.S. subsidiaries inclusive of the utilization of certain tax attributes offset by a provisional liability for uncertain tax positions related to such attributes. In 2018, the U.S. Department of the Treasury and the Internal Revenue Service issued additional guidance which clarified certain of Diamond Offshore s tax positions, which resulted in a $23 million increase to net income (net of noncontrolling interests) in the first quarter of 2018 for uncertain tax positions related

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to the mandatory repatriation toll charges in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin No. 118 (SAB 118). SAB 118 allows companies to report the income tax effects of the Tax Act as a provisional amount based on a reasonable estimate, which would be subject to adjustment during a reasonable measurement period, not to exceed twelve months, until the accounting and analysis under ASC 740 is complete.

The Company is still in the process of evaluating the estimate as it relates to the tax effect of: (i) the amount of deferred tax assets and liabilities subject to the income tax rate change from 35% to 21%, including the calculation of the mandatory deemed repatriation aspect of the Tax Act and the state tax effect of adjustments made to the federal temporary differences, (ii) the ability to more likely than not realize the benefit of deferred tax assets, including net operating losses and foreign tax credits, (iii) the effect of re-computing CNA s insurance reserves and the transition adjustment from existing law, the effects of which will have no impact on the effective tax rate and (iv) the special accounting method provisions for recognizing income for U.S. federal income tax purposes no later than financial accounting purposes and the transition adjustment from existing law, which will also have no impact on the effective tax rate.

2. Investments

Net investment income is as follows:

Three Months Ended March 31 **(In millions)**		**2018**		2017
Fixed maturity securities	**$**	**446**	$	455
Limited partnership investments		**48**		116
Short term investments		**9**		4
Equity securities		**10**		1
Income (loss) from trading portfolio (a)		**(3)**		34
Other		**11**		8
Total investment income		**521**		618
Investment expenses		**(15)**		(14)
Net investment income	**$**	**506**	$	604

(a) Net unrealized (losses) gains related to changes in fair value on securities still held were $(25) and $46 for the three months ended March 31, 2018 and 2017.

Investment gains (losses) are as follows:

Three Months Ended March 31 **(In millions)**		**2018**		2017
Fixed maturity securities	**$**	**18**	$	32

Equity securities		**(15)**		
Derivative instruments		**5**		1
Short term investments and other		**1**		1
Investment gains (a)	**$**	**9**	$	34

(a) Gross realized gains on available-for-sale securities were $69 and $49 for the three months ended March 31, 2018 and 2017. Gross realized losses on available-for-sale securities were $51 and $17 for the three months ended March 31, 2018 and 2017. Net unrealized losses related to changes in fair value on non-redeemable preferred stock still held were $15 for the three months ended March 31, 2018.

The components of other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are as follows:

Three Months Ended March 31		**2018**		2017
(In millions)				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$**	**5**	$	2
Asset-backed		**1**		
Net OTTI losses recognized in earnings	**$**	**6**	$	2

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The amortized cost and fair values of fixed maturity and equity securities are as follows:

March 31, 2018 **(In millions)**	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Unrealized OTTI Losses (Gains)**
Fixed maturity securities:					
Corporate and other bonds	**$ 17,538**	**$ 1,177**	**$ 115**	**$ 18,600**	
States, municipalities and political subdivisions	**11,682**	**1,205**	**12**	**12,875**	
Asset-backed:					
Residential mortgage-backed	**5,050**	**83**	**78**	**5,055**	**$ (27)**
Commercial mortgage-backed	**1,948**	**29**	**22**	**1,955**	
Other asset-backed	**1,185**	**10**	**7**	**1,188**	
Total asset-backed	**8,183**	**122**	**107**	**8,198**	**(27)**
U.S. Treasury and obligations of government-sponsored enterprises	**124**	**2**	**7**	**119**	
Foreign government	**448**	**7**	**5**	**450**	
Redeemable preferred stock	**9**	**1**		**10**	
Fixed maturities available-for-sale	**37,984**	**2,514**	**246**	**40,252**	**(27)**
Fixed maturities trading	**846**	**3**	**1**	**848**	
Total fixed maturity securities	**$ 38,830**	**$ 2,517**	**$ 247**	**$ 41,100**	**$ (27)**

December 31, 2017 (In millions)					
Fixed maturity securities:					
Corporate and other bonds	$ 17,210	$ 1,625	$ 28	$ 18,807	
States, municipalities and political subdivisions	12,478	1,551	2	14,027	$ (11)
Asset-backed:					
Residential mortgage-backed	5,043	109	32	5,120	(27)
Commercial mortgage-backed	1,840	46	14	1,872	
Other asset-backed	1,083	16	5	1,094	
Total asset-backed	7,966	171	51	8,086	(27)
U.S. Treasury and obligations of government-sponsored enterprises	111	2	4	109	
Foreign government	437	9	2	444	
Redeemable preferred stock	10	1		11	
Fixed maturities available-for-sale	38,212	3,359	87	41,484	(38)
Fixed maturities trading	649	2	2	649	
Total fixed maturities	38,861	3,361	89	42,133	