QUALSTAR CORP
Form 10-Q
May 13, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 2010

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 000-30083

QUALSTAR CORPORATION

CALIFORNIA (State of incorporation)	95-3927330 (I.R.S. Employer Identification No.)

3990-B Heritage Oak Court, Simi Valley, CA 93063
(805) 583-7744

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its website, 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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer ¨ Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No þ

Total shares of common stock without par value outstanding at March 31, 2010 is 12,253,117.

QUALSTAR CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2010 (Unaudited)	June 30, 2009 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,230	$3,749
Marketable securities, short-term	13,011	16,856
Receivables, net of allowances of $62 at March 31, 2010, and $85 at June 30, 2009	2,745	2,305
Inventories, net	5,031	5,822
Prepaid expenses and other current assets	327	397
Total current assets	22,344	29,129
Property and equipment, net	284	361
Marketable securities, long-term	10,529	7,056
Other assets	46	46
Total assets	$33,203	$36,592
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,409	$649
Accrued payroll and related liabilities	412	505
Other accrued liabilities	944	894
Total current liabilities	2,765	2,048
Other long term liabilities	34	34
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 5,000 shares authorized; no shares issued	—	—
Common stock, no par value; 50,000 shares authorized, 12,253 shares issued and outstanding as of March 31, 2010 and June 30, 2009	18,822	18,798
Accumulated other comprehensive income	54	168
Retained earnings	11,528	15,544
Total shareholders' equity	30,404	34,510
Total liabilities and shareholders' equity	$33,203	$36,592

See notes to condensed consolidated financial statements.

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Net Revenues	$4,003	$4,098	$11,279	$14,123
Cost of goods sold	2,797	2,694	7,916	9,362
Gross profit	1,206	1,404	3,363	4,761
Operating expenses:				
Research and development	790	807	2,401	2,315
Sales and marketing	598	679	1,766	2,127
General and administrative	685	842	2,001	2,410
Total operating expenses	2,073	2,328	6,168	6,852
Loss from operations	(867)	(924)	(2,805)	(2,091)
Investment Income	70	210	259	781
Loss before income taxes	(797)	(714)	(2,546)	(1,310)
Benefit for income taxes	-	6	-	4
Net loss	$(797)	$(720)	$(2,546)	$(1,314)
Loss per common share:				
Basic and Diluted	$(0.07)	$(0.06)	$(0.21)	$(0.11)
Weighted average common shares outstanding:				
Basic and Diluted	12,253	12,253	12,253	12,253
Cash dividends declared per common share	$0.00	$0.06	$0.12	$0.18

See notes to condensed consolidated financial statements.

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended March 31,	
	2010	2009
OPERATING ACTIVITIES:		
Net loss	$(2,546)	$(1,314)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	131	174
(Recovery of) provision for bad debts and returns, net	(26)	55
Provision for (recovery of) inventory reserve	136	(127)
Stock based compensation	24	68
Loss (gain) on sale of securities	2	(98)
Changes in operating assets and liabilities:		
Accounts receivable	(414)	729
Inventories	655	(644)
Prepaid expenses and other assets	70	39
Accounts payable	760	(243)
Accrued payroll and related liabilities	(93)	(109)
Other accrued liabilities	50	(173)
Net cash used in operating activities	(1,251)	(1,643)
INVESTING ACTIVITIES:		
Purchases of equipment	(54)	(62)
Purchases of marketable securities	(13,617)	(26,243)
Proceeds from the sale of marketable securities	13,873	25,749
Net cash provided by (used in) investing activities	202	(556)
FINANCING ACTIVITIES:		
Cash dividends on common shares	(1,470)	(2,205)
Net cash used in financing activities	(1,470)	(2,205)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,519)	(4,404)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,749	6,744
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,230	$2,340
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	$10	$11

See notes to condensed consolidated financial statements.

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
NINE MONTHS ENDED MARCH 31, 2010
(Unaudited) (In thousands)

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Income	Earnings	Total
Balance at June 30, 2009	12,253	$18,798	$168	$15,544	$34,510
Share-based compensation	—	24	—	—	24
Cash dividend on common shares	—	—	—	(1,470)	(1,470)
Comprehensive loss:					
Net loss	—	—	—	(2,546)	(2,546)
Change in unrealized losses on investments	—	—	(114)	—	(114)
Comprehensive Loss	—	—	—	—	(2,660)
Balance at March 31, 2010	12,253	$18,822	$54	$11,528	$30,404

See notes to condensed consolidated financial statements

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QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Basis of Presentation and Consolidation

Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements, including balance sheets and related interim statements of operations, cash flows, and stockholders' equity, include all adjustments, consisting primarily of normal recurring items, which are necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Examples include estimates of loss contingencies, product life cycles and inventory obsolescence, bad debts, sales returns, share based compensation forfeiture rates, the potential outcome of future tax consequences of events that have been recognized in our financial statements or tax returns, and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management's estimates and assumptions.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Qualstar Corporation Annual Report on Form 10-K for the fiscal year ended June 30, 2009, filed with the Securities and Exchange Commission ("SEC") on September 25, 2009.

Basis of Consolidation

The consolidated financial statements include the accounts and operations of Qualstar and its wholly owned subsidiary. All significant intercompany accounts have been eliminated.

The Company's wholly owned subsidiary, Qualstar Sales and Service Corporation, was liquidated and dissolved pursuant to a plan of dissolution which was adopted by the board of directors and approved by the sole shareholder of Qualstar Sales and Service Corporation on June 30, 2009. Pursuant to the plan of dissolution, all assets of Qualstar Sales and Service Corporation were distributed to Qualstar Corporation, and Qualstar Corporation, effective June 30, 2009, assumed all liabilities of Qualstar Sales and Service Corporation.

Note 2 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2010, the FASB issued ASU 2010-09 to amend the disclosure requirements related to subsequent events. The guidance requires an entity that is an SEC filer or a conduit bond obligor for conduit debt securities traded in a public market is required to evaluate subsequent events through the date that the financial statements are issued. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated.

In January 2010, the FASB issued an Accounting standards Update ("ASU") 2010-06, to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on

the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 1, 2011. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on our financial statements.

QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

On September 15, 2009, we adopted the authoritative guidance that establishes only two levels of U.S. generally accepted accounting principles ("GAAP"): authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative U.S. accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which continue to be sources of authoritative GAAP for SEC registrants. All nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009 we adopted the authoritative guidance on fair value measurement, FASB ASC 820, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009 we adopted the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on business combinations, FASB ASC 805. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. Adoption of the new guidance did not have a material impact on our financial statements.

On July 1, 2009 we adopted the authoritative guidance issued by the FASB that changes the accounting and reporting for non-controlling interests. Noncontrolling interests will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in net income. Adoption of the new guidance did not have a material impact on our financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2009, the FASB issued authoritative guidance that is effective for us beginning July 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. Adoption of the new guidance will not have a material impact on out financial statements.

In October 2009, the FASB issued authoritative guidance on revenue recognition that will become effective for us beginning July 1, 2010, with earlier adoption permitted. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance, ASU 2009-13 on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance, Under the new guidance, when vendor specific

objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We believe adoption of this new guidance will not have a material impact on our financial statements.

QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

Note 3 – Concentration of Credit Risk, Other Concentration Risks and Significant Customers

We are exposed to interest rate risks. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in shorter duration fixed income securities. We have no outstanding debt nor do we utilize auction rate securities or derivative financial instruments in our investment portfolio.

Our financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in foreign markets. As all sales are currently made in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets. Sales outside of North America represented approximately 36.1% of net revenues in the three months ended March 31, 2010, and 21.3% of net revenues in the three months ended March 31, 2009. Sales outside of North America represented approximately 33.0% of net revenues in the nine months ended March 31, 2010, and 26.0% of net revenues in the nine months ended March 31, 2009.

One customer accounted for 15.3% of the Company's consolidated revenue for the three-month period ended March 31, 2010. The customer's accounts receivable balance, net of specific allowances, totaled approximately 17.0% of net accounts receivable. One customer accounted for 11.6% of the Company's consolidated revenue for the three-month period ended March 31, 2009. The customer's accounts receivable balance, net of specific allowances, totaled approximately 12.2% of net accounts receivable.

One customer accounted for 10.9% of the Company's consolidated revenue for the nine-month period ended March 31, 2010. The customer's accounts receivable balance, net of specific allowances, totaled approximately 17.0% of net accounts receivable. One customer accounted for 11.2% of the Company's consolidated revenue for the nine-month period ended March 31, 2009. The customer's accounts receivable balance, net of specific allowances, totaled approximately 3.0% of net accounts receivable.

Sales and costs of goods sold related to tape library products only available from one supplier totaled approximately 6.3% and 6.6% for the three months ended March 31, 2010 and 15.1% and 20.9% for the three months ended March 31, 2009, respectively, of total sales and cost of goods sold. Sales and costs of goods sold related to tape library products only available from one supplier totaled approximately 8.4% and 9.4% for the nine months ended March 31, 2010 and 15.5% and 19.8% for the nine months ended March 31, 2009, respectively, of total sales and cost of goods sold.

Note 4 – Loss Per Share

Basic loss per share has been computed by dividing net loss by the weighted average number of common shares outstanding. Diluted loss per share has been computed by dividing net loss by the weighted average common shares outstanding plus dilutive securities or other contracts to issue common stock as if these securities were exercised or converted to common stock.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
In thousands (except per share amounts):	2010	2009	2010	2009

Net loss (a)	$(797)	$(720)	$(2,546)	$(1,314)
Weighted average outstanding shares of common stock (b)	12,253	12,253	12,253	12,253
Dilutive potential common shares from employee stock options	—	—	—	—
Common stock and common stock equivalents (c)	12,253	12,253	12,253	12,253
Loss per share:				
Basic net loss per share (a)/(b)	$(0.07)	$(0.06)	$(0.21)	$(0.11)
Diluted net loss per share (a)/(c)	$(0.07)	$(0.06)	$(0.21)	$(0.11)

QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

Stock options are excluded for the three and nine-month periods ended March 31, 2010 and 2009, respectively, from the computation of diluted loss per share, as the effect would have been anti-dilutive.

Note 5 – Marketable Securities

Marketable securities consist primarily of commercial paper, U.S. government and agency securities, asset-backed securities, mortgage-backed securities and corporate bonds. These securities are classified in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities that Qualstar has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity is classified as available-for-sale. All of Qualstar's marketable securities were classified as available-for-sale at March 31, 2010 and June 30, 2009.

The following tables summarize the marketable securities by security type at March 31, 2010, and June 30, 2009, respectively (in thousands):

March 31, 2010	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Short-term Securities	Long-term Securities
US Treasury obligations and U.S. Government agencies	$18,475	$50	$—	$18,525	$11,174	$7,350
Collateralized mortgage obligations	746	7	—	753	753	—
Asset-backed securities	1,978	1	—	1,978	—	1,978
Corporate bonds	2,287	—	(3)	2,284	1,084	1,200
Total	$23,486	$58	$(3)	$23,540	$13,011	$10,528

June 30, 2009	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Short-term Securities	Long-term Securities
US Treasury obligations and U.S. Government agencies	$20,616	$119	$—	$20,735	$14,110	$6,625
Collateralized mortgage obligations	2,376	47	—	2,423	1,992	431
Corporate bonds	752	2	—	754	754	—
Total	$23,744	$168	$—	$23,912	$16,856	$7,056

There were no unrealized loss positions as of June 30, 2009. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2010 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
March 31, 2010	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	2,284	(3)	—	—	2,284	(3)
Total	$2,284	$(3)	$—	$—	$2,284	$(3)

Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sales are included in earnings when the underlying securities are sold and are derived using the specific identification method for determining the cost of securities sold. (Loss) gain on the sale of marketable securities for the three months ended March 31, 2010 and 2009 was ($1,000) and $35,000, respectively. (Loss) gain on the sale of securities for the nine months ended March 31, 2010 and 2009 was ($2,000) and $98,000, respectively. The change in net unrealized holding (loss) gain on available-for-sale securities that has been included in the other comprehensive income of shareholder's equity during the nine months ended March 31, 2010 and 2009 was ($114,000) and $83,000, respectively.

Note 6 – Fair Value Measurements

We account for certain assets and liabilities at fair value. Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

The hierarchy below prioritizes the valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

In general, and where applicable, we use quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to our Level 1 investments such as U.S. treasuries and agency securities and exchange-traded mutual funds. If quoted prices in active markets for identical assets are not available to determine fair value, then we use quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 and consist primarily of corporate bonds, mortgage-backed securities, and certain agency securities. While we own certain mortgage-backed fixed income securities, our portfolio as of March 31, 2010 does not contain direct exposure to sub prime mortgages or structured vehicles that derive their value from sub prime collateral. Our mortgage-backed securities are collateralized by prime residential mortgages and carry a 100% principal and interest guarantee, primarily from Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at March 31, 2010 (in thousands):

Assets	Level 1	Level 2	Net Balance
Cash	$ 610	–	$ 610
Money Market Mutual fund	620	–	620
U.S. government and agency securities	10,286	8,239	18,525
Asset-backed securities	–	1,978	1,978
Mortgage-backed securities	–	753	753

Corporate bonds	–	2,284	2,284
Total	$ 11,516	$ 13,254	$ 24,770

QUALSTAR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

Note 7 - Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market. Inventories are comprised as follows (in thousands):

	March 31, 2010	June 30, 2009
Raw materials	$ 4,850	$ 5,389
Finished goods	1,139	1,248
Subtotal	5,989	6,637
Less: Inventory reserve	(958)	(815)
Net inventory balance	$ 5,031	$ 5,822

Note 8 – Warranty Obligations

We provide for the estimated costs of hardware warranties at the time the related revenue is recognized. We estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions for tape libraries generally include parts and labor over a three-year period. The warranty for power supplies generally is two years. We regularly re-evaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Activity in the liability for product warranty for the periods presented were as follows (in thousands):

	Nine Months Ended March 31,	
	2010	2009
Beginning balance	$ 167	$ 180
Cost of warranty claims	(48)	(47)
Accruals for product warranties	39	38
Ending balance	$ 158	$ 171

Note 9 – Comprehensive Loss

For the nine months ended March 31, 2010 and 2009, comprehensive loss amounted to approximately $2,660,000 and $1,231,000, respectively. The difference between net loss and comprehensive loss relates to the changes in the unrealized losses or gains the Company recorded for its available-for-sale marketable securities.

Note 10 – Legal Proceedings

We are from time to time involved in various lawsuits and legal proceedings that arise in the ordinary course of business. At this time, we are not aware of any pending or threatened litigation against us that we expect will have a material adverse effect on our business, financial condition, and liquidity or operating results. Legal claims are inherently uncertain, however, and it is possible that the Company's business, financial condition, liquidity and/or operating results could be adversely affected in the future by legal proceedings.

Note 11 – Income Taxes

We did not record a provision or benefit for income taxes for the nine months ended March 31, 2010. We recorded a provision for income taxes of $4,000 for the nine months ended March 31, 2009.

QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

The Company has recorded a full valuation allowance against its net deferred tax assets based on the Company's assessment regarding the realizability of these net deferred tax assets in future periods.

Note 12 – Segment Information

In its operation of the business, management reviews certain financial information, including segmented internal profit and loss statements prepared on a basis consistent with U.S. GAAP. Our two segments are Tape Libraries and Power Supplies. The two segments discussed in this analysis are presented in the way we internally managed and monitored performance for the nine months ended March 31, 2010 and 2009. Allocations for internal resources were made for the nine months ended March 31, 2010 and 2009. The power supplies segment tracks certain assets separately, and all others are recorded in the tape library segment for internal reporting presentations. Cash was not segregated between the two segments, but retained by the library segment through the third quarter of fiscal 2009. Cash was segregated between the two segments commencing in the fourth quarter of fiscal 2009.

The types of products and services provided by each segment are summarized below:

Tape Libraries — We design, develop, manufacture and sell automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in network computing environments. Tape libraries consist of cartridge tape drives, tape cartridges and robotics to move the cartridges from their storage locations to the tape drives under software control. Our tape libraries provide data storage solutions for organizations requiring backup, recovery and archival storage of critical data.

Power Supplies — We design, manufacture, and sell small, open frame, high efficiency switching power supplies. These power supplies are used to convert AC line voltage to DC voltages, or DC Voltages to other DC voltages for use in a wide variety of electronic equipment such as telecommunications equipment, machine tools, routers, switches, wireless systems and gaming devices.

Segment revenue, loss before taxes and total assets were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Revenue				
Tape Libraries:				
Product	$1,387	$2,325	$5,054	$7,922
Service	722	742	2,169	2,079
Total Tape Libraries	2,109	3,067	7,223	10,001
Power Supplies	1,894	1,031	4,056	4,122
Consolidated Revenue	$4,003	$4,098	$11,279	$14,123

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Income (Loss) before Taxes				
Tape Libraries	$(992)	$(638)	$(2,499)	$(1,424)

Power Supplies	195	(76)	(47)	114
Consolidated Loss before Taxes	$(797)	$(714)	$(2,546)	$(1,310)

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QUALSTAR CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

	March 31, 2010	June 30, 2009
Total Assets		
Tape Libraries	$33,389	$37,172
Power Supplies	(186)	(580)
Consolidated Assets	$33,203	$36,592

Note 13 – Subsequent Event

The Company has performed an evaluation of subsequent events through the date of filing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this Quarterly Report on Form 10-Q concerning the future business, operating results and financial condition of Qualstar including estimates, projections, statements relating to our business plans, objectives and operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements inherently are subject to risks and uncertainties, some of which we cannot predict or quantify. Our actual results may differ materially from the results projected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 in "ITEM 1 Business," "Item 1A Risk Factors," and in "ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." You generally can identify forward-looking statements by the use of forward-looking terminology such as "believes," "may," "expects," "intends," "estimates," "anticipates," "plans," "seeks," or "continues," or the negative thereof or variations thereon or similar terminology. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect the occurrence of events or circumstances in the future.

OVERVIEW

We design, develop, manufacture and sell automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in network computing environments. We currently offer tape libraries for two tape drive technologies, LTO (Linear Tape-Open tape format) and AIT (Advanced Intelligent Tape).

We have developed a network of value added resellers who specialize in delivering complete storage solutions to end-users. End users of our products range from small businesses requiring simple automated backup solutions to large organizations needing complex storage management solutions. We also sell our products to original equipment manufacturers that incorporate our products into theirs, which they sell as part of a system or solution. We assist our customers with marketing and technical support.

We also design, develop and sell high-efficiency switching power supplies used in telecommunications equipment, servers, routers, switches, RAIDs, and similar applications. Our power supplies are sold under the N2Power brand name through independent sales representatives and distributors. The primary customers are original equipment manufacturers and contract manufacturers. We also utilize these power supplies in some of our tape libraries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer promotional offers, sales returns, bad debts, inventories, warranty costs, investments, share based compensation, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, shipment has occurred or services have been rendered, the fee is fixed or determinable and collectibility is reasonably assured (less estimated returns, for which provision is made at the time of sale). For product sales, title and risk of loss transfer to the customer when the product leaves our dock in Simi Valley, California, or another shipping location designated by us. Customers are allowed to return the product within thirty days of shipment if the product does not meet specifications.

We record an allowance for estimated sales returns based on past experience and current knowledge of our customer base. Our experience has been such that only a very small percentage of libraries are returned. Should our experience change, however, we may require additional allowances for sales returns.

Revenues from technical support services and other services are recognized at the time services are performed. Revenues from service contracts entered into with third party service providers are recognized at the time of the contract sale, net of costs.

Marketable Securities

All of Qualstar's marketable securities were classified as available-for-sale as it is possible that some securities will be sold prior to maturity. Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings when the underlying securities are sold and are derived using the specific identification method for determining the cost of securities sold.

Financial Instruments

We measure fair value on all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). See "Note 6 – Financial Instruments."

Allowance for Doubtful Accounts

We estimate our allowance for doubtful accounts based on an assessment of the collectibility of specific accounts and the overall condition of accounts receivable. In evaluating the adequacy of the allowance for doubtful accounts, we analyze specific trade receivables, historical bad debts, customer credits, customer credit-worthiness and changes in customers' payment terms and patterns. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make additional payments, then we may need to make additional allowances. Likewise, if we determine that we could realize more of our receivables in the future than previously estimated, we would adjust the allowance to increase income in the period we made this determination.

Inventory Valuation

We record inventories at the lower of cost or market value. We assess the value of our inventories periodically based upon numerous factors including expected product or material demand, current market conditions, technological obsolescence, current cost and net realizable value. If necessary, we write down our inventory for estimated obsolescence, potential shrinkage, or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If technology changes more rapidly than expected, or market conditions become less favorable than those projected by management,

additional inventory write-downs may be required.

Warranty Obligations

We provide for the estimated cost of product warranties at the time revenue is recognized. We engage in extensive product quality programs and processes, including active monitoring and evaluation of product failure rates, material usage and estimation of service delivery costs incurred in correcting a product failure. However, should actual product failure rates, material usage, or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required. Historically our warranty costs have not been significant.

Share-Based Compensation

We use the Black-Scholes option-pricing model to determine fair value of the award at the date of grant and recognize compensation expense over the vesting period. The inputs we use for the model require the use of judgment, estimates and assumptions regarding the expected volatility of the stock, the expected term the average employee will hold the option prior to the date of exercise, and the amount of share-based awards that are expected to be forfeited. Changes in these inputs and assumptions could occur and actual results could differ from these estimates, and our results of operations could be materially impacted.

Accounting for Income Taxes

We estimate our tax liability based on current tax laws in the statutory jurisdictions in which we operate. These estimates include judgments about deferred tax assets and liabilities resulting from temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, as well as about the realization of deferred tax assets. See Note 11 – Income Taxes.

We maintain a valuation allowance to reduce our deferred tax assets due to the uncertainty surrounding the timing of realizing the benefits of net deferred tax assets in future years. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for such a valuation allowance. In the event we were to determine that we would be able to realize all or part of our net deferred tax asset in the future, the valuation allowance would be decreased accordingly.

We may periodically undergo examinations by the federal and state regulatory authorities and the Internal Revenue Service. We may be assessed additional taxes and/or penalties contingent on the outcome of these examinations. Our previous examinations have not resulted in any unfavorable or significant assessments.

RESULTS OF OPERATIONS

The following table reflects, as a percentage of net revenues, statements of operations data for the periods indicated:

ree Months Ended March 31,		Nine Months Ended March 31,
10	2009	2010
0.0%	100.0%	100.0%
9	65.7	70.2

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 201 December 31, 2009. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid v without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

(In millions)	September 30, 2010 Amortized Cost	September 30, 2010 Estimated Fair Value	December 31, 20 Amortized Cost	Estim Fair V
Due in one year or less	**$ 1,198**	**$ 1,200**	$ 1,240	$ 1

Due after one year through five years	**10,948**	**11,528**	10,046	10
Due after five years through ten years	**10,234**	**10,830**	10,647	10
Due after ten years	**13,976**	**15,063**	13,496	13
Total	**$ 36,356**	**$ 38,621**	$ 35,429	$ 35

Investment Commitments

As of September 30, 2010, the Company had committed approximately $210 million to future capital calls from various third-party l partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy a committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the agreements are finalized and cash settlements are made. As of September 30, 2010, the Company had commitments to purchase million and sell $85 million of such investments.

3. Fair Value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between r participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to 1, as these are the most transparent or reliable:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are not observable.

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The Company attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement m
conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When q
market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates, inc
discounted cash flow models, prices from recently executed transactions of similar securities or broker/dealer quotes, utilizing m
observable information to the extent possible. In conjunction with modeling activities, the Company may use external data as input
modeled inputs are consistent with observable market information, when available, or with the Company s assumptions as to what
participants would use to value the securities. The Company also uses pricing services as a significant source of data. The Con
monitors all the pricing inputs to determine if the markets from which the data is gathered are active. As further validation of the Com
valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the m
on similar dates.

The fair values of CNA s life settlement contracts are included in Other assets. Equity options purchased are included in Equity Sec
and all other derivative assets are included in Receivables. Derivative liabilities are included in Payable to brokers. Assets and liab
measured at fair value on a recurring basis are summarized in the tables below:

September 30, 2010 (In millions)	Level 1	Level 2	Level 3	T
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 87	$ 60		$
Asset-backed securities:				
Residential mortgage-backed securities		5,331	$ 646	5
Commercial mortgage-backed securities		923	78	1
Other asset-backed securities		419	246	
Total asset-backed securities		6,673	970	7
States, municipalities and political subdivisions securities		7,550	458	8
Foreign government securities	115	500		
Corporate and other bonds		21,555	600	22
Redeemable preferred stock	3	49	1	
Fixed maturities available-for-sale	205	36,387	2,029	38
Fixed maturities, trading	25	85	188	
Total fixed maturities	$ 230	$ 36,472	$ 2,217	$ 38
Equity securities available-for-sale	$ 376	$ 133	$ 22	$
Equity securities, trading	547			
Total equity securities	$ 923	$ 133	$ 22	$ 1
Short term investments	$ 5,252	$ 845	$ 2	$ 6
Other invested assets			28	
Receivables		104	3	
Life settlement contracts			136	
Separate account business	36	385	41	
Payable to brokers	(84)	(90)	(16)	
Discontinued operations investments, included in Other liabilities	7	66		

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December 31, 2009 (In millions)	Level 1	Level 2	Level 3	To
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 145	$ 54		$
Asset-backed securities:				
Residential mortgage-backed securities		6,309	$ 629	6
Commercial mortgage-backed securities		461	123	
Other asset-backed securities		484	348	
Total asset-backed securities		7,254	1,100	8
States, municipalities and political subdivisions securities		6,368	756	7
Foreign government securities	139	340		
Corporate and other bonds		18,620	609	19
Redeemable preferred stock	3	49	2	
Fixed maturities available-for-sale	287	32,685	2,467	35
Fixed maturities, trading	102	78	197	
Total fixed maturities	$ 389	$ 32,763	$ 2,664	$ 35
Equity securities available-for-sale	$ 503	$ 130	$ 11	$
Equity securities, trading	363			
Total equity securities	$ 866	$ 130	$ 11	$ 1
Short term investments	$ 6,818	$ 397		$ 7
Receivables		53	$ 2	
Life settlement contracts			130	
Separate account business	43	342	38	
Payable to brokers	(87)	(135)	(50)	
Discontinued operations investments, included in Other liabilities	19	106	16	

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using signi
unobservable inputs (Level 3) for the three months ended September 30, 2010 and 2009:

2010 (In millions)	Balance, July 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unre Gains (Recog i Net Inc Lev Ass an Liab Hel Septen
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 659	$ 1	$ (9)	$ (5)			$ 646	
Commercial mortgage-backed securities	95		3			$ (20)	78	
Other asset-backed securities	306	(1)	7	(66)			246	
Total asset-backed securities	1,060		1	(71)		(20)	970	
States, municipalities and political subdivisions securities	539		3	(84)			458	
Corporate and other bonds	718	1	18	(83)		(54)	600	$
Redeemable preferred stock	1						1	
Fixed maturities available-for-sale	2,318	1	22	(238)		(74)	2,029	
Fixed maturities, trading	191	(2)		(1)			188	
Total fixed maturities	$ 2,509	$ (1)	$ 22	$ (239)	$	$ (74)	$ 2,217	$
Equity securities available-for-sale	$ 4	$ (3)		$ 15	$ 6		$ 22	$
Short term investments	21			(8)		$ (11)	2	
Other invested assets		2		26			28	
Life settlement contracts	134	8		(6)			136	
Separate account business	37			4			41	
Derivative financial instruments, net	4	(3)	$ (15)	1			(13)	

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2009	Balance, July 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrea Gains (Recog i N Inco o Lev Ass ar Liabi Hel Septem
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 808	$ 1	$ 62	$ 20		$ (154)	$ 737	$
Commercial mortgage-backed securities	175	(3)	28	11			211	
Other asset-backed securities	141	1	14	132			288	
Total asset-backed securities	1,124	(1)	104	163		(154)	1,236	
States, municipalities and political subdivisions securities	785		19	(34)			770	
Corporate and other bonds	730	(10)	67	43	$ 5	(83)	752	
Redeemable preferred stock	1		1				2	
Fixed maturities available-for-sale	2,640	(11)	191	172	5	(237)	2,760	
Fixed maturities, trading	229	5		(18)			216	
Total fixed maturities	$ 2,869	$ (6)	$ 191	$ 154	$ 5	$ (237)	$ 2,976	$
Equity securities available-for-sale	$ 209					$ (199)	$ 10	
Short term investments			$ 1	$ 7			8	
Life settlement contracts	126	$ 8		(5)			129	$
Separate account business	38			3		(1)	40	
Discontinued operations investments	13		3				16	
Derivative financial instruments, net	(7)	(12)	(10)	12			(17)	

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2010 and 2009:

2010 (In millions)	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrea Gains (Recog i Net Inc Lev Ass an Liabi Hel Septem
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 629	$ (7)	$ 20	$ 50		$ (46)	$ 646	$
Commercial mortgage-backed securities	123	(1)	1	6	$ 7	(58)	78	
Other asset-backed securities	348	3	29	(89)		(45)	246	
Total asset-backed securities	1,100	(5)	50	(33)	7	(149)	970	
States, municipalities and political subdivisions securities	756		9	(307)			458	
Corporate and other bonds	609	10	56	29	23	(127)	600	
Redeemable preferred stock	2	6		(7)			1	
Fixed maturities available-for-sale	2,467	11	115	(318)	30	(276)	2,029	
Fixed maturities, trading	197	6		(15)			188	
Total fixed maturities	$ 2,664	$ 17	$ 115	$ (333)	$ 30	$ (276)	$ 2,217	$
Equity securities available-for-sale	$ 11	$ (4)		$ 14	$ 8	$ (7)	$ 22	$
Short term investments				12	1	(11)	2	
Other invested assets		2		26			28	
Life settlement contracts	130	25		(19)			136	
Separate account business	38			3			41	
Discontinued operations investments	16		$ 1	(2)		(15)		
Derivative financial instruments, net	(48)	(18)	27	26			(13)	

2009	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses): Included in Net Income	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses): Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrea Gains (Recog i N Inco o Lev Ass an Liabi Hel Septem
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 782	$ (22)	$ 98	$ (28)	$ 71	$ (164)	$ 737	$
Commercial mortgage-backed securities	186	(168)	170	(3)	26		211	
Other asset-backed securities	139	(29)	54	90	153	(119)	288	
Total asset-backed securities	1,107	(219)	322	59	250	(283)	1,236	
States, municipalities and political subdivisions securities	750		74	(54)			770	
Foreign government securities	6					(6)		
Corporate and other bonds	616	(15)	113	110	23	(95)	752	
Redeemable preferred stock	13	(9)	9	7		(18)	2	
Fixed maturities available-for-sale	2,492	(243)	518	122	273	(402)	2,760	
Fixed maturities, trading	218	14		(20)	4		216	
Total fixed maturities	$ 2,710	$ (229)	$ 518	$ 102	$ 277	$ (402)	$ 2,976	$
Equity securities available-for-sale	$ 210		$ (1)			$ (199)	$ 10	
Short term investments			1	$ 7			8	
Life settlement contracts	129	$ 24		(24)			129	$
Separate account business	38			3		(1)	40	
Discontinued operations investments	15		3	(2)			16	
Derivative financial instruments, net	(72)	23	(22)	54			(17)	

Net realized and unrealized gains and losses are reported in Net income as follows:

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Income Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Other invested assets	Investment gains (losses)
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

Securities shown in the Level 3 tables may be transferred in or out based on the availability of observable market information used to pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and t volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. The Company s poli recognize transfers between levels at the beginning of the reporting period.

The following section describes the valuation methodologies used to measure different financial instruments at fair value, includ indication of the level in the fair value hierarchy in which the instrument is generally classified.

Fixed Maturity Securities

Level 1 securities include highly liquid government bonds within the U.S. Treasury securities category and securities issued by f
governments for which quoted market prices are available. The remaining fixed maturity securities are valued using pricing for s
securities, recently executed transactions, cash flow models with yield curves, broker/dealer quotes and other pricing models ut
observable inputs. The valuation for most fixed maturity securities is classified as Level 2. Securities within Level 2 include c
corporate bonds, states, municipalities and political subdivisions securities, foreign provincial and local government bonds, asset-b
securities, mortgage-backed pass-through securities and redeemable preferred stock. Level 2 securities may also include securities tha
firm sale commitments and prices that are not recorded until the settlement date. Securities are generally assigned to Level 3 in cases
broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are ba
information that is observable in the marketplace. These securities include certain corporate bonds, asset-backed securities,
municipalities and political subdivisions securities and redeemable preferred stock. Within corporate bonds and states, municipaliti
political subdivisions securities, Level 3 securities also include tax-exempt and taxable auction rate certificates. Fair value of auctic
securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable fro
instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to matur

Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redee
preferred stocks and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quot
other pricing models utilizing observable inputs. Level 3 securities include equity securities that are priced using internal models with
that are not market observable.

Derivative Financial Instruments

Exchange traded derivatives are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. L
derivatives include currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally intere
swaps, total return swaps, commodity swaps, credit default swaps, equity warrants and options are valued using inputs incl
broker/dealer quotes and are classified within Level 2 or Level 3 of the valuation hierarchy, depending on the amount of transparenc
whether these quotes are based on information that is observable in the marketplace.

Short Term Investments

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money r
funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are observable. Level 3 securities includ
debt securities purchased within one year of maturity where broker/dealer quotes are significant inputs to the valuation and there is a l
transparency to the market inputs used.

Life Settlement Contracts

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated pre
payments based on contract terms that are distinct for each insured, as well as CNA s own assumptions for mortality, premium expe
the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Discontinued Operations Investments

Assets relating to CNA s discontinued operations include fixed maturity securities and short term investments. The valuation metho
for these asset types have been described above.

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Separate Account Business

Separate account business includes fixed maturity securities, equities and short term investments. The valuation methodologies fo
asset types have been described above.

Financial Assets and Liabilities Not Measured at Fair Value

The carrying amount and estimated fair value of the Company s financial instrument assets and liabilities which are not measure
value on the Consolidated Condensed Balance Sheets are listed in the table below.

	September 30, 2010		December 31, 20	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estim Fair V
(In millions)				
Financial assets:				
Other invested assets	**$ 70**	**$ 71**		
Financial liabilities:				
Premium deposits and annuity contracts	**$ 100**	**$ 105**	$ 105	$ 1
Short term debt	**647**	**669**	10	
Long term debt	**8,829**	**9,463**	9,475	9,5

The following methods and assumptions were used in estimating the fair value of these financial assets and liabilities.

The fair value of other invested assets is based on the present value of the expected future cash flows discounted at the current intere
for similar financial instruments.

Premium deposits and annuity contracts were valued based on cash surrender values, estimated fair values or policyholder liabilities,
amounts ceded related to sold business.

Fair value of debt was based on quoted market prices when available. When quoted market prices were not available, the fair value fo
was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instru
being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar ty
borrowing arrangements.

4. Derivative Financial Instruments

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

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

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments c
embedded leverage features which would expose the Company to a higher degree of risk.

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (princ
interest rate risk, equity price risk, commodity price risk and foreign currency risk) stemming from various assets and liabilities and

risk (the ability of an obligor to make timely payment of principal and/or interest). The Company s principal objective under su
strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

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CNA s use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, ar
own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Deriv
entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates
underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with resp
changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained th
securities lending, to engage in derivative transactions.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest
The Company attempts to mitigate its exposure to interest rate risk in the normal course of portfolio management, which inc
rebalancing its existing portfolios of assets and liabilities. In addition, various derivative financial instruments are used to modify the i
rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and f
options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or m
values, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) intere
risks associated with investments and variable rate debt. The Company infrequently designates these types of instruments as hedges a
specific assets or liabilities.

The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity pric
results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that deriv
value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one secu
index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect apprecia
securities held.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor s ability to make
principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversific
and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives s
credit default swaps (CDS) to modify the credit risk inherent in certain investments. CDS involve a transfer of credit risk from on
another in exchange for periodic payments.

Foreign currency risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of fin
instruments denominated in a foreign currency. The Company s foreign transactions are primarily denominated in Australian
Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this ri
asset/liability currency matching and through the use of foreign currency forwards. In May of 2009, Diamond Offshore began a he
strategy and designated certain of its qualifying foreign currency forward exchange contracts as cash flow hedges.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purpo
income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yie
particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of co
options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are u
replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to tran
the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposu
to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing
protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS agre
the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Comp
entitled to receive the referenced defaulted security or the cash equivalent.

The tables below summarize open CDS contracts where the Company sold credit protection as of September 30, 2010 and Decemb
2009. The fair value of the contracts represents the amounts that the Company would receive or pay at those dates to exit the deri
positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would r
as part of the contract terminations and is equal to the notional value of the CDS contracts.

September 30, 2010	**Fair Value of Credit Default Swaps**	**Maximum Amount of Future Payments under Credit Default Swaps**	**Weig Aver Yea To Ma**
(In millions)			
BB-rated		**$ 5**	
B-rated		**3**	
Total	**$**	**$ 8**	
December 31, 2009			
B-rated		$ 8	
Total	$	$ 8	

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollater
fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company atten
mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to mu
counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swa
Derivatives Association (ISDA) Master Agreement, and exchanges collateral under the terms of these agreements with its d
investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not
its net derivative positions against the fair value of the collateral provided. The fair value of cash collateral provided by the Company w
million at September 30, 2010 and $7 million at December 31, 2009. The fair value of cash collateral received from counterparties w
million at September 30, 2010 and December 31, 2009.

The agreements governing HighMount s derivative instruments contain certain covenants, including a maximum debt to capitalizati
reviewed quarterly. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could termin
agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount s de
instruments that are in a liability position was $103 million at September 30, 2010. HighMount was not required to post any collateral
the governing agreements. At September 30, 2010, HighMount was in compliance with all of its covenants under the derivatives agree

See Note 3 for information regarding the fair value of derivative instruments.

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A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instru
follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Deri
liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. The contractual or notional amour
derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the po
for gain or loss on these instruments.

	September 30, 2010			December 31, 2009		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**(Liability)**	Contractual/ Notional Amount	Estimated Fair V Asset	(Liab
(In millions)						
With hedge designation						
Interest rate risk:						
Interest rate swaps	**$ 1,095**		**$ (90)**	$ 1,600		$
Commodities:						
Forwards short	**492**	**$ 105**	**(12)**	715	$ 50	
Foreign exchange:						
Currency forwards short	**27**	**2**		114	3	
Other				13	2	
Without hedge designation						
Equity markets:						
Options purchased	**170**	**29**		242	45	
Options written	**263**		**(10)**	282		
Interest rate risk:						
Interest rate swaps	**5**		**(1)**	9		
Credit default swaps purchased protection	**25**		**(3)**	116		
Credit default swaps sold protection	**8**			8		
Futures short	**28**			132		

Derivatives without hedge designation For derivatives not held in a trading portfolio, new derivative transactions entered into
approximately $342 million and $1.1 billion in notional value while derivative termination activity totaled approximately $361 milli
$1.1 billion during the three and nine months ended September 30, 2010. This activity was primarily attributable to interest rate futur
forward commitments for mortgage-backed securities. During the three and nine months ended September 30, 2009, new deri
transactions entered into totaled approximately $7.7 billion and $18.2 billion in notional value while derivative termination activity t
approximately $8.1 billion and $19.5 billion. This activity was primarily attributable to interest rate futures, interest rate options and i
rate swaps.

A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. Changes fair value of derivatives not held in a trading portfolio are reported in Investment gains (losses) and changes in the fair value of deriv held for trading purposes are reported in Net investment income on the Consolidated Condensed Statements of Income.

	Three Months Ended September 30,		Nine Months E September 3	
	2010	2009	**2010**	2
(In millions)				
Included in Net investment income:				
Equity risk:				
Equity options purchased	**$ (7)**	$ (19)	**$ (10)**	$
Equity options written	**10**	17	**15**	
Futures long	**(3)**	2	**(6)**	
Futures short	**(1)**		**(4)**	
Foreign exchange:				
Currency forwards long	**2**			
Currency forwards short	**(8)**	1	**(9)**	
Currency options short	**1**		**(1)**	
Interest rate risk:				
Credit default swaps purchased protection		(20)		
Credit default swaps sold protection		20		
Options on government securities short	**(66)**	(7)	**(66)**	
Futures long	**4**		**(14)**	
Futures short	**14**	(5)	**14**	
Other		(9)	**(2)**	
	(54)	(20)	**(83)**	
Included in Investment gains (losses):				
Equity options written				
Interest rate risk:				
Interest rate swaps			**(44)**	
Credit default swaps purchased protection	**(1)**	(11)	**(1)**	
Credit default swaps sold protection				
Futures short		(2)		
Commodity forwards short			**13**	
	(1)	(13)	**(32)**	
Included in Other revenues:				
Currency forwards short				
Total	**$ (55)**	$ (33)	**$ (115)**	$

Cash flow hedges A significant portion of the Company s hedge strategies represents cash flow hedges of the variable price risk a with the purchase and sale of natural gas and other energy-related products. As of September 30, 2010, approximately 78.6 billion cub of natural gas equivalents was hedged by qualifying cash flow hedges. The effective portion of these commodity hedges is reclassifie

AOCI into earnings when the anticipated transaction affects earnings. Approximately 19% of these derivatives have settlement dates i
and 61% have settlement dates in 2011. As of September 30, 2010, the estimated amount of net unrealized gains associated with comr
contracts that will be reclassified into earnings during the next twelve months was $78 million. However, these amounts are likely t
materially as a result of changes in market conditions. Diamond Offshore uses foreign currency forward exchange contracts to r
exposure to foreign currency losses on future foreign currency expenditures. The effective portion of these hedges is reclassified from
into earnings when the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. As of

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September 30, 2010, the estimated amount of net unrealized gains associated with these contracts that will be reclassified into earning the next twelve months was $2 million. The Company also uses interest rate swaps to hedge its exposure to variable interest rates attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over th of the related notes. As of September 30, 2010, the estimated amount of net unrealized losses associated with interest rate swaps that reclassified into earnings during the next twelve months was $54 million. However, this is likely to vary as a result of changes in L For the three and nine months ended September 30, 2010 and 2009, the net amounts recognized due to ineffectiveness were less t million.

In the first quarter of 2010, HighMount determined that a portion of the expected underlying transactions related to its hedging act were no longer probable of occurring and discontinued hedge accounting treatment for a portion of its interest rate cash flow hedges commodity price swaps. HighMount entered into definitive sales agreements for exploration and production assets in the Antrim S Michigan in March 2010 and Black Warrior Basin in Alabama in April 2010. As a result, HighMount recognized losses of $36 mil Investment gains (losses) in the Consolidated Condensed Statements of Income for the nine months ended September 30, 2010, refl the reclassification of net derivative losses from AOCI to earnings. These amounts are reflected in the table below.

The following table summarizes the effective portion of the net derivative gains or losses included in OCI and the amount reclassifi Income for derivatives designated as cash flow hedges and for the de-designated hedges:

	Three Months Ended September 30,		Nine Months E September 3	
	2010	2009	**2010**	2
(In millions)				
Amount of gain (loss) recognized in OCI				
Commodities	**$ 34**	$ (13)	**$ 151**	$
Foreign exchange	**6**	2	**1**	
Interest rate	**(10)**	(23)	**(44)**	
Total	**$ 30**	$ (34)	**$ 108**	$
Amount of gain (loss) reclassified from AOCI into income				
Commodities	**$ 23**	$ 67	**$ 71**	$
Foreign exchange		2	**1**	
Interest rate	**(13)**	(19)	**(92)**	
Total	**$ 10**	$ 50	**$ (20)**	$

Location of gain (loss) reclassified from AOCI into income:

Type of cash flow hedge	Consolidated Condensed Statements of Income line items
Commodities	Other revenues and Investment gains (losses)
Foreign exchange	Contract drilling expenses
Interest rate	Interest and Investment gains (losses)

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a fin instrument not owned at the time of sale, usually done in anticipation of a price decline. Short sales of equity securities resulted in pr of $67 million and $66 million with fair value liabilities of $73 million and $78 million at September 30, 2010 and December 31, These positions are marked to market and investment gains or losses are included in Net investment income in the Consolidated Con

Statements of Income.

5. Claim and Claim Adjustment Expense Reserves

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-p fluctuations in the Company s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $12 mill $100 million for the three and nine months ended September 30, 2010. Catastrophe losses in 2010 related primarily to win thunderstorms. CNA reported catastrophe losses, net of reinsurance, of $23 million and $79 million for the three and nine months September 30, 2009. There can be no assurance that CNA s ultimate cost for catastrophes will not exceed current estimates.

The following provides discussion of CNA s Asbestos and Environmental Pollution (A&EP) reserves.

A&EP Reserves

On August 31, 2010, Continental Casualty Company together with several of CNA s insurance subsidiaries completed a transacti National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which substantially all of CNA s leg liabilities were ceded to NICO.

Under the terms of the NICO transaction, effective January 1, 2010 CNA ceded approximately $1.6 billion of net A&EP claim and all claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of $4.0 billion (Loss P Transfer). Included in the $1.6 billion of net A&EP claim and allocated claim adjustment expense reserves was approximately $90 m net claim and allocated claim adjustment expense reserves relating to CNA s discontinued operations. The $1.6 billion of claim and a claim adjustment expense reserves ceded to NICO is net of $1.2 billion of ceded claim and allocated claim adjustment expense re under existing third party reinsurance contracts. The NICO aggregate reinsurance limit also covers credit risk on the existing third reinsurance related to these liabilities. However, unallocated claim adjustment expenses are not subject to the aggregate reinsurance lim

CNA paid NICO a reinsurance premium of $2.0 billion and transferred to NICO billed third party reinsurance receivables related to claims with a net book value of $215 million. As of August 31, 2010, NICO deposited approximately $2.2 billion in a collatera account as security for its obligations to CNA. This $2.2 billion will be reduced by the amount of net A&EP claim and allocated adjustment expense payments. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full agg reinsurance limit as well as certain of NICO s performance obligations under the trust agreement. NICO is responsible for claims h and billing and collection from third party reinsurers related to CNA s A&EP claims.

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The following table displays the impact of the Loss Portfolio Transfer on the Consolidated Condensed Statements of Income:

(In millions)	2
Other operating expenses	$
Income tax benefit	
Loss from continuing operations, included in the Other Insurance segment	
Loss from discontinued operations	
Net loss	
Amounts attributable to noncontrolling interests	
Net loss attributable to Loews Corporation	$

In connection with the transfer of billed third party reinsurance receivables related to A&EP claims and the coverage of credit risk af
under the terms of the Loss Portfolio Transfer, CNA reduced its allowance for uncollectible reinsurance receivables on billed thir
reinsurance receivables and ceded claim and allocated claim adjustment expense reserves by $200 million. This reduction is refle
Other operating expenses presented above.

At September 30, 2010, the gross A&EP claim and allocated claim adjustment expense reserves were $2.5 billion which were ceded
the Loss Portfolio Transfer and other existing third party reinsurance agreements. At September 30, 2010, the remaining amount av
under the $4.0 billion aggregate limit of the Loss Portfolio Transfer was $2.4 billion on an incurred basis. The net ultimate losses paid
the Loss Portfolio Transfer were $172 million through September 30, 2010.

The Loss Portfolio Transfer is considered a retroactive reinsurance contract. In the event that the cumulative claim and allocated
adjustment expenses ceded under the Loss Portfolio Transfer exceed the consideration paid, the resulting gain from such excess wo
deferred. A cumulative amortization adjustment would be recognized in earnings in the period such excess arises so that the res
deferred gain would reflect the balance that would have existed if the revised estimate was available at the inception date of th
Portfolio Transfer.

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and
Insurance. Unfavorable net prior year development of $26 million was recorded in the Life & Group Non-Core segment for the three
ended September 30, 2010. There was no net prior year development recorded in the Life & Group Non-Core segment for the nine
ended September 30, 2010. For the three and nine months ended September 30, 2009 for the Life & Group Non-Core segment, favora
prior year development of $81 million and $75 million was recorded. These amounts included the impact of a settlement reac
September 2009 with Willis Limited that resolved litigation related to the placement of personal accident reinsurance. Under the sett
agreement, Willis Limited agreed to pay CNA a total of $130 million, which was reported as a loss recovery of $94 million,
reinsurance.

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Three Month Comparison

Three Months Ended September 30, 2010 **(In millions)**	**CNA Specialty**		**CNA Commercial**		**Other Insurance**		**To**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:							
Core (Non-A&EP)	**$**	**(65)**	**$**	**(26)**	**$**	**2**	**$**
Pretax (favorable) unfavorable premium development		**(2)**		**(2)**			
Total pretax (favorable) unfavorable net prior year development	**$**	**(67)**	**$**	**(28)**	**$**	**2**	**$**
Three Months Ended September 30, 2009							
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:							
Core (Non-A&EP)	$	(39)	$	(21)	$	1	$
Pretax (favorable) unfavorable premium development		3		9			
Total pretax (favorable) unfavorable net prior year development	$	(36)	$	(12)	$	1	$

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to surety and professional li
coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately $38 million was recorded for
coverages primarily due to a decrease in the estimated loss on a large national contractor in accident year 2005 and lower than exp
claim emergence in accident years 2007 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately $27 million was recorded for direc
officers and errors & omissions coverages for large firms. This favorable development was primarily the result of reviews of large cla
accident years 2007 and prior.

Both favorable and unfavorable claim and allocated claim adjustment expense reserve development was recorded for medical profes
liability coverages. Favorable development was recorded in nursing home liability business, primarily in accident years 2007 and pri
to favorable incurred emergence. Unfavorable development was recorded for products liability coverage in accident years 2008 and
due to increased frequency of large losses related to medical products.

Both favorable and unfavorable claim and allocated claim adjustment expense reserve development occurred in professional liabilit
primarily related to errors & omission and employment practice liability coverages. The favorable development primarily related to ac
years 2007 and prior and was the result of decreased severity and a decrease in excess loss expectations. The unfavorable developm
accident years 2008 and 2009 was driven by the economic recession and higher unemployment.

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CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in g
liability, umbrella, property and marine coverages, partially offset by unfavorable experience in workers compensation.

Favorable claim and allocated claim adjustment expense reserve development of approximately $70 million was recorded for g
liability and umbrella coverages primarily due to better than expected loss emergence in accident years 2006 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately $28 million was recorded for proper
marine coverages in CNA s international commercial book due to lower than expected frequency of large claims primarily in accid
2009.

Favorable claim and allocated claim adjustment expense reserve development of approximately $23 million was recorded for m
business. This development was primarily the result of decreased claim frequency, favorable salvage recoveries in accident year 20
cargo business and lower severity for excess liability in accident years 2005 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $60 million was recorded for
workers compensation primarily due to increased frequency in accident years 2004 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $42 million was related to inc
severity of indemnity losses relative to expectations on workers compensation claims related to Defense Base Act contractors prim
accident years 2008 and prior.

2009 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in profes
liability, directors & officers and surety business.

Approximately $20 million of favorable development was recorded for professional liability coverages driven by lower than expecte
claim frequency, primarily related to accountants and lawyers in accident years 2004 through 2006. Approximately $11 million of fav
development was primarily related to directors & officers coverages in accident years 2003 through 2006. This favorable develo
related primarily to lower than expected large claim frequency. An additional $7 million of favorable development was recorded for
business primarily in accident years 2004, due to claims closing favorable to expectations, and 2006, due to lower than expected
frequency.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in g
liability, partially offset by unfavorable experience in workers compensation.

Approximately $56 million of favorable development was primarily due to claims closing favorable to expectations on non-constr
defect general liability exposures in accident years 2003 and prior.

Approximately $47 million of unfavorable development was due to increased paid and incurred severity on worker s compensation b
primarily in accident years 2004, 2007 and 2008 on small and middle market business.

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Nine Month Comparison

Nine Months Ended September 30, 2010 (In millions)		**CNA Specialty**		**CNA Commercial**		**Other Insurance**		**To**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:								
Core (Non-A&EP)	**$**	**(215)**	**$**	**(229)**	**$**	**5**	**$**	
Pretax (favorable) unfavorable premium development		**(5)**		**54**		**(3)**		
Total pretax (favorable) unfavorable net prior year development	**$**	**(220)**	**$**	**(175)**	**$**	**2**	**$**	
Nine Months Ended September 30, 2009								
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:								
Core (Non-A&EP)	$	(103)	$	(148)	$	6	$	
Pretax (favorable) unfavorable premium development				85		(3)		
Total pretax (favorable) unfavorable net prior year development	$	(103)	$	(63)	$	3	$	

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to professional liability and
coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately $164 million was recorded for er
omissions and directors & officers coverages due to several factors, including reduced frequency of large claims, primarily in accide
2007 and prior, and the result of reviews of large claims in accident years 2007 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately $52 million was recorded for m
professional liability coverages. Favorable development was primarily due to favorable incurred emergence, primarily in accident
2007 and prior. Unfavorable development in accident years 2008 and 2009 was due to increased frequency of large losses related to m
products.

Favorable claim and allocated claim adjustment expense reserve development of approximately $49 million was recorded for
coverages primarily due to a decrease in the estimated loss on a large national contractor in accident year 2005 and lower than ex
claim emergence in accident years 2007 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $66 million was recorded for emplo
practices liability and errors & omissions coverages. The unfavorable development in accident years 2008 and 2009 was driven
economic recession and higher unemployment.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in pro
general liability, umbrella, auto and international casualty coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately $109 million was recorded for pr
coverages. Favorable development of $53 million was due to favorable incurred loss emergence, primarily in accident years 2008 and
related to catastrophes. Additional favorable development of approximately $56 million was due to decreased severity in accident
2009 and prior related to non-catastrophes.

Favorable claim and allocated claim adjustment expense reserve development of approximately $79 million was recorded for interna
commercial coverages. Approximately $32 million of favorable development was recorded due to decreased frequency across severa
within CNA s Hawaiian affiliate, primarily in accident years 2008 and prior. Approximately $23 million of favorable developm
primarily due to a commutation within CNA s European affiliate s book of renewable energy business. Approximately $26 m
favorable development was recorded for property and marine coverages in CNA s international commercial book due to lower than e
frequency of large claims primarily in accident year 2009.

Favorable claim and allocated claim adjustment expense reserve development of approximately $78 million was recorded for g
liability and umbrella coverages primarily due to better than expected loss emergence in accident years 2006 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately $62 million was recorded for comm
auto coverages primarily due to decreased frequency and severity trends in accident years 2009 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately $25 million was recorded for m
business. This development was primarily the result of decreased claim frequency, favorable salvage recoveries in recent accident yea
lower severity for excess liability in accident years 2005 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $60 million was recorded for e
workers compensation primarily due to increased frequency in accident years 2004 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $44 million was related to inc
severity of indemnity losses relative to expectations on workers compensation claims related to Defense Base Act contractors prim
accident years 2008 and prior.

Unfavorable claim and allocated claim adjustment expense reserve development of approximately $35 million was due to increased
frequency in a portion of CNA s primary casualty surplus lines book in accident years 2008 and 2009.

Unfavorable premium development of approximately $54 million was recorded due to a change in ultimate premium estimates rela
retrospectively rated policies and return premium on auditable policies due to reduced exposures.

2009 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in m
professional liability, professional liability, directors & officers and surety business.

Favorable development of approximately $25 million for medical professional liability was primarily due to better than expected freq
and severity in accident years 2005 and prior, including claims closing favorable to expectations. Additional favorable development
million was recorded for professional liability coverages. This favorable experience was related to several items, including fav
experience on a number of large claims related to financial institutions in accident years 2003 and prior, decreased frequency of large
in accident years 2007 and prior related to financial institutions, and lower than expected large claim frequency related to accountan
lawyers in accident years 2004 through 2006. Approximately $30 million of favorable development was primarily related to direc
officers coverages in accident years 2003 through 2006. This favorable development related primarily to lower than expected large
frequency. An additional $7 million of favorable development was recorded for surety business primarily in accident years 2004,
claims closing favorable to expectations, and 2006, due to lower than expected claim frequency. An additional $4 million of fav
development was a result of favorable outcomes on claims relating to catastrophes in accident year 2005.

CNA Commercial

The favorable net prior year development was primarily due to favorable experience in property and general liability, partially off
unfavorable experience in workers compensation.

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Favorable claim and allocated claim adjustment expense reserve development of approximately $81 million was primarily due to expe
in property coverages. Prior year catastrophe reserves decreased approximately $64 million, driven by the favorable settlement of s
claims primarily in accident years 2005 and 2007, and better than expected frequency and severity on claims relating to catastrop
accident year 2008. An additional $17 million of favorable development was due to non-catastrophe related favorable loss emerge
large property coverages, primarily in accident years 2007 and 2008. Additional favorable development of approximately $81 millio
related to general liability exposures. Of this, $25 million was due to decreased frequency and severity trends related to construction
exposures in accident years 2003 and prior. The remaining favorable development was primarily due to claims closing favora
expectations on non-construction defect general liability exposures in accident years 2003 and prior.

Approximately $51 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased pa
incurred severity on workers compensation business primarily in accident years 2004, 2007 and 2008 on small and middle markets bu

Approximately $40 million of unfavorable premium development was related to changes in estimated ultimate premium on retrospec
rated coverages. Additional unfavorable premium development was due to an estimated liability for an assessment related to a reinsu
association and less premium processing on auditable policies than expected.

6. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. Benefits for certain pla
determined annually based on a specified percentage of annual earnings (based on the participant s age or years of service) and a sp
interest rate (which is established annually for all participants) applied to accrued balances. The benefits for another plan which
salaried employees are based on formulas which include, among others, years of service and average pay. The Company s funding p
to make contributions in accordance with applicable governmental regulatory requirements.

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

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

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

The components of net periodic benefit cost are as follows:

	Pension Benefits			
	Three Months Ended September 30,		Nine Months En September 3	
	2010	2009	**2010**	2
(In millions)				
Service cost	**$ 7**	$ 6	**$ 20**	$
Interest cost	**42**	42	**125**	
Expected return on plan assets	**(44)**	(39)	**(132)**	
Amortization of unrecognized net loss	**7**	8	**21**	

Net periodic benefit cost	**$ 12**	$ 17	**$ 34**	$

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	Other Postretirement Benefits			
	Three Months Ended September 30,		Nine Months E[nded] September 3[0,]	
	2010	2009	**2010**	[2009]
(In millions)				
Service cost	**$ 1**	$ 1	**$ 2**	$
Interest cost	**3**	4	**9**	
Expected return on plan assets	**(1)**	(1)	**(3)**	
Amortization of unrecognized net loss			**2**	
Amortization of unrecognized prior service benefit	**(6)**	(6)	**(18)**	
Regulatory asset decrease	**1**	1	**4**	
Net periodic benefit cost	**$ (2)**	$ (1)	**$ (4)**	$

7. Business Segments

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

CNA s core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty ar Commercial. CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and ser primarily through insurance brokers and managing general underwriters. CNA Commercial includes property and casualty coverages s small businesses and middle market entities and organizations primarily through an independent agency distribution system. Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insu brokers.

CNA s non-core operations are managed in two segments: Life & Group Non-Core and Other Insurance. Life & Group Non-Core p includes the results of the life and group lines of business that are in run-off. Other Insurance primarily includes certain corporate exp including interest on corporate debt, and the results of certain property and casualty business primarily in run-off, including CNA I A&EP.

Diamond Offshore s business primarily consists of operating 46 offshore drilling rigs that are chartered on a contract basis for fixed t companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on m demand. On September 30, 2010, Diamond Offshore s drilling rigs were located offshore twelve countries in addition to the Unitec On July 7, 2010, Diamond Offshore completed the sale of one of its high performance, premium jack-up drilling rigs, the *Ocean Shielc*

HighMount s business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texa second quarter of 2010, HighMount sold its exploration and production assets located in the Antrim Shale in Michigan and the Warrior Basin in Alabama. The Michigan and Alabama properties represented approximately 17%, in aggregate, of HighMount proved reserves as of December 31, 2009.

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

Loews Hotels owns and/or operates 19 hotels, 17 of which are in the United States and two are in Canada. The Loews Atlanta Hotel, is operated under a management contract, opened on April 1, 2010.

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-ins subsidiaries, corporate interest expenses and other unallocated expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2 addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of as each segment is not performed. Therefore,

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net investment income and investment gains (losses) are allocated based on each segment s carried insurance reserves, as adjusted.

The following tables set forth the Company s consolidated revenues and income (loss) attributable to Loews Corporation by business segment:

	Three Months Ended September 30,		Nine Months En September 30	
	2010	2009	**2010**	20
(In millions)				
Revenues (a):				
CNA Financial:				
CNA Specialty	**$ 899**	$ 859	**$ 2,640**	$ 2
CNA Commercial	**1,069**	1,095	**3,123**	2
Life and Group Non-Core	**351**	341	**992**	
Other Insurance	**44**	45	**156**	
Total CNA Financial	**2,363**	2,340	**6,911**	6
Diamond Offshore	**833**	919	**2,518**	2
HighMount	**98**	144	**351**	
Boardwalk Pipeline	**264**	206	**821**	
Loews Hotels	**74**	67	**230**	
Corporate and other	**69**	62	**69**	
Total	**$ 3,701**	$ 3,738	**$ 10,900**	$ 10
Income (loss) before income tax and noncontrolling interests (a):				
CNA Financial:				
CNA Specialty	**$ 250**	$ 205	**$ 768**	$
CNA Commercial	**188**	105	**538**	
Life and Group Non-Core	**(59)**	83	**(125)**	
Other Insurance	**(545)**	(3)	**(538)**	
Total CNA Financial	**(166)**	390	**643**	
Diamond Offshore	**298**	474	**1,023**	1
HighMount	**30**	66	**105**	
Boardwalk Pipeline	**55**	16	**196**	
Loews Hotels	**(1)**	(26)	**4**	
Corporate and other	**42**	38	**(14)**	
Total	**$ 258**	$ 958	**$ 1,957**	$
Net income (loss) - Loews (a):				
CNA Financial:				
CNA Specialty	**$ 139**	$ 118	**$ 432**	$
CNA Commercial	**109**	64	**309**	
Life and Group Non-Core	**(38)**	58	**(58)**	

Other Insurance	**(313)**	3	**(303)**	
Total CNA Financial	**(103)**	243	**380**	
Diamond Offshore	**93**	170	**333**	
HighMount	**19**	40	**56**	
Boardwalk Pipeline	**21**	9	**80**	
Loews Hotels	**(2)**	(15)	**1**	
Corporate and other	**28**	22	**(9)**	
Income (loss) from continuing operations	**56**	469	**841**	
Discontinued operations	**(20)**	(1)	**(19)**	
Total	**$ 36**	$ 468	**$ 822**	$

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(a) Investment gains (losses) included in Revenues, Income (loss) before income tax and noncontrolling interests and Net income (lo
Loews are as follows:

	Three Months Ended September 30,		Nine Months E September 3	
	2010	2009	**2010**	2
Revenues and Income (loss) before income tax and noncontrolling interests:				
CNA Financial:				
CNA Specialty	**$ 15**	$ (35)	**$ 60**	$
CNA Commercial	**21**	(69)	**29**	
Life & Group Non-Core	**20**	21	**15**	
Other Insurance	**6**	(17)	**21**	
Total CNA Financial	**62**	(100)	**125**	
Corporate and other			**(31)**	
Total	**$ 62**	$ (100)	**$ 94**	$
Net income (loss) - Loews:				
CNA Financial:				
CNA Specialty	**$ 8**	$ (21)	**$ 35**	$
CNA Commercial	**13**	(42)	**13**	
Life & Group Non-Core	**11**	12	**7**	
Other Insurance	**5**	(10)	**13**	
Total CNA Financial	**37**	(61)	**68**	
Corporate and other			**(19)**	
Total	**$ 37**	$ (61)	**$ 49**	$

8. Legal Proceedings

In August 2005, CNA and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multic
litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation*
No. 04-5184 (GEB). The plaintiffs consolidated class action complaint alleges bid rigging and improprieties in the payment of co
commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenc
Corrupt Organizations (RICO) Act and state common law. After discovery, the District Court dismissed the federal antitrust claim
RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the dismissal o
complaint to the Third Circuit Court of Appeals. In August 2010, the Court of Appeals affirmed the District Court s dismissal of the a
claims and the RICO claims against CNA and certain insurance subsidiaries, but vacated the dismissal of those claims against other p
The Court of Appeals also vacated and remanded the dismissal of the state law claims against CNA and certain insurance subsidiari
other parties to allow for further proceedings before the District Court. The District Court has ordered that the briefing on any f
motions to dismiss the remanded claims be completed in November, 2010. CNA believes it has meritorious defenses to this actio
intends to defend the case vigorously.

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

Company, although results of operations may be adversely affected.

The Company has been named as a defendant in the following three cases alleging substantial damages based on alleged health e caused by smoking cigarettes or exposure to tobacco smoke, all of which also name a former subsidiary, Lorillard, Inc. or one subsidiaries, as a defendant. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missour Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *vs. Philip Morris, Inc., et al.* (1998, Jerusalem District Court of Israel), the court initially permitted plaintiff to serve the Company o the jurisdiction but it cancelled the leave of service in response to the Company s application, and plaintiff s appeal is pending. In *The American Tobacco Company, Inc. et al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception fo of personal jurisdiction during 2000, which remains pending.

The Company does not believe it is a proper defendant in any tobacco related cases and as a result, does not believe the outcome will material affect on its results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Co and Lorillard Inc. and its subsidiaries, Lorillard, Inc.

and its subsidiaries have agreed to indemnify and hold the Company harmless from all costs and expenses based upon or arising out
operation or conduct of Lorillard s business, including among other things, smoking and health claims and litigation such as the thr
described above. Please read Item 1. Business - Separation of Lorillard and Note 19. Legal Proceedings of the Notes to the Consol
Financial Statements in the Form 10-K for the year ended December 31, 2009 for additional information.

While the Company intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of
this litigation. Litigation is subject to many uncertainties. It is possible that one or more of the pending actions could be decided unfavo

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this
litigation will not, in the opinion of management, materially affect the Company s results of operations or equity.

9. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising
breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses a
from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging fro
months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2010, the agg
amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $719 million

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business enti
assets that are not limited by a contractual monetary amount. As of September 30, 2010, CNA had outstanding unlimited indemnificat
connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownersh
entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from c
litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or un
agreed upon contract terms expire.

10. Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at September 30, 2010 and December 31, 20
consolidating statements of income information for the nine months ended September 30, 2010 and 2009. These schedules prese
individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presente
not necessarily be the same as those in the individual financial statements of the Company s subsidiaries due to adjustments for p
accounting, income taxes and noncontrolling interests. In addition, many of the Company s subsidiaries use a classified balance shee
also leads to differences in amounts reported for certain line items.

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

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Loews Corporation

Consolidating Balance Sheet Information

September 30, 2010 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	To
Assets:								
Investments	$ 43,526	$ 956	$ 125	$ 83	$ 51	$ 4,101		$ 48
Cash	82	29	2	6	10	3		
Receivables	10,140	651	142	67	32	165	$ (106)	11
Property, plant and equipment	288	4,291	1,324	6,330	350	36		12
Deferred income taxes	400		550				(950)	
Goodwill	86	20	584	163	3			
Investments in capital stocks of subsidiaries						16,277	(16,277)	
Other assets	748	566	18	352	27	12		1
Deferred acquisition costs of insurance subsidiaries	1,096							1
Separate account business	462							
Total assets	$ 56,828	$ 6,513	$ 2,745	$ 7,001	$ 473	$ 20,594	$ (17,333)	$ 76
Liabilities and Equity:								
Insurance reserves	$ 37,584							$ 37
Payable to brokers	753		$ 117			$ 98		
Short term debt	400				$ 72	175		
Long term debt	2,251	$ 1,487	1,100	$ 3,251	148	692	$ (100)	8
Deferred income taxes		553		387	57	510	(950)	
Other liabilities	2,865	711	90	401	18	196	(6)	4
Separate account business	462							
Total liabilities	44,315	2,751	1,307	4,039	295	1,671	(1,056)	53
Total shareholders equity	10,838	1,909	1,438	1,850	178	18,923	(16,277)	18
Noncontrolling interests	1,675	1,853		1,112				4
Total equity	12,513	3,762	1,438	2,962	178	18,923	(16,277)	23
Total liabilities and equity	$ 56,828	$ 6,513	$ 2,745	$ 7,001	$ 473	$ 20,594	$ (17,333)	$ 76

Loews Corporation

Consolidating Balance Sheet Information

December 31, 2009 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	To
Assets:								
Investments	$ 41,996	$ 739	$ 80	$ 46	$ 61	$ 3,112		$ 46
Cash	140	39	3	4	2	2		
Receivables	9,104	794	97	110	27	202	$ (122)	10
Property, plant and equipment	304	4,442	1,778	6,348	362	40		13
Deferred income taxes	1,368		636				(1,377)	
Goodwill	86	20	584	163	3			
Investments in capital stocks of subsidiaries						15,276	(15,276)	
Other assets	712	220	47	343	19	5		1
Deferred acquisition costs of insurance subsidiaries	1,108							1
Separate account business	423							
Total assets	$ 55,241	$ 6,254	$ 3,225	$ 7,014	$ 474	$ 18,637	$ (16,775)	$ 74
Liabilities and Equity:								
Insurance reserves	$ 38,263							$ 38
Payable to brokers	253		$ 196			$ 91		
Short term debt		$ 4			$ 6			
Long term debt	2,303	1,487	1,600	$ 3,100	218	867	$ (100)	9
Deferred income taxes		539		369	38	431	(1,377)	
Other liabilities	2,889	560	112	416	38	281	(22)	4
Separate account business	423							
Total liabilities	44,131	2,590	1,908	3,885	300	1,670	(1,499)	52
Total shareholders equity	9,674	1,864	1,317	2,179	174	16,967	(15,276)	16
Noncontrolling interests	1,436	1,800		950				4
Total equity	11,110	3,664	1,317	3,129	174	16,967	(15,276)	21
Total liabilities and equity	$ 55,241	$ 6,254	$ 3,225	$ 7,014	$ 474	$ 18,637	$ (16,775)	$ 74

Loews Corporation

Consolidating Statement of Income Information

Nine Months Ended September 30, 2010 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	To
Revenues:								
Insurance premiums	$ 4,868							$ 4
Net investment income	1,692	$ 2			$ 1	$ 102		1
Intercompany interest and dividends						582	$ (582)	
Investment gains (losses)	125		$ (31)					
Contract drilling revenues		2,405						2
Other	226	111	351	$ 821	229	(2)		1
Total	6,911	2,518	320	821	230	682	(582)	10
Expenses:								
Insurance claims and policyholders benefits	3,798							3
Amortization of deferred acquisition costs	1,038							1
Contract drilling expenses		1,009						1
Other operating expenses	1,319	420	197	513	219	46		2
Interest	113	66	49	112	7	43	(6)	
Total	6,268	1,495	246	625	226	89	(6)	8
Income before income tax	643	1,023	74	196	4	593	(576)	1
Income tax expense	(185)	(336)	(37)	(51)	(3)	(7)		
Income from continuing operations	458	687	37	145	1	586	(576)	1
Discontinued operations, net	(21)							
Net income	437	687	37	145	1	586	(576)	1
Amounts attributable to noncontrolling interests	(76)	(354)		(65)				
Net income attributable to Loews Corporation	$ 361	$ 333	$ 37	$ 80	$ 1	$ 586	$ (576)	$

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Loews Corporation

Consolidating Statement of Income Information

Nine Months Ended September 30, 2009 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	To
Revenues:								
Insurance premiums	$ 5,035							$ 5
Net investment income	1,755	$ 4				$ 149		1
Intercompany interest and dividends						714	$ (714)	
Investment gains (losses)	(929)	1						
Contract drilling revenues		2,664						2
Other	213	94	$ 466	$ 631	$ 213	(1)		1
Total	6,074	2,763	466	631	213	862	(714)	10
Expenses:								
Insurance claims and policyholders benefits	3,919							3
Amortization of deferred acquisition costs	1,063							1
Contract drilling expenses		907						
Impairment of natural gas and oil properties			1,036					1
Other operating expenses	805	383	264	451	255	44		2
Interest	95	27	60	95	7	37		
Total	5,882	1,317	1,360	546	262	81		9
Income (loss) before income tax	192	1,446	(894)	85	(49)	781	(714)	
Income tax (expense) benefit	27	(387)	322	(21)	19	(28)		
Income (loss) from continuing operations	219	1,059	(572)	64	(30)	753	(714)	
Discontinued operations, net	(2)							
Net income (loss)	217	1,059	(572)	64	(30)	753	(714)	
Amounts attributable to noncontrolling interests	(46)	(545)		(25)				
Net income (loss) attributable to Loews Corporation	$ 171	$ 514	$ (572)	$ 39	$ (30)	$ 753	$ (714)	$

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Note 11. Subsequent Event

CNA currently owns 62% of CNA Surety Corporation (CNA Surety) which is publicly-traded. CNA Surety is included in the con
condensed financial statements of the Company, with the minority common shareholders proportionate share of CNA Surety s ne
and net equity presented as Amounts attributable to noncontrolling interests. On November 1, 2010, CNA announced that it has propo
acquire all of the outstanding shares of common stock of CNA Surety that it does not currently own for $22.00 per share. Any amour
to acquire the common shares of CNA Surety not currently owned above or below the noncontrolling interest reflected in the Com
equity would be reflected as an adjustment to the Company s Additional paid-in capital. The noncontrolling interest in the Company
related to CNA Surety at September 30, 2010 is $357 million. There can be no assurance that this transaction will be consummated
price indicated above or at all.

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

Management s discussion and analysis of financial condition and results of operations (MD&A) should be read in conjunctio
Consolidated Condensed Financial Statements included in Item 1 of this Report, Risk Factors included in Part II, Item 1A of this Repo
the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year
December 31, 2009. This MD&A is comprised of the following sections:

Overview
Consolidated Financial Results
Parent Company Structure
Critical Accounting Estimates
Results of Operations by Business Segment
CNA Financial
CNA Specialty
CNA Commercial
Life & Group Non-Core
Other Insurance
Diamond Offshore
HighMount
Boardwalk Pipeline
Loews Hotels
Corporate and Other
Liquidity and Capital Resources
CNA Financial
Diamond Offshore
HighMount
Boardwalk Pipeline
Loews Hotels
Corporate and Other
Investments
Accounting Standards Update
Forward-Looking Statements

OVERVIEW

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

commercial property and casualty insurance (CNA Financial Corporation (CNA), a 90% owned subsidiary);

operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 50.4% owned subsidi

exploration, production and marketing of natural gas, natural gas liquids and, to a lesser extent, oil (HighMount Explorat
Production LLC (HighMount), a wholly owned subsidiary);

operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline owned subsidiary); and

operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary).

Unless the context otherwise requires, references in this report to Loews Corporation, the Company, we, our, us or l business of Loews Corporation excluding its subsidiaries.

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Consolidated Financial Results

Net income for the third quarter of 2010 amounted to $36 million, or $0.09 per share, compared to net income of $468 million, or $1.
share, for the 2009 period. Net income for the nine months ended September 30, 2010 was $822 million, or $1.96 per share compa
$161 million, or $0.37 per share, for the 2009 period.

The decrease in net income for the third quarter of 2010 primarily reflects a charge of $328 million (after tax and noncontrolling int
related to the previously announced Loss Portfolio Transfer agreement under which CNA ceded legacy asbestos and environmental po
liabilities to National Indemnity Company. Excluding the Loss Portfolio Transfer transaction, net income as adjusted for the third qua
2010 amounted to $364 million as compared to $468 million. Income from continuing operations, excluding the Loss Portfolio Tr
transaction, amounted to $365 million as compared to $469 million. The decrease is primarily due to lower net investment income
reduced limited partnership income at CNA and lower earnings at Diamond Offshore reflecting reduced utilization and the impact
drilling moratorium in the Gulf of Mexico. Results in 2009 also included a $55 million gain (after tax and noncontrolling interests) a
from a settlement that resolved litigation related to the placement of personal accident reinsurance at CNA. These declines were pa
offset by improved results from net investment gains and increased favorable net prior year development at CNA.

Income from continuing operations included net investment gains of $37 million (after tax and noncontrolling interests) in the third q
of 2010 compared to net investment losses of $61 million for the 2009 period. Net investment gains in the third quarter of 2010 were
by net trading activity and lower other-than-temporary impairment (OTTI) losses at CNA compared to the 2009 period.

Income from continuing operations for the first nine months of 2010 amounted to $841 million (after tax and noncontrolling inte
compared to $163 million for the 2009 period. The prior year period included a non-cash impairment charge of $1.0 billion ($660 m
after tax) related to the carrying value of HighMount s natural gas and oil properties. This charge reflected declines in commodity
Excluding the prior year charge and the charge for CNA s Loss Portfolio Transfer transaction in the three months ended September 3
discussed above, results for the first nine months of 2010 improved due to significantly lower OTTI losses at CNA. The improveme
partially offset by reduced results as discussed in the three months comparison above.

Net investment gains amounted to $49 million (after tax and noncontrolling interests) in the first nine months of 2010 compared
investment losses of $549 million for the 2009 period. Net investment gains in the first nine months of 2010 reflected OTTI losses a
of $94 million (after tax and noncontrolling interests) compared to $677 million for the 2009 period.

Book value per share increased to $45.31 at September 30, 2010, compared to $43.53 at June 30, 2010 and $39.76 at December 31, 20

Parent Company Structure

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Insurance Reserves

Reinsurance

Litigation

Valuation of Investments and Impairment of Securities

Long Term Care Products

Payout Annuity Contracts

Pension and Postretirement Benefit Obligations

Valuation of HighMount s Proved Reserves

Impairment of Long-lived Assets

Goodwill

Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, whic
have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section and the Res
Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties section of our MD&A included under Ite
Form 10-K for the year ended December 31, 2009 for further information.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

Unless the context otherwise requires, references to net operating income (loss), net realized investment results, net income (loss) a
results reflect amounts attributable to Loews Corporation.

CNA Financial

The following table summarizes the results of operations for CNA for the three and nine months ended September 30, 2010 and 20
presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

(In millions)	Three Months Ended September 30,		Nine Months E[illegible] September 3[illegible]	
	2010	2009	**2010**	20
Revenues:				
Insurance premiums	**$ 1,645**	$ 1,707	**$ 4,868**	$ 5
Net investment income	**581**	660	**1,692**	1
Investment gains (losses)	**62**	(100)	**125**	
Other revenue	**75**	73	**226**	
Total	**2,363**	2,340	**6,911**	6
Expenses:				
Insurance claims and policyholders benefits	**1,343**	1,282	**3,798**	3
Amortization of deferred acquisition costs	**351**	365	**1,038**	1
Other operating	**795**	269	**1,319**	
Interest	**40**	34	**113**	
Total	**2,529**	1,950	**6,268**	5
Income (loss) before income tax	**(166)**	390	**643**	
Income tax (expense) benefit	**64**	(110)	**(185)**	
Net income (loss) from continuing operations	**(102)**	280	**458**	
Discontinued operations	**(22)**	(1)	**(21)**	
Net income (loss)	**(124)**	279	**437**	
Amounts attributable to noncontrolling interests	**1**	(37)	**(76)**	
Net income (loss) attributable to Loews Corporation	**$ (123)**	$ 242	**$ 361**	$

Loss Portfolio Transfer Reinsurance Agreement

On August 31, 2010, CNA completed a transaction with National Indemnity Company (NICO), a subsidiary of Berkshire Hatha under which CNA s legacy asbestos and environmental pollution (A&EP) liabilities were ceded to NICO. Under the terms of the t effective January 1, 2010 CNA ceded approximately $1.6 billion of net A&EP liabilities to NICO under a retroactive reinsurance agre with an aggregate limit of $4.0 billion. CNA paid NICO a reinsurance premium of $2.0 billion and transferred to NICO the right to billed third party reinsurance receivables with a net book value of $215 million. As of August 31, 2010, NICO deposited approximatel billion in a collateral trust for CNA s benefit. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO u full aggregate reinsurance limit as well as certain of NICO s performance obligations under the trust agreement. At September 30, 2 Company recognized a loss of $328 million, after tax and noncontrolling interests, related to this transaction.

Three Months Ended September 30, 2010 Compared to 2009

Net results decreased $365 million for the three months ended September 30, 2010 as compared to the 2009 period. This decrea driven by the loss associated with the Loss Portfolio Transfer, partially offset by improved net investment results of $162 millio million after tax and noncontrolling interests). See the Investments section of this MD&A for further discussion of net realized inve results and net investment income. Favorable net prior year development of $93 million and $47 million was recorded for the three r ended September 30, 2010 and 2009. Further information on net prior year development for the three months ended September 30, 20 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. Net earned pre decreased $62 million for the three months ended September 30, 2010 as compared to the 2009 period, driven by a $55 million decre CNA Commercial. See the CNA Segment Results section of this MD&A for further discussion. Net loss from discontinued ope increased $21 million for the three months ended September 30, 2010 as compared to the 2009 period, due to the loss associated w Loss Portfolio Transfer.

Nine Months Ended September 30, 2010 Compared to 2009

Net income increased $190 million for the nine months ended September 30, 2010 as compared to the 2009 period. This improveme driven by significantly improved net investment results of $1,054 million ($617 million after tax and noncontrolling interests), pa offset by the loss associated with the Loss Portfolio Transfer. See the Investments section of this MD&A for further discussion realized investment results and net investment income. Favorable net prior year development of $393 million and $163 million was re for the nine months ended September 30, 2010 and 2009. Further information on net prior year development for the nine months September 30, 2010 and 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under I Net earned premiums decreased $167 million for the nine months ended September 30, 2010 as compared to the 2009 period, drive $142 million decrease in CNA Commercial. See the CNA Segment Results section of this MD&A for further discussion. Net los discontinued operations increased $19 million for the nine months ended September 30, 2010 as compared to the 2009 period, due to t associated with the Loss Portfolio Transfer.

In 2010, CNA commenced a program to significantly transform its IT organization and delivery model. CNA anticipates that the tota for this program will be approximately $41 million, of which $34 million was incurred through the third quarter of 2010. When the res this program are fully operational, CNA anticipates annual savings based on its current annual level of IT spending. A significant por the annual savings is anticipated to be achieved in 2011 with full annual savings in 2012. Some or all of these estimated savings r invested in IT or other enhancements necessary to support CNA s business strategies.

CNA Segment Results

CNA utilizes the net operating income financial measure to monitor its operations. Net operating income is calculated by excluding fr income (loss) after tax and noncontrolling interests the effects of (i) net realized investment gains or losses, (ii) income or los discontinued operations and (iii) any cumulative effects of changes in accounting guidance. See further discussion regarding how manages its business in Note 7 of the Notes to Consolidated Condensed Financial Statements included under Item 1. In evaluating the of the CNA Specialty and CNA Commercial segments, CNA utilizes the loss ratio, the expense ratio, the dividend ratio and the con ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adju expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, includi amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders dividends incurre earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

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CNA Specialty

The following table summarizes the results of operations for CNA Specialty:

(In millions, except %)	Three Months Ended September 30, 2010	2009	Nine Months Ende September 30, 2010	20
Net written premiums	**$ 706**	$ 690	**$ 2,009**	$ 2,(
Net earned premiums	**679**	687	**1,998**	2,(
Net investment income	**148**	154	**420**	1
Net operating income	**131**	139	**397**	1
Net realized investment gains (losses)	**8**	(21)	**35**	(
Net income	**139**	118	**432**	1
Ratios:				
Loss and loss adjustment expense	**57.8%**	59.8%	**55.8%**	6
Expense	**30.4**	28.8	**30.5**	2
Dividend	**0.3**	0.2	**0.3**	
Combined	**88.5%**	88.8%	**86.6%**	8

Three Months Ended September 30, 2010 Compared to 2009

Net written premiums for CNA Specialty increased $16 million for the three months ended September 30, 2010 as compared to the period. Net written premiums increased in CNA s professional management and liability lines of business. This increase was partiall by continued decreased insured exposures and lower rates in CNA s architects & engineers and CNA HealthPro lines of busines current economic and competitive market conditions. These conditions may continue to put ongoing pressure on premium and income and the expense ratio. Net earned premiums decreased $8 million as compared to the 2009 period, due to the impact of decreased net premiums in prior quarters.

CNA Specialty s average rate decreased 2% and 1% for the three months ended September 30, 2010 and 2009 for the policies that r during those periods. Retention rates of 86% and 85% were achieved for those policies that were available for renewal in each period.

Net income increased $21 million for the three months ended September 30, 2010 as compared to the 2009 period. This increase was improved net realized investment results, partially offset by lower net operating income. See the Investments section of this MD& further discussion of net realized investment results.

Net operating income decreased $8 million for the three months ended September 30, 2010 as compared to the 2009 period. This de was primarily due to decreased current accident year underwriting results and lower net investment income, partially offset by inc favorable net prior year development.

The combined ratio improved 0.3 points for the three months ended September 30, 2010 as compared to the 2009 period. The los improved 2.0 points, primarily due to increased favorable net prior year development, partially offset by the impact of a higher c accident year loss ratio. The expense ratio increased 1.6 points, primarily related to higher underwriting expenses.

Favorable net prior year development of $67 million was recorded for the three months ended September 30, 2010, compared to fav net prior year development of $36 million for the 2009 period. Further information on CNA Specialty s net prior year developmen three months ended September 30, 2010 and 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial State included under Item 1.

Nine Months Ended September 30, 2010 Compared to 2009

Net written premiums for CNA Specialty decreased $8 million and net earned premiums decreased $16 million for the nine months September 30, 2010 as compared to the 2009 period, driven by decreased insured exposures and lower rates as discussed in the three comparison above.

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CNA Specialty s average rate decreased 2% for the nine months ended September 30, 2010 and 2009 for the policies that renewed
those periods. Retention rates of 86% and 85% were achieved for those policies that were available for renewal in each period.

Net income improved $195 million for the nine months ended September 30, 2010 as compared to the 2009 period. This improveme
due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for f
discussion of net realized investment results.

Net operating income increased $25 million for the nine months ended September 30, 2010 as compared to the 2009 period, primarily
increased favorable net prior year development and improved net investment income, partially offset by decreased current acciden
underwriting results.

The combined ratio improved 2.6 points for the nine months ended September 30, 2010 as compared to the 2009 period. The los
improved 4.3 points, primarily due to increased favorable net prior year development, partially offset by the impact of a higher c
accident year loss ratio. The expense ratio increased 1.8 points primarily related to higher underwriting expenses and higher comm
rates. Underwriting expenses were unfavorably impacted by IT Transformation costs. See the CNA Consolidated section of this MD&
further discussion of IT Transformation costs.

Favorable net prior year development of $220 million was recorded for the nine months ended September 30, 2010 compared to fav
net prior year development of $103 million for the 2009 period. Further information on CNA Specialty s net prior year developmen
nine months ended September 30, 2010 and 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial State
included under Item 1.

The following table summarizes the gross and net carried reserves for CNA Specialty:

(In millions)		September 30, 2010		Decemb 200
Gross Case Reserves	**$**	**2,329**	$	2
Gross IBNR Reserves		**4,584**		4
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**6,913**	$	6
Net Case Reserves	**$**	**1,941**	$	1
Net IBNR Reserves		**4,024**		4
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**5,965**	$	5

CNA Commercial

The following table summarizes the results of operations for CNA Commercial:

	Three Months Ended September 30,		Nine Months End September 30,	
	2010	2009	**2010**	20

(In millions, except %)

Net written premiums	**$ 763**	$ 787	**$ 2,430**	$ 2,
Net earned premiums	**819**	874	**2,432**	2,
Net investment income	**214**	276	**613**	[illegible]
Net operating income	**96**	106	**296**	[illegible]
Net realized investment gains (losses)	**13**	(42)	**13**	(
Net income	**109**	64	**309**	
Ratios:				
Loss and loss adjustment expense	**70.2%**	73.4%	**68.3%**	7
Expense	**35.1**	36.8	**35.8**	3
Dividend	**0.4**	0.4	**0.4**	
Combined	**105.7%**	110.6%	**104.5%**	10

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Three Months Ended September 30, 2010 Compared to 2009

Net written premiums for CNA Commercial decreased $24 million for the three months ended September 30, 2010 as compared to th period. Premiums written were unfavorably impacted by decreased insured exposures and decreased new business as a result of comp market conditions. Current economic conditions have led to decreased insured exposures, such as in the construction industry due to s payrolls and reduced project volume. These conditions may continue to put ongoing pressure on premium and income levels and the ex ratio. Net earned premiums decreased $55 million for the three months ended September 30, 2010 as compared to the 2009 p consistent with the trend of lower net written premiums.

CNA Commercial s average rate was flat for the three months ended September 30, 2010 and 2009 for the policies that renewed durin periods. Retention rates of 81% and 80% were achieved for those policies that were available for renewal in each period.

Net income increased by $45 million for the three months ended September 30, 2010 as compared to the 2009 period. This improv was due to improved net realized investment results, partially offset by lower net operating income. See the Investments section MD&A for further discussion of net realized investment results and net investment income.

Net operating income decreased $10 million for the three months ended September 30, 2010 as compared to the 2009 period. This de was primarily due to lower net investment income, driven by less favorable limited partnership income, partially offset by inc favorable net prior year development.

The combined ratio improved 4.9 points for the three months ended September 30, 2010 as compared to the 2009 period. The los improved 3.2 points, primarily due to increased favorable net prior year development and decreased catastrophe losses. Catastrophe were $11 million, or 1.4 points of the loss ratio, for the three months ended September 30, 2010 as compared to $21 million, or 2.4 po the loss ratio, for the 2009 period.

The expense ratio improved 1.7 points for the three months ended September 30, 2010 as compared to the 2009 period, primarily due favorable impact of a reduction in the allowance for uncollectible insurance receivables and decreased unfavorable changes in estima insurance-related assessments. These favorable impacts were partially offset by the unfavorable impact of the lower net earned pre base.

Favorable net prior year development of $28 million was recorded for the three months ended September 30, 2010, compared to fav net prior year development of $12 million for the 2009 period. Further information on CNA Commercial net prior year development three months ended September 30, 2010 and 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial State included under Item 1.

Nine Months Ended September 30, 2010 Compared to 2009

Net written premiums for CNA Commercial decreased $217 million and net earned premiums decreased $142 million for the nine m ended September 30, 2010 as compared to the 2009 period, primarily due to the same reasons discussed above in the three comparison.

CNA Commercial s average rate increased 1% for the nine months ended September 30, 2010 as compared to a decrease of 1% for t period for the policies that renewed during those periods. Retention rates of 79% and 81% were achieved for those policies tha available for renewal in each period.

Net income improved $248 million for the nine months ended September 30, 2010 as compared to the 2009 period, due to the same r discussed above in the three month comparison.

Net operating income decreased $25 million for the nine months ended September 30, 2010 as compared to the 2009 period. This de was primarily due to lower net investment income, driven by less favorable limited partnership income, and decreased current acciden underwriting results, including higher catastrophe losses. These unfavorable items were partially offset by increased favorable net pri development.

The combined ratio improved 2.3 points for the nine months ended September 30, 2010 as compared to the 2009 period. The los
improved 3.6 points, primarily due to 4.9 points of increased favorable net prior year development, partially offset by increased catas
losses and the impact of a higher current accident year non-catastrophe loss ratio. Catastrophe losses were $94 million, or 3.9 points
loss ratio, for the nine months ended September 30, 2010, as compared to $73 million, or 2.8 points of the loss ratio, for the 2009 perio

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The expense ratio increased 1.1 points for the nine months ended September 30, 2010 as compared to the 2009 period, primarily increased underwriting expenses and the unfavorable impact of the lower net earned premium base. Underwriting expense unfavorably impacted by IT Transformation costs. See the CNA Consolidated section of this MD&A for further discussion Transformation costs.

Favorable net prior year development of $175 million was recorded for the nine months ended September 30, 2010, compared to fav net prior year development of $63 million for the 2009 period. Further information on CNA Commercial net prior year development nine months ended September 30, 2010 and 2009 is included in Note 5 of the Notes to Consolidated Condensed Financial State included under Item 1.

The following table summarizes the gross and net carried reserves for CNA Commercial:

(In millions)	September 30, 2010		Decembe 2009	
Gross Case Reserves	**$**	**6,443**	$	6
Gross IBNR Reserves		**6,092**		6
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**12,535**	$	13
Net Case Reserves	**$**	**5,270**	$	5
Net IBNR Reserves		**5,218**		5
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**10,488**	$	10

Life & Group Non-Core

The following table summarizes the results of operations for Life & Group Non-Core:

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months E September 3 2010	2
Net earned premiums	**$ 145**	$ 149	**$ 436**	$
Net investment income	**182**	169	**531**	
Net operating income (loss)	**(49)**	46	**(65)**	
Net realized investment gains (losses)	**11**	12	**7**	
Net income (loss)	**(38)**	58	**(58)**	

Three Months Ended September 30, 2010 Compared to 2009

Net earned premiums for Life & Group Non-Core decreased $4 million for the three months ended September 30, 2010 as compared 2009 period. Net earned premiums relate primarily to the individual and group long term care businesses.

Net results decreased $96 million for the three months ended September 30, 2010 as compared to the 2009 period. This decreas
primarily due to the favorable impact in 2009 of a $55 million gain (after tax and noncontrolling interests) arising from a settlement re
with Willis Limited that resolved litigation related to the placement of personal accident reinsurance. Also contributing to the decrease
results was a $39 million increase to payout annuity benefit reserves resulting from unlocking assumptions due to loss recognition, an
favorable performance on CNA s pension deposit business.

Certain of the separate account investment contracts related to CNA s pension deposit business guarantee principal and an annual m
rate of interest, for which CNA recorded an additional pretax liability in Policyholders funds during 2008 based on the result
investments supporting this business at that time. During the third quarter of 2009, CNA decreased this pretax liability by $18 million
on improved results from these investments. During the third quarter of 2010, CNA decreased the remaining pretax liability by $7 n
based on the results from these investments. CNA no longer carries an additional liability in Policyholders funds for these separate
investment contracts.

Nine Months Ended September 30, 2010 Compared to 2009

Net earned premiums for Life & Group Non-Core decreased $11 million for the nine months ended September 30, 2010 as compared
2009 period.

Net results increased $30 million for the nine months ended September 30, 2010 as compared to the 2009 period. This improveme
primarily due to improved net realized investment results. See the Investments section of this MD&A for further discussion of net re
investment results. In addition, 2009 results included the unfavorable impact of a $25 million legal accrual (after tax and noncontr
interests). Partially offsetting these favorable impacts was the unfavorable Willis Limited settlement and the increase in the payout a
benefit reserves as discussed above in the three month comparison, as well as unfavorable results in CNA s long term care business.

Other Insurance

The following table summarizes the results of operations for the Other Insurance segment, including A&EP and intrasegment eliminati

	Three Months Ended September 30,		**Nine Months E**	
	2010	2009	**2010**	2
(In millions)				
Net investment income	**$ 37**	$ 61	**$ 128**	$
Net operating income (loss)	**(318)**	13	**(316)**	
Net realized investment gains (losses)	**5**	(10)	**13**	
Net income (loss)	**(313)**	3	**(303)**	

Three Months Ended September 30, 2010 Compared to 2009

Net results decreased $316 million for the three months ended September 30, 2010 as compared to the 2009 period, driven by the net
$328 million as a result of the Loss Portfolio Transfer, as previously discussed in this MD&A. Net results were also impacted by lov
investment income and higher interest expense. Partially offsetting these unfavorable items were improved net realized investment r
See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Unfavorable net prior year development of $2 million was recorded for the three months ended September 30, 2010, compa
unfavorable net prior year development of $1 million for the 2009 period.

Nine Months Ended September 30, 2010 Compared to 2009

Net loss decreased $266 million for the nine months ended September 30, 2010 as compared to the 2009 period, primarily due to the
reasons discussed above in the three month comparison.

Unfavorable net prior year development of $2 million was recorded for the nine months ended September 30, 2010, compa
unfavorable net prior year development of $3 million for the 2009 period.

The following table summarizes the gross and net carried reserves for the Other Insurance segment:

(In millions)		September 30, 2010		Decemb 2009
Gross Case Reserves	**$**	**1,497**	$	1
Gross IBNR Reserves		**2,094**		2
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$**	**3,591**	$	4
Net Case Reserves	**$**	**504**	$	
Net IBNR Reserves		**365**		1
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$**	**869**	$	2

Total net carried claim and claim adjustment expense reserves decreased primarily as a result of the Loss Portfolio Transfer, as prev discussed in this MD&A.

Diamond Offshore

Recent Developments

On April 20, 2010, the Macondo well being drilled by BP plc in the U.S. Gulf of Mexico, (GOM), experienced a blowout and im
began flowing oil into the GOM. Efforts to permanently plug and abandon the well and contain the spill were successfully compl
September 2010.

In the near-term aftermath of the Macondo incident, on May 30, 2010, the U.S. government imposed a six month moratorium on
drilling activities in water deeper than 500 feet in the GOM and subsequently implemented enhanced safety requirements applicabl
drilling activity in the GOM, including drilling activities in water shallower than 500 feet. On October 12, 2010, the U.S. governmen
the moratorium subject to compliance with enhanced safety requirements including those set forth in Notices to Lessees 2010-N
2010-N06, both of which were implemented during the drilling ban. Additionally, all drilling in the GOM will be required to compl
the Interim Final Rule to Enhance Safety Measures for Energy Development on the Outer Continental Shelf (Drilling Safety Rule
Workplace Safety Rule on Safety and Environmental Management Systems, both of which were issued on September 30, 2010, onc
become final. Diamond Offshore continues to evaluate these new measures to ensure that its rigs and equipment are in full comp
where applicable. Additional requirements could be forthcoming based on further recommendations by regulatory agencies investigat
Macondo incident. Diamond Offshore is not able to predict the likelihood, nature or extent of additional rulemaking or when the i
rules, or any future rules, could become final. Nor is Diamond Offshore able to predict when the Bureau of Ocean Energy Manag
Regulation and Enforcement, (BOEM), will issue drilling permits to its customers. Diamond Offshore is not able to predict the futu
of these events on its operations. Even with the drilling ban lifted, certain deepwater drilling activities remain suspended until the
resumes its regular permitting of those activities.

It has been reported that the industry currently has 35 floating rigs in the GOM that have been impacted by the moratorium and th
floating rigs have left the GOM since the imposition of the moratorium, two of which were Diamond Offshore rigs. At October 28,
Diamond Offshore had two semisubmersible rigs under contract in the GOM, in addition to the *Ocean Monarch,* whose contract the o
has sought to terminate as discussed below, as well as two jack-up rigs. Given the continuing uncertainty with respect to drilling act
the GOM, Diamond Offshore s customers may seek to move additional rigs to locations outside of the GOM or perform activities w
allowed under the enhanced safety requirements. One of Diamond Offshore s customers has asserted force majeure as a basi
termination of the drilling contract for the *Ocean Monarch*, which has a remaining term of approximately thirty months, and the opera
also filed suit against Diamond Offshore in U.S. District Court in Houston, seeking a declaratory judgment that its termination of the d
contract is warranted under the contract. Diamond Offshore does not believe the events cited by the operator come within the defini
force majeure under the drilling contract, and does not believe that the operator has the right to terminate the drilling contract on this
Although Diamond Offshore cannot predict with certainty the results of any such litigation, and there can be no assurance as to its u
outcome, it intends to vigorously defend this litigation and challenge the operator s attempt to terminate the drilling contract.

Diamond Offshore is continuing to actively seek international opportunities to keep its rigs employed. However, Diamond Offsh
provide no assurance that it will be successful in its efforts to employ its remaining impacted rigs in the GOM in the near term or t
force majeure assertion will ultimately be resolved in Diamond Offshore s favor. In addition, given the ongoing uncertainty with re
drilling activity and other industry factors in the GOM, Diamond Offshore has cold stacked two intermediate floaters and four jack-up
the GOM.

Outside the GOM, the global economy remained relatively flat in the third quarter of 2010, with oil prices averaging in the mid
Dayrates Diamond Offshore receives for new contracts are no longer at the peak levels achieved at the height of the most recent up
While dayrates for its international floater rigs appear to have stabilized, given the unpredictable economic environment, the dema
Diamond Offshore s services and the dayrates it is able to command could soften further. The volatility and economic uncertainty a
further exacerbated by the continuing regulatory uncertainty in the GOM. If Diamond Offshore, or others, move additional rigs out
GOM to international locations, the increased supply of available rigs entering the international market, coupled with un-cont
new-build rigs scheduled for delivery between now and the end of 2010, could create downward pressure on dayrates unless d
improves sufficiently to absorb the new supply.

From June 30, 2010 through October 28, 2010, Diamond Offshore has entered into eight new drilling contracts totaling approximat
million in backlog and ranging in duration from one well to one year. At the end of the third quarter of 2010, Diamond Offshore s
backlog was approximately $7.5 billion, of which its contracts in the GOM (including approximately $394 million related to the contr

the *Ocean Monarch* discussed above) represented approximately $546 million, or 7%, of its total contract backlog.

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Contract Drilling Backlog

The following table reflects Diamond Offshore s contract drilling backlog as of October 18, 2010 and February 1, 2010 (the date rep our Annual Report on Form 10-K for the year ended December 31, 2009). Contract drilling backlog is calculated by multiplyi contracted operating dayrate by the firm contract period and adding one half of any potential rig performance bonuses. Diamond Off calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the an and periods shown in the tables below due to various factors. Utilization rates, which generally approach 95% - 98% during cont periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditio unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract prepa and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Dia Offshore s contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the exte modification of existing term contracts and the execution of additional contracts.

(In millions)	October 18, 2010	Februa 201
High specification floaters (a)	$ 4,371	$ 4
Intermediate semisubmersible rigs (b)	3,009	4
Jack-ups (c)	122	
Total	$ 7,502	$ 8

(a) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s high specification floaters includes (i) $3.0 billion attri to contracted operations offshore Brazil for the remainder of 2010 and for the years 2011 to 2016, and (ii) $491 million attributab contracted operations in the GOM for the remainder of 2010 and for the years 2011 to 2013, which includes $394 million attribut to the *Ocean Monarch* pursuant to a contract that the operator has sought to terminate.

(b) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s intermediate semisubmersible rigs includes (i) $2.4 bil attributable to contracted operations offshore Brazil for the remainder of 2010 and for the years 2011 to 2015, and (ii) $54 millio attributable to contracted operations in the GOM for the remainder of 2010 and for the year 2011.

(c) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s jack-ups includes (i) $48 million attributable to contrac operations offshore Brazil for the remainder of 2010 and for the year 2011, and (ii) $1 million attributable to contracted operation the GOM for the remainder of 2010.

The following table reflects the amount of Diamond Offshore s contract drilling backlog by year as of October 18, 2010.

Year Ended December 31 (In millions)	Total	2010 (a)	2011	2012	2013 -
High specification floaters (b)	**$ 4,371**	**$ 450**	**$ 1,653**	**$ 912**	**$ 1**
Intermediate semisubmersible rigs (c)	**3,009**	**383**	**1,010**	**860**	
Jack-ups (d)	**122**	**36**	**86**		
Total	**$ 7,502**	**$ 869**	**$ 2,749**	**$ 1,772**	**$ 2**

(a) Represents a three month period beginning October 1, 2010.

(b) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s high specification floaters includes (i) $205 million, $8 million and $667 million for the remainder of 2010 and for the years 2011 and 2012 and $1.3 billion in the aggregate for the year 2013 to 2016, attributable to contracted operations offshore Brazil, and (ii) $77 million, $221 million, $161 million and $32 milli the remainder of 2010 and for the years 2011 to 2013, attributable to contracted operations in the GOM. The GOM amount incluc $40 million, $161 million, $161 million and $32 million for the remainder of 2010 and for the years 2011 to 2013, attributable to *Ocean Monarch* pursuant to a contract that the operator has sought to terminate.

(c) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s intermediate semisubmersible rigs includes (i) $179 m $764 million and $732 million for the remainder of 2010 and for the years 2011 and 2012 and $699 million in the aggregate for t years 2013 to 2016, attributable to contracted operations offshore Brazil, and (ii) $18 million and $36 million for the remainder o and for the year 2011, attributable to contracted operations in the GOM.

(d) Contract drilling backlog as of October 18, 2010 for Diamond Offshore s jack-ups includes (i) $3 million and $45 million for the remainder of 2010 and for the year 2011, attributable to contracted operations offshore Brazil, and (ii) $1 million for the remaind 2010 attributable to contracted operations in the GOM.

The following table reflects the percentage of rig days committed by year as of October 18, 2010. The percentage of rig days commi
calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all
Diamond Offshore s fleet, to total available days (number of rigs multiplied by the number of days in a particular year).

Year Ended December 31	2010 (a) (b)	2011 (b)	2012	2013 -
High specification floaters (c)	**99%**	82%	47%	
Intermediate semisubmersible rigs	**83%**	57%	44%	
Jack-ups	**40%**	17%		

(a) Represents a three month period beginning October 1, 2010.
(b) Includes approximately 240 and 480 scheduled shipyard, survey and mobilization days for 2010 and 2011.
(c) Includes 91, 365, 366 and 73 committed days for the remainder of 2010 and for the years 2011, 2012 and 2013, attributable to the *Ocean Monarch* pursuant to a contract that the operator has sought to terminate.

Results of Operations

The following table summarizes the results of operations for Diamond Offshore for the three and nine months ended September 30, 20
and 2009 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months En September 3	
	2010	2009	**2010**	20
(In millions)				
Revenues:				
Contract drilling	**$ 749**	$ 885	**$ 2,405**	$ 2
Net investment income		2	**2**	
Investment gains				
Other revenue	**84**	32	**111**	
Total	**833**	919	**2,518**	2
Expenses:				
Contract drilling	**355**	307	**1,009**	
Other operating	**158**	123	**420**	
Interest	**22**	15	**66**	
Total	**535**	445	**1,495**	1
Income before income tax	**298**	474	**1,023**	1
Income tax expense	**(107)**	(124)	**(336)**	
Net income	**191**	350	**687**	1
Amounts attributable to noncontrolling interests	**(98)**	(180)	**(354)**	

Net income attributable to Loews Corporation	**$**	**93**	$	170	**$**	**333**	$

Three Months Ended September 30, 2010 Compared to 2009

During the third quarter of 2010, Diamond Offshore s operating results were negatively impacted by the drilling moratorium in the G well as the relatively flat global economy. Although Diamond Offshore s contracted revenue backlog enabled it to partially miti impact of these market conditions, contract drilling revenues decreased $136 million, or 15%, to $749 million for the third quarter of 2 compared to $885 million for the 2009 period. The decrease in revenue was primarily related to a decrease in dayrates, combined w overall decrease in average utilization from 76% during the third quarter of 2009 to 65% for the third quarter of 2010.

Revenues from intermediate semisubmersible and jack-up rigs decreased $88 million for the three months ended September 30, 20 compared to the 2009 period, due primarily to decreased utilization of $68 million and decreased dayrates of $15 million. Revenue high specification floaters decreased $48 million for the three months ended September 30, 2010 as compared to the 2009 perio primarily to decreased utilization of $76 million and decreased dayrates of $13 million. These declines were partially offset by a $31 m contract termination fee received in relation to the *Ocean Endeavor*.

Other revenue for the three months ended September 30, 2010 includes a pretax gain of approximately $31 million related to the sale *Ocean Shield* on July 7, 2010. The rig was sold for a gross purchase price of $186 million.

Net income decreased $77 million, or 45% for the three months ended September 30, 2010 as compared to the 2009 period, mainly decreased revenue as noted above. Contract drilling expense increased $48 million, to $355 million for the third quarter of 2010, con to $307 million for the 2009 period. This increase is primarily due to higher amortized mobilization expenses and higher operating cos to more of Diamond Offshore s rigs exiting the GOM to operate internationally, where the operating cost structure is generally hig that of the GOM. Depreciation expense increased $13 million during the third quarter of 2010, compared to the 2009 period, due to a depreciable asset base, including the 2009 acquisitions of the *Ocean Courage* and *Ocean Valor*, which were placed in service in Sept 2009 and March 2010.

Nine Months Ended September 30, 2010 Compared to 2009

Throughout the first nine months of 2010, the weak global economy, coupled with the effects of the drilling moratorium in the continued to have a negative impact on Diamond Offshore s industry. While Diamond Offshore s contracted revenue backlog ena partially mitigate the impact of these market conditions, contract drilling revenues decreased $259 million, or 10%, for the nine n ended September 30, 2010 as compared to the 2009 period. The decrease in revenue was primarily related to a decrease in day combined with an overall decrease in average utilization from 81% during the first nine months of 2009 to 76% for the first nine mon 2010.

Revenues from intermediate semisubmersible and jack-up rigs decreased $289 million for the nine months ended September 30, 2 compared to the 2009 period, due primarily to decreased dayrates of $117 million and decreased utilization of $174 million. Revenue high specification floaters increased $30 million for the nine months ended September 30, 2010 as compared to the 2009 perio increase primarily reflects a $31 million contract termination fee received in relation to the *Ocean Endeavor* and increased recogni mobilization fees of $26 million, partially offset by a decrease in utilization of $22 million.

Other revenue for the nine months ended September 30, 2010 includes a pretax gain of approximately $31 million related to the *Ocean Shield* on July 7, 2010. The rig was sold for a gross purchase price of $186 million.

Net income decreased $181 million, or 35% for the nine months ended September 30, 2010 as compared to the 2009 period, mainly decreased revenue as noted above. Contract drilling expense increased $102 million, to $1.0 billion for the nine months ended Septem 2010, compared to $907 million for the 2009 period. This increase is primarily due to higher amortized mobilization expenses, maint costs and general costs associated with maintaining international shorebase support facilities. Contract drilling expense for the firs months of 2010 also includes $52 million in operating and start-up costs for the latest additions to Diamond Offshore s drilling f *Ocean Courage* and *Ocean Valor*. Depreciation expense increased $40 million during the first nine months of 2010, compared to th period, due to a higher depreciable asset base, including the 2009 rig acquisitions. Interest expense increased $39 million for the nine n ended September 30, 2010, compared to the 2009 period due to additional expense related to the issuance of 5.9% senior notes in M 2009 and 5.7% senior notes in October of 2009.

Diamond Offshore s effective tax rate increased for the nine months ended September 30, 2010 as compared to the 2009 period. Th effective tax rate is a result of differences in the mix of domestic and international pretax earnings and losses, as well as the international tax jurisdictions in which Diamond Offshore operates. Also contributing to the higher effective tax rate in the current was the expiration on December 31, 2009 of a tax law provision which had allowed Diamond Offshore to defer recognition of foreign earnings for U.S. income tax purposes. Additionally, during the nine months ended September 30, 2009, one of Diamond Off wholly owned foreign subsidiaries repatriated earnings to one of its wholly owned domestic subsidiaries. The repatriation brought associated foreign tax credits that had previously been unrecognized and lowered the effective tax rate during the 2009 period.

HighMount

We use the following terms throughout this discussion of HighMount s results of operations, with equivalent volumes computed with natural gas liquids (NGLs) quantities converted to Mcf, on an energy equivalent ratio of one barrel to six Mcf:

Bbl	- Barrel (of oil or NGLs)
Bcf	- Billion cubic feet (of natural gas)

Bcfe	-	Billion cubic feet of natural gas equivalent
Mbbl	-	Thousand barrels (of oil or NGLs)
Mcf	-	Thousand cubic feet (of natural gas)
Mcfe	-	Thousand cubic feet of natural gas equivalent
MMBtu	-	Million British thermal units

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HighMount s operating revenues and future growth depend substantially on natural gas and NGL prices and HighMount s ability to its production. In recent years, there has been significant price volatility in natural gas and NGL prices due to a variety of factors High cannot control or predict. These factors, which include weather conditions, political and economic events, technological advancemen competition from other energy sources impact supply and demand for natural gas, which determines the pricing. In addition, the HighMount realizes for its gas production is affected by HighMount s hedging activities as well as locational differences in marke Production volumes are dependent upon HighMount s ability to realize attractive returns on its capital investment program which is p affected by commodity prices, capital and operating costs.

Since 2009 natural gas prices have declined largely due to increased onshore natural gas production, plentiful levels of working storage and reduced demand. Consequently, HighMount has reduced its drilling program.

HighMount s operating expenses consist primarily of production expenses, production and ad valorem taxes, as well as depre depletion and amortization (DD&A) expenses. Production expenses represent costs incurred to operate and maintain wells equipment and facilities and transportation costs. Production and ad valorem taxes increase or decrease primarily when prices of natu and NGLs increase or decrease, but they are also affected by changes in production, as well as appreciated property values. High calculates depletion using the units-of-production method, which depletes the capitalized costs and future development costs associate evaluated properties based on the ratio of production volumes for the current period to total remaining reserve volumes for the eva properties. HighMount s depletion expense is affected by its capital spending program and projected future development costs, as reserve changes resulting from drilling programs, well performance and revisions due to changing commodity prices.

Sale of Assets

On April 30, 2010, HighMount completed the sale of exploration and production assets located in the Antrim Shale in Michiga subsidiary of Linn Energy, LLC for approximately $330 million, subject to adjustment, and on May 28, 2010, HighMount complet sale of exploration and production assets located in the Black Warrior Basin in Alabama to a subsidiary of Walter Energy for approxi $210 million, subject to adjustment. The Michigan and Alabama properties represented approximately 17% in aggregate of HighM total proved reserves as of December 31, 2009, prior to the sales. These sales did not have a material impact on the Consolidated Con Statements of Income. HighMount s remaining natural gas exploration and production operations are primarily located in the Permia in Texas.

Production and Sales Statistics

Presented below are production and sales statistics related to HighMount s operations for the three and nine months ended Septen 2010 and 2009:

	Three Months Ended September 30,		**Nine Months End September 30,**	
	2010	2009	**2010**	20
Gas production (Bcf)	**12.4**	18.8	**45.0**	
Gas sales (Bcf)	**11.7**	17.4	**41.9**	
Oil production/sales (Mbbls)	**59.5**	81.5	**188.3**	2
NGL production/sales (Mbbls)	**759.3**	762.3	**2,231.9**	2,5
Equivalent production (Bcfe)	**17.3**	23.8	**59.5**	
Equivalent sales (Bcfe)	**16.6**	22.5	**56.4**	
Average realized prices, without hedging results:				
Gas (per Mcf)	**$ 4.15**	$ 3.19	**$ 4.48**	$
NGL (per Bbl)	**37.53**	29.34	**39.93**	2

Oil (per Bbl)	**69.61**	63.51	**71.62**	5
Equivalent (per Mcfe)	**4.89**	3.69	**5.15**	
Average realized prices, with hedging results:				
Gas (per Mcf)	**$ 5.56**	$ 6.72	**$ 6.06**	$
NGL (per Bbl)	**35.81**	27.32	**34.49**	2
Oil (per Bbl)	**69.61**	63.51	**71.62**	5
Equivalent (per Mcfe)	**5.80**	6.37	**6.10**	

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	Three Months Ended September 30,		Nine Months E September 3	
	2010	2009	**2010**	2
Average cost per Mcfe:				
Production expenses	**$ 1.18**	$ 1.04	**$ 1.13**	$
Production and ad valorem taxes	**0.32**	0.36	**0.37**	
General and administrative expenses	**0.56**	0.49	**0.62**	
Depletion expense	**0.92**	0.84	**0.89**	

Results of Operations

The following table summarizes the results of operations for HighMount for the three and nine months ended September 30, 2010 and as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1.

	Three Months Ended September 30,		Nine Months E September 3	
	2010	2009	**2010**	20
(In millions)				
Revenues:				
Other revenue, primarily operating	**$ 98**	$ 144	**$ 351**	$
Investment losses			**(31)**	
Total	**98**	144	**320**	
Expenses:				
Impairment of natural gas and oil properties				1
Operating	**56**	57	**197**	
Interest	**12**	21	**49**	
Total	**68**	78	**246**	1
Income (loss) before income tax	**30**	66	**74**	
Income tax (expense) benefit	**(11)**	(26)	**(37)**	
Net income (loss) attributable to Loews Corporation	**$ 19**	$ 40	**$ 37**	$

Three Months Ended September 30, 2010 Compared to 2009

HighMount s operating revenues decreased by $46 million to $98 million in the third quarter of 2010, compared to $144 million for t period. Operating revenues decreased by $35 million due to the sale of HighMount s assets in Michigan and Alabama. Permia operating revenues decreased by $11 million on sales volumes of 16.6 Bcfe in 2010 compared to 17.5 Bcfe in 2009. Average prices re per Mcfe for Permian Basin sales were $5.80 in the third quarter of 2010 compared to $6.20 in the 2009 period. The decrease in Pe Basin sales volume is primarily due to the reduction in HighMount s drilling activity.

HighMount had hedges in place as of September 30, 2010 that cover approximately 82% and 68% of total estimated 2010 and 2011 n gas equivalent production at a weighted average price of $6.43 and $6.31 per Mcfe.

Operating expenses decreased by $1 million to $56 million for the third quarter of 2010, compared to $57 million for the 2009 perio
decline reflects a $14 million decrease related to the sale of HighMount s assets in Michigan and Alabama, partially offset by an $11
adjustment to property impairment recorded in 2009. In addition, operating expenses increased $2 million due to well maintenance a
in 2010.

DD&A expenses were $21 million and $25 million for the three months ended September 30, 2010 and 2009 reflecting a $5 n
decrease due to the sale of HighMount s assets in Michigan and Alabama.

Nine Months Ended September 30, 2010 Compared to 2009

HighMount s operating revenues decreased by $115 million to $351 million in the first nine months of 2010, compared to $466 mil
the 2009 period. Operating revenues decreased by $54 million due to the sale of HighMount s assets in Michigan and Alabama. I
Basin operating revenues decreased by $61 million on sales

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volumes of 49.7 Bcfe in 2010 compared to 57.9 Bcfe in the 2009 period. Average prices realized per Mcfe for Permian Basin sale
$5.99 in 2010 compared to $6.24 in the 2009 period. The decrease in Permian Basin sales volume is primarily due to the reduct
HighMount s drilling activity.

In February of 2010, HighMount determined that a portion of the expected underlying transactions related to its hedging activities w
longer probable of occurring and discontinued hedge accounting treatment for a portion of its interest rate cash flow hedges a
commodity price swaps. Results for the nine months ended September 30, 2010, include a pretax gain of $5 million for the mark-to-m
valuation of these instruments. As a result of the sale of assets, in 2010, HighMount recognized a pretax loss of $36 million fro
reclassification of net derivative losses from AOCI to earnings. Derivative gains and losses not accounted for as hedge transactio
recorded as investment gains (losses) in the Consolidated Condensed Statements of Income.

In the first quarter of 2009, HighMount recorded a non-cash ceiling test impairment charge of $1,036 million ($660 million after tax) r
to the carrying value of its natural gas and oil properties. The write-down was the result of declines in commodity prices. Had the effe
HighMount s cash flow hedges not been considered in calculating the ceiling limitation, the impairment would have been $1,230
($784 million after tax). No such impairment was required during 2010.

Operating expenses decreased by $67 million to $197 million in the first nine months of 2010, compared to $264 million for the
period. The decline reflects a $25 million decrease related to the sale of HighMount s assets in Michigan and Alabama, partially offs
$11 million adjustment to property impairment recorded in 2009. During 2009, HighMount incurred non-recurring operating exper
$32 million related to lease early termination rights and a tubular inventory impairment charge. In addition, operating expenses dec
$21 million due to lower DD&A expenses and cost cutting efforts in 2010.

DD&A expenses declined to $69 million for the first nine months of 2010, compared to $94 million for the 2009 period, reflecting
million decrease due to the sale of HighMount s assets in Michigan and Alabama and a $15 million reduction in HighMount s depl
in 2010, primarily due to the impairment of natural gas and oil properties recorded in March of 2009.

Boardwalk Pipeline

Boardwalk Pipeline derives revenues primarily from the interstate transportation and storage of natural gas for third parties. Transpo
services consist of firm transportation, whereby the customer pays a capacity reservation charge to reserve pipeline capacity at c
receipt and delivery points along pipeline systems, plus a commodity and fuel charge on the volume of natural gas actually transporte
interruptible transportation, whereby the customer pays to transport gas only when capacity is available and used. Boardwalk Pipeline
firm storage services in which the customer reserves and pays for a specific amount of storage capacity, including injection and witho
rights, and interruptible storage and parking and lending (PAL) services where the customer receives and pays for capacity only w
available and used. Some PAL agreements are paid for at inception of the service and revenues for these agreements are recogni
service is provided over the term of the agreement.

Boardwalk Pipeline s ability to market available interstate transportation and storage capacity is impacted by demand for natu
competition from other pipelines, natural gas price volatility, the price differential between receipt and delivery points on pipeline sy
(basis spreads), economic conditions and numerous other factors beyond Boardwalk Pipeline s control. Boardwalk Pipeline compe
numerous interstate and intrastate pipelines, including several pipeline projects which have recently been placed in service or are
process of being developed. Additionally, significant new sources of natural gas have recently been identified throughout the United
which have created changes in pricing dynamics between supply basins, pooling points and market areas. As a result of the incre
overall pipeline capacity and the new sources of supply, the price differentials on Boardwalk Pipeline s pipeline systems have narrowe

Given current market conditions, marketing Boardwalk Pipeline s currently available capacity and renewing expiring contracts have
more difficult. Boardwalk Pipeline s ability to renew some of its expiring contracts at favorable rates, and the revenues from interrupt
short term firm transportation services, have been negatively impacted by these market conditions. Capacity that Boardwalk Pipeli
available on a short term basis will decrease as long term capacity commitments on the recently completed pipeline expansion pr
increase through 2011. However, some of Boardwalk Pipeline s capacity will continue to be available for sale on a short term
interruptible basis and each year a portion of Boardwalk Pipeline s existing contracts expire. The revenues Boardwalk Pipeline will be
earn from that available capacity and from renewals of expiring contracts will be heavily dependent upon basis spreads. It is not poss
accurately predict future basis spreads.

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Growth Projects

During 2010, Boardwalk Pipeline placed in service the remaining compression facilities associated with the Gulf Crossing Pipeline a
Fayetteville and Greenville Laterals which increased the peak-day delivery capacities of those projects. With the except
post-construction activities such as right-of-way restoration, the East Texas Pipeline, Southeast Expansion, Gulf Crossing Proje
Fayetteville and Greenville Laterals (pipeline expansion projects) are complete.

In the fourth quarter of 2010, Boardwalk Pipeline received authority from the Pipeline and Hazardous Materials Safety Administra
operate the Fayetteville Lateral at higher than normal operating pressures. This will allow Boardwalk Pipeline to operate the Fayet
Lateral at its design capacity of 1.3 billion cubic feet (Bcf) per day and to meet its increasing contractual obligations in the fourth
2010.

Set forth below is information with respect to the status of Boardwalk Pipeline s announced growth projects.

Haynesville Project. The Haynesville Project consists of adding compression to the East Texas Pipeline in Louisiana, whic
approximately 0.6 Bcf per day of peak-day transmission capacity with delivery capabilities from the DeSoto, Louisiana area
Perryville, Louisiana area. The Haynesville Project was placed in service in October of 2010. Customers have contracted for substanti
of the firm capacity on this project at a weighted-average contract life of approximately 12.2 years.

Clarence Compression Project. The Clarence Compression Project, which also targets production from the Haynesville Shale, w
approximately 0.1 Bcf per day of peak-day transmission capacity. This project will receive gas from the Holly Field area in Nor
Louisiana, and deliver to a third-party pipeline interconnect near Olla, Louisiana. Customers have contracted for approximately 0.1 B
day of capacity with a weighted-average contract life of approximately 11.0 years. Boardwalk Pipeline recently received Federal E
Regulatory Commission approval for this project which is expected to be in service in late 2011.

Results of Operations

The following table summarizes the results of operations for Boardwalk Pipeline for the three and nine months ended September 30
and 2009 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

	Three Months Ended September 30,		**Nine Months E September 3**	
(In millions)	**2010**	2009	**2010**	2
Revenues:				
Other revenue, primarily operating	**$ 264**	$ 206	**$ 821**	$
Total	**264**	206	**821**	
Expenses:				
Operating	**172**	155	**513**	
Interest	**37**	35	**112**	
Total	**209**	190	**625**	
Income before income tax	**55**	16	**196**	
Income tax expense	**(15)**	(1)	**(51)**	
Net income	**40**	15	**145**	
Amounts attributable to noncontrolling interests	**(19)**	(6)	**(65)**	

Net income attributable to Loews Corporation	**$ 21**	$ 9	**$ 80**	$

Three Months Ended September 30, 2010 Compared to 2009

Total revenues increased $58 million to $264 million for the third quarter of 2010, compared to $206 million for the 2009 perio
transportation revenues, excluding fuel, increased $46 million and fuel retained increased $11 million, primarily due to the pi
expansion projects. In addition, there was a $12 million gain from the sale of gas related to the western Kentucky storage expansion p
partially offset by an impairment loss of $3 million on a portion of pipe materials which are expected to be disposed of by sale.

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Operating expenses increased $17 million to $172 million for the third quarter of 2010, compared to $155 million for the 2009 perio
increase was primarily driven by a $17 million increase in fuel consumed due to the pipeline expansion projects and higher natur
prices, a $4 million increase in depreciation and property taxes due to a larger asset base from the pipeline expansion projects a
increase of $2 million in maintenance activities. The 2009 period was unfavorably impacted by $2 million of pipeline investigatio
retirement costs related to the East Texas Pipeline.

Net income increased $12 million to $21 million in the third quarter of 2010, compared to $9 million for the 2009 period due to
revenues from transportation services primarily from the pipeline expansion projects and gains on gas sales associated with the w
Kentucky storage expansion project, partially offset by increased operating expenses associated with the pipeline expansion proje
2009, gas transportation revenues and throughput were negatively impacted due to operating the pipeline expansion projects at re
operating pressures and portions of the pipeline expansion projects being shut down for periods of time following the discove
remediation of anomalies in certain joints of pipe.

Nine Months Ended September 30, 2010 Compared to 2009

Total revenues increased $190 million to $821 million for the nine months ended September 30, 2010, compared to $631 million
2009 period. Gas transportation revenues, excluding fuel, increased $172 million and fuel retained increased $29 million, primarily
the pipeline expansion projects. In addition, there was a $12 million gain from the sale of gas related to the western Kentucky s
expansion project, partially offset by an impairment loss of $3 million on a portion of pipe materials which are expected to be dispose
sale. These increases were partially offset by $14 million of lower interruptible and short term firm transportation services resultin
lower basis spreads between delivery points on Boardwalk Pipeline s pipeline systems.

Operating expenses increased $62 million to $513 million for the nine months ended September 30, 2010, compared to $451 million
2009 period. This increase was primarily driven by a $44 million increase in fuel consumed due to the pipeline expansion projects.
was a $20 million increase in depreciation and property taxes due to a larger asset base from the pipeline expansion projects and
million increase in administrative and general expense due to a legal settlement, an increase in outside services and unit-based compe
driven by an increase in the price of Boardwalk Pipeline s common units. The 2009 period was unfavorably impacted by $6 mi
pipeline investigation and retirement costs related to the East Texas Pipeline. Interest expense increased $17 million for the nine n
ended September 30, 2010 to $112 million due to higher debt levels in 2010 and lower capitalized interest due to the complet
Boardwalk Pipeline s pipeline expansion projects.

Net income increased $41 million to $80 million in the nine months ended September 30, 2010, compared to $39 million for the 2009
due to higher revenues from transportation services primarily from the pipeline expansion projects and gains on gas sales associated w
western Kentucky storage expansion project, partially offset by increased operating expenses related to increases in depreciatio
property taxes associated with the pipeline expansion projects and increased interest expense. In 2009, gas transportation revenu
throughput were negatively impacted due to operating the pipeline expansion projects at reduced operating pressures and portions
pipeline expansion projects being shut down for periods of time following the discovery and remediation of anomalies in certain jo
pipe.

Loews Hotels

The following table summarizes the results of operations for Loews Hotels for the three and nine months ended September 30, 20
2009 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		**Nine Months E September 3**	
(In millions)	**2010**	2009	**2010**	2
Revenues:				
Other revenue, primarily operating	**$ 73**	$ 67	**$ 229**	$
Net investment income	**1**		**1**	

Total	**74**	67	**230**	
Expenses:				
Operating	**73**	91	**219**	
Interest	**2**	2	**7**	
Total	**75**	93	**226**	
Income (loss) before income tax	**(1)**	(26)	**4**	
Income tax (expense) benefit	**(1)**	11	**(3)**	
Net income (loss) attributable to Loews Corporation	**$ (2)**	$ (15)	**$ 1**	$

Revenues increased by $7 million and $17 million or 10.4% and 8.0% for the three and nine months ended September 30, 2010 as con
to the 2009 periods. The net loss declined by $13 million to $2 million for the three months ended September 30, 2010 as compared t
loss of $15 million for the 2009 period. There was net income of $1 million for the nine months ended September 30, 2010 as compar
net loss of $30 million for the 2009 period.

Revenue per available room increased $15.63 and $12.14 to $143.90 and $147.12 for the three and nine months ended September 30
as compared to the 2009 periods. The increase in revenue per available room reflects improving occupancy and average room
Occupancy rates increased to 74.6% and 71.2% in the three and nine months ended September 30, 2010, from 71.5% and 67.8% in th
periods. Average room rates increased by $13.65 and $8.03, or 7.6% and 4.0% in the three and nine months ended September 30,
compared to the 2009 periods.

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

The improvement in operating results reflects the increase in revenue per available room as well as the absence of charges recorded in
In the third quarter of 2009, Loews Hotels recorded pretax charges in operating expenses of $10 million related to a development p
commitment and $10 million for a loan guarantee at a managed hotel. In addition, during the nine months ended September 30, 2009,
Hotels wrote down its entire investment in the Loews Lake Las Vegas, resulting in a pretax impairment charge of $27 million recor
operating expenses.

Corporate and Other

Corporate operations consist primarily of investment income at the Parent Company, corporate interest expense and other cor
administrative costs.

The following table summarizes the results of operations for Corporate and Other for the three and nine months ended September 30
and 2009 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		Nine Months E September 3	
(In millions)	**2010**	2009	**2010**	2
Revenues:				
Net investment income	**$ 72**	$ 64	**$ 102**	$
Other revenue	**(3)**	(2)	**(2)**	
Total	**69**	62	**100**	
Expenses:				
Operating	**13**	14	**46**	
Interest	**14**	10	**37**	
Total	**27**	24	**83**	
Income before income tax	**42**	38	**17**	
Income tax expense	**(14)**	(16)	**(7)**	
Net income attributable to Loews Corporation	**$ 28**	$ 22	**$ 10**	$

Revenues increased by $7 million for the three months ended September 30, 2010, and decreased by $48 million for the nine months September 30, 2010 as compared to the 2009 periods. The change in revenues is primarily attributable to the performance of the Company s trading portfolio.

Net income increased by $6 million for the three months ended September 30, 2010 and decreased by $29 million for the nine months September 30, 2010 as compared to the 2009 periods. These changes were due primarily to the changes in revenues discussed above.

LIQUIDITY AND CAPITAL RESOURCES

CNA Financial

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

For the nine months ended September 30, 2010, net cash used by operating activities was $673 million as compared to net cash provi operating activities of $275 million for the 2009 period. As previously discussed in Note 5 of the Notes to Consolidated Cond Financial Statements included under Item 1 and in this MD&A, on August 31, 2010, CNA completed a transaction whereby substanti of its legacy A&EP liabilities were ceded to NICO. As a result of this transaction, operating cash flows were reduced for the initial n settlement with NICO.

Additionally, CNA received a federal income tax refund of $328 million in 2010 compared to $117 million for the 2009 period. F because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows rel operating activities, operating cash flows were reduced by $621 million in 2009 related to net cash outflows which increased the size trading portfolio held at September 30, 2009. During 2010, operating cash flows were increased by $125 million related to net cash i primarily from sales of trading securities. Excluding the items above, net cash generated by CNA s business operations was approx $775 million for both 2010 and 2009.

Cash flows from investing activities include the purchase and sale of available-for-sale financial instruments. Additionally, cash flow investing activities may include the purchase and sale of businesses, land, buildings, equipment and other assets not generally held for

For the nine months ended September 30, 2010, net cash provided by investing activities was $860 million as compared with net c $168 million used by investing activities for the 2009 period. Cash flow from investing activities is impacted by various factors such anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made normal course of portfolio management. Net cash provided by investing activities in 2010 primarily related to the sale of shor investments. The cash provided by investing activities was used to fund the $1.9 billion initial net cash settlement with NICO as dis above.

Cash flows from financing activities include proceeds from the issuance of debt and equity securities, outflows for dividends or repa of debt, outlays to reacquire equity instruments, and deposits and withdrawals related to investment contract products issued by CNA.

For the nine months ended September 30, 2010, net cash used by financing activities was $245 million as compared to $72 million 2009 period. Net cash used by financing activities in 2010 was primarily related to the repayment of $150 million on an outstanding facility and to the payment of dividends on the 2008 Senior Preferred to Loews Corporation. In addition, in the third quarter of 201 issued $500 million of 5.875% ten-year senior notes and used the net proceeds of the offering, together with cash on hand, to redeem million, plus accrued and unpaid dividends thereon, of its 2008 Senior Preferred, as discussed further below.

CNA believes that its present cash flows from operations, investing activities and financing activities are sufficient to fund its curre expected working capital and debt obligation needs and does not expect this to change in the near term. In 2008, CNA issued, and Corporation purchased, 12,500 shares of CNA non-voting cumulative senior preferred stock (2008 Senior Preferred) for $1.25 billi used the majority of the proceeds from the 2008 Senior Preferred to increase the statutory surplus of its principal insurance subs Continental Casualty Company (CCC), through the purchase of a $1.0 billion surplus note of CCC. Surplus notes are financial ins with a stated maturity date and scheduled interest payments, issued by insurance enterprises with the approval of the insurer s dom state. Surplus notes are treated as capital under statutory accounting. All payments of interest and principal on this note are subject prior approval of the Illinois Department of Financial and Professional Regulation - Division of Insurance (the Department). Th note of CCC has a term of 30 years and accrues interest at a rate of 10.0% per year. Interest on the note is payable quarterly. CN requested regulatory approval from the Department for CCC to repay $500 million of the $1.0 billion surplus note to CNA during the quarter of 2010.

CNA anticipates utilizing the proceeds from the repayment, if consummated, to redeem the remaining $500 million, plus accrued and dividends thereon, of the 2008 Senior Preferred. During 2009 CNA redeemed $250 million of the 2008 Senior Preferred, and duri third quarter of 2010 CNA redeemed $500 million of the 2008 Senior Preferred. The redemption anticipated above, if consummated,

fully redeem all 12,500 shares originally issued in 2008.

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As discussed in Note 11 of the Notes to the Consolidated Condensed Financial Statements at Part I, Item 1, on November 1, 2010
announced that it has proposed to acquire all of the outstanding shares of common stock of CNA Surety Corporation (CNA Surety
does not currently own for $22.00 per share. Based on the offer price of $22.00 per share and minority shares outstanding at Septemb
2010, the aggregate purchase price would be approximately $375 million. CNA anticipates funding the acquisition of these sha
common stock with available funds. There can be no assurance that this transaction will be consummated at the price indicated abov
all.

Diamond Offshore

Cash and investments totaled $985 million at September 30, 2010, compared to $778 million at December 31, 2009. In the first nine m
of 2010, Diamond Offshore paid cash dividends totaling $612 million, consisting of special cash dividends of $560 million and agg
regular cash dividends of $52 million. On October 20, 2010, Diamond Offshore declared a regular quarterly dividend of $0.125 per
and a special dividend of $0.75 per share.

Diamond Offshore s cash flows from operations are impacted by the ability of its customers to weather instability in the U.S. and
economies and restrictions in the credit market, as well as the volatility in energy prices. In general, before working for a custome
whom Diamond Offshore has not had a prior business relationship and/or whose financial stability may be uncertain, Diamond Of
performs a credit review on that company. Based on that analysis, Diamond Offshore may require that the customer present a letter of
prepay or provide other credit enhancements. If a potential customer is unable to obtain an adequate level of credit, it may preclude Di
Offshore from doing business with that potential customer.

Cash provided by operating activities during the first nine months of 2010 was $950 million, compared to $1,136 million for the
period. The decrease in cash flows from operations in 2010 is primarily due to a decrease in earnings resulting from an aggregate red
in average utilization of and dayrates earned by Diamond Offshore s fleet and increased mobilization costs, offset by a decrease in r
required to satisfy working capital requirements in 2010 compared to the 2009 period. Diamond Offshore used $303 million less c
satisfy its working capital requirements during the first nine months of 2010 compared to the 2009 period, primarily due to a decre
Diamond Offshore s outstanding accounts receivable balances at September 30, 2010.

On July 7, 2010, Diamond Offshore completed the sale of one of its high performance, premium jack-up drilling rigs, the *Ocean Shield*
total selling price of $186 million.

Diamond Offshore has budgeted approximately $430 million on capital expenditures for 2010 associated with its ongoing rig equi
replacement and enhancement programs, equipment required for its long term international contracts and other corporate requireme
addition, Diamond Offshore expects to spend approximately $65 million in 2010 towards the commissioning and outfitting for service
Ocean Courage and *Ocean Valor*. During the first nine months of 2010, Diamond Offshore spent approximately $313 million towards
programs. Diamond Offshore expects to finance its 2010 capital expenditures through the use of its existing cash balances or inte
generated funds. From time to time, however, Diamond Offshore may also make use of its credit facility to finance capital expenditure

As of September 30, 2010, there were no loans outstanding under Diamond Offshore s $285 million credit facility; however, $20 m
letters of credit were issued and outstanding under the credit facility.

Diamond Offshore s liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures, a
service requirements. Diamond Offshore determines the amount of cash required to meet its capital commitments by evaluating the n
upgrade rigs to meet specific customer requirements and by evaluating its ongoing rig equipment replacement and enhancement prog
including water depth and drilling capability upgrades. Diamond Offshore believes that its operating cash flows and cash reserves v
sufficient to meet both its working capital requirements and its capital commitments over the next twelve months; however, Dia
Offshore will continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required

HighMount

At September 30, 2010 and December 31, 2009, cash and investments amounted to $127 million and $83 million. Net cash flows pro
by operating activities were $141 million and $242 million in the nine months ended September 30, 2010 and 2009. Key drivers
operating cash flows are commodity prices, production volumes and operating costs.

Cash provided by investing activities for the nine months ended September 30, 2010 was $403 million, compared to cash used in inv
activities of $152 million for the 2009 period. Cash provided by investing activities for the nine

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months ended September 30, 2010 includes the net proceeds from the sale of HighMount s assets in Michigan and Alabama of approx
$500 million. The primary driver of cash used in investing activities was capital spent developing HighMount s natural gas and oil res
HighMount spent $78 million and $98 million on capital expenditures for its drilling program in the nine months ended September 30,
and 2009. In 2010, funds for capital expenditures and working capital requirements are expected to be provided from existing cash bal
and operating activities.

HighMount used the net proceeds from the sale of its assets in Michigan and Alabama to reduce the outstanding debt under its term loa
September 30, 2010, the outstanding borrowings under the term loans were $1.1 billion. At September 30, 2010, no borrowings
outstanding under HighMount s revolving credit facility, however, $2 million in letters of credit were issued. The available capacit
the facility is $368 million.

HighMount s credit agreement governing its term loans and revolving credit facility contains financial covenants typical for these
agreements, including a maximum debt to capitalization ratio. The credit agreement also contains customary restrictions or limitati
HighMount s ability to enter or engage in certain transactions, including transactions with affiliates. At September 30, 2010, HighMo
in compliance with all of its covenants under the credit agreement.

Boardwalk Pipeline

At September 30, 2010 and December 31, 2009, cash and investments amounted to $89 million and $50 million. Funds from operatio
the nine months ended September 30, 2010 amounted to $355 million, compared to $266 million for the 2009 period. For the nine m
ended September 30, 2010 and 2009, Boardwalk Pipeline s capital expenditures were $174 million and $657 million. Boardwalk P
expects to fund its remaining 2010 capital expenditures through its operating cash flows.

As of September 30, 2010, Boardwalk Pipeline had $704 million of loans outstanding under its revolving credit facility w
weighted-average interest rate on the borrowings of 0.5% and had no letters of credit issued. At September 30, 2010, Boardwalk Pi
was in compliance with all covenant requirements under its credit facility and had available borrowing capacity of $246 million.

Loews Hotels

Cash and investments totaled $61 million at September 30, 2010 as compared to $63 million at December 31, 2009. In March of
Loews Hotels funded $10 million for a loan guarantee and $10 million related to a development project commitment. Funds for c
expenditures and working capital requirements are expected to be provided from existing cash balances, operations and advances or c
contributions from us.

Corporate and Other

Parent Company cash and investments, net of receivables and payables, at September 30, 2010 totaled $4.0 billion as compared t
billion at December 31, 2009. The increase in net cash and investments is primarily due to the receipt of $582 million in intere
dividends from our subsidiaries, the receipt of $500 million in August of 2010 from the repayment of senior preferred stock by CN
proceeds of $333 million in February of 2010 from the sale of 11.5 million Boardwalk Pipeline common units. These cash inflow
partially offset by the purchase of treasury stock for $337 million and $79 million of dividends paid to our shareholders.

Depending on market and other conditions, we may purchase shares of our and our subsidiaries outstanding common stock in t
market or otherwise. During the three and nine months ended September 30, 2010, we purchased 2.3 million and 9.2 million sha
Loews common stock at an aggregate cost of $84 million and $337 million. As of September 30, 2010, there were 416.2 million sha
Loews common stock outstanding.

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

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

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INVESTMENTS

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short
derivative instruments and short term investments, and are carried at fair value. Securities that are considered part of our trading por
short sales and certain derivative instruments are marked to market and reported as Net investment income in the Consolidated Conc
Statements of Income.

We enter into short sales and invest in certain derivative instruments that are used for asset and liability management activities, i
enhancements to our portfolio management strategy and to benefit from anticipated future movements in the underlying markets. I
movements do not occur as anticipated, then significant losses may occur. Monitoring procedures include senior management rev
daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with our portfolio stra

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollater
change in fair value of the derivative instruments recognized in the Consolidated Condensed Balance Sheets. We mitigate the r
non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterpartie
occasionally require collateral from our derivative investment counterparties depending on the amount of the exposure and the credit
of the counterparty.

We do not believe that any of the derivative instruments we use are unusually complex, nor do the use of these instruments, in our op
result in a higher degree of risk. Please read Note 2 and Note 4 of the Notes to Consolidated Condensed Financial Statements included
Item 1 for additional information with respect to investments and derivative instruments, including recognized gains and losses on
instruments.

Insurance

CNA maintains a large portfolio of fixed maturity and equity securities, including large amounts of corporate and government issue
securities, residential and commercial mortgage-backed securities, and other asset-backed securities and investments in limited partne
which pursue a variety of long and short investment strategies across a broad array of asset classes. CNA s investment portfolio sup
obligation to pay future insurance claims and provides investment returns which are an important part of CNA s overall profitability.

Net Investment Income

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

	Three Months Ended September 30,		**Nine Months En September 3**	
(In millions)	**2010**	2009	**2010**	2
Fixed maturity securities	**$ 511**	$ 496	**$ 1,540**	$ 1
Short term investments	**2**	7	**13**	
Limited partnerships	**68**	145	**136**	
Equity securities	**7**	11	**26**	
Trading portfolio	**4**	12	**10**	
Other	**3**	2	**8**	
Gross investment income	**595**	673	**1,733**	1
Investment expense	**(14)**	(13)	**(41)**	
Net investment income	**$ 581**	$ 660	**$ 1,692**	$ 1

Net investment income for the three months ended September 30, 2010 decreased $79 million as compared to the 2009 period. The de
was primarily driven by less favorable income from limited partnership investments. Limited partnership investments generally p
greater volatility, higher illiquidity and greater risk than fixed income investments.

Net investment income for the nine months ended September 30, 2010 decreased $63 million as compared to the 2009 period. The de
was primarily driven by less favorable income from limited partnership investments partially offset by the impact of reducing short ter
tax-exempt assets and shifting to higher yielding taxable long term bonds.

The fixed maturity investment portfolio and short term investments provided a pretax effective income yield of 5.2% and 5.1% for th
months ended September 30, 2010 and 2009. Tax-exempt municipal bonds generated $61 million

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and $207 million of net investment income for the three and nine months ended September 30, 2010, compared with $90 million and
million of net investment income for the 2009 periods.

Net Realized Investment Gains (Losses)

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

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	
Realized investment gains (losses):				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies		$ (34)	**$ 4**	$
Asset-backed securities	**$ 22**	(104)	**32**	
States, municipalities and political subdivisions securities	**7**	17	**15**	
Foreign government securities		1	**1**	
Corporate and other bonds	**47**	8	**110**	
Redeemable preferred stock			**7**	
Total fixed maturity securities	**76**	(112)	**169**	
Equity securities	**(17)**	19	**(42)**	
Derivative securities	**(1)**	(13)	**(1)**	
Short term investments	**2**	2	**6**	
Other	**2**	4	**(7)**	
Total realized investment gains (losses)	**62**	(100)	**125**	
Income tax (expense) benefit	**(22)**	34	**(50)**	
Net realized investment gains (losses)	**40**	(66)	**75**	
Amounts attributable to noncontrolling interests	**(3)**	5	**(7)**	
Net realized investment gains (losses) attributable to Loews Corporation	**$ 37**	$ (61)	**$ 68**	$

Net realized investment results improved $98 million and $617 million for the three and nine months ended September 30, 2010 con
to the 2009 periods. The improved results were driven by significantly lower OTTI losses recognized in earnings. Further informat
CNA s realized gains and losses, including CNA s OTTI losses and impairment decision process, is set forth in Note 2 of the
Consolidated Condensed Financial Statements included under Item 1.

CNA s fixed maturity portfolio consists primarily of high quality bonds, 90% of which were rated as investment grade (rated BBB- or
at September 30, 2010 and December 31, 2009. The classification between investment grade and non-investment grade is based on a
methodology that takes into account ratings from two major providers, Standard & Poor s (S&P) and Moody s Investors S
(Moody s) in that order of preference. If a security is not rated by these providers, CNA formulates an internal rating. For secu
credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

The following table summarizes the ratings of CNA s fixed maturity portfolio at carrying value:

(In millions of dollars)	**September 30, 2010**	December 31, 20

U.S. Government and Agencies	**$ 3,152**	**8.2%**	$ 3,705	1
Other AAA rated	**5,229**	**13.5**	5,855	1
AA and A rated	**15,217**	**39.4**	12,464	3
BBB rated	**11,336**	**29.3**	10,122	2
Non-investment grade	**3,712**	**9.6**	3,466	
Total	**$ 38,646**	**100.0%**	$ 35,612	10

Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by agencies and other unrated securities that, according to CNA s analysis, are below investment grade. Non-investment grade se generally involve a greater degree of risk than investment grade securities. The amortized cost of CNA s non-investment grade fixed r bond portfolio was $3,678 million and $3,637 million at

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September 30, 2010 and December 31, 2009. The following table summarizes the ratings of this portfolio at carrying value.

(In millions of dollars)	September 30, 2010		December 31, 2	
BB	**$ 1,425**	**38.4%**	$ 1,352	3
B	**1,157**	**31.1**	1,255	3
CCC-C	**1,013**	**27.3**	761	2
D	**117**	**3.2**	98	
Total	**$ 3,712**	**100.0%**	$ 3,466	10

Included within the fixed maturity portfolio are securities that contain credit support from third party guarantees from mono-line insur
September 30, 2010, $587 million of the carrying value of the fixed maturity portfolio had a third party guarantee that increas
underlying average rating of those securities from A+ to AA+. Of this amount, over 95% was within the states, municipalities and po
subdivisions securities sector.

At September 30, 2010 and December 31, 2009, approximately 98% and 99% of the fixed maturity portfolio was issued by th
Government and Agencies or was rated by S&P or Moody s. The remaining bonds were rated by other rating agencies or internally.

The carrying value of fixed maturity and equity securities that are either subject to trading restrictions or trade in illiquid private plac
markets at September 30, 2010 was $299 million, which represents approximately 0.7% of CNA s total investment portfolio. These se
were in a net unrealized gain position of $16 million at September 30, 2010.

The following table provides the composition of available-for-sale fixed maturity securities in a gross unrealized loss posit
September 30, 2010 by maturity profile. Securities not due at a single date are allocated based on weighted average life.

	Percent of Market Value	Percent Unreali Loss
Due in one year or less	**5.0%**	
Due after one year through five years	**15.0**	**1**
Due after five years through ten years	**39.0**	**3**
Due after ten years	**41.0**	**4**
Total	**100.0%**	**10**

Duration

A primary objective in the management of the fixed maturity and equity portfolios is to optimize return relative to underlying liabiliti
respective liquidity needs. CNA s views on the current interest rate environment, tax regulations, asset class valuations, specific
issuer and broader industry segment conditions, and the domestic and global economic conditions, are some of the factors that enter i
investment decision. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures an
from time to time adjust such exposures based on its views of a specific issuer or industry sector.

A further consideration in the management of the investment portfolio is the characteristics of the underlying liabilities and the abi
align the duration of the portfolio to those liabilities to meet future liquidity needs, minimize interest rate risk and maintain a level of i
sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typicall
term in nature, CNA segregates investments for asset/liability management purposes. The segregated investments support liab
primarily in the Life & Group Non-Core segment including annuities, structured benefit settlements and long term care products.

The effective durations of fixed income securities, short term investments, non-redeemable preferred stocks and interest rate derivativ
presented in the table below. CNA s short term investments are net of securities lending collateral and account payable and rec
amounts for securities purchased and sold, but not yet settled.

	September 30, 2010		December 31, 2009	
	Fair Value	Effective Duration (Years)	Fair Value	Effective D (Years
(In millions of dollars)				
Segregated investments	**$ 11,968**	**11.2**	$ 10,376	
Other interest sensitive investments	**29,077**	**4.6**	29,665	
Total	**$ 41,045**	**6.6**	$ 40,041	

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA perioc reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price chan summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures About Market F Item 7A of our Form 10-K for the year ended December 31, 2009.

Short Term Investments

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

	September 30, 2010	Decembe 200
(In millions)		
Short term investments available-for-sale:		
Commercial paper	**$ 670**	$
U.S. Treasury securities	**884**	3
Money market funds	**126**	
Other	**404**	
Total short term investments	**$ 2,084**	$ 3

There was no cash collateral held related to securities lending at September 30, 2010 or December 31, 2009.

Asset-backed and Sub-prime Mortgage Exposure

The following table provides detail of the Company s exposure to asset-backed and sub-prime mortgage related securities:

	Security Type			
September 30, 2010	**RMBS (a)**	**CMBS (b)**	**Other ABS (c)**	**T**
(In millions)				
U.S. government agencies	**$ 2,946**	**$ 32**		**$ 2**
AAA	**1,346**	**382**	**$ 486**	**2**
AA	**224**	**173**	**65**	
A	**197**	**261**	**66**	

BBB	**247**	**113**	**24**	
Non-investment grade and equity tranches	**1,195**	**40**	**63**	**1**
Total fair value	**$ 6,155**	**$ 1,001**	**$ 704**	**$ 7**
Total amortized cost	**$ 6,277**	**$ 1,032**	**$ 689**	**$ 7**
Sub-prime (included above)				
Fair value	**$ 555**			**$**
Amortized cost	**596**			
Alt-A (included above)				
Fair value	**$ 680**			**$**
Amortized cost	**720**			

(a) Residential mortgage-backed securities (RMBS)
(b) Commercial mortgage-backed securities (CMBS)
(c) Other asset-backed securities (Other ABS)

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The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower tha standards of loan documentation (Alt-A) collateral is measured by the original deal structure. Of the securities with sub-prime e approximately 68% were rated investment grade, while 82% of the Alt-A securities were rated investment grade. At September 30, 20 million of the carrying value of the sub-prime and Alt-A securities carried a third-party guarantee.

Pretax OTTI losses of $21 million for securities with sub-prime and Alt-A exposure were included in the $59 million of pretax OTTI related to asset-backed securities recognized in earnings on the Consolidated Condensed Statements of Income for the nine months September 30, 2010. Continued deterioration in the underlying collateral beyond our current expectations may cause us to reconsid recognize additional OTTI losses in earnings. See Note 2 of the Notes to Consolidated Condensed Financial Statements included Item 1 for additional information related to unrealized losses on asset-backed securities.

ACCOUNTING STANDARDS UPDATE

For a discussion of accounting standards updates that have been adopted or will be adopted in the future, please read Note 1 of the N Consolidated Condensed Financial Statements included under Item 1.

FORWARD-LOOKING STATEMENTS

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

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

Risks and uncertainties primarily affecting us and our insurance subsidiaries

conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the c economy, and their impact on the returns, types, liquidity and valuation of CNA s investments;

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

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

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

the performance of reinsurance companies under reinsurance contracts with CNA;

regulatory limitations, impositions and restrictions upon CNA, including the effects of assessments and other surcharges for gu
funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance compani
other financial industry participants under the Emergency Economic Stabilization Act of 2008 recoupment provisions, as well
new federal financial regulatory reform of the insurance industry established by the Dodd-Frank Wall Street Reform and Con
Protection Act;

increased operating costs and underwriting losses arising from the Patient Protection and Affordable Care Act and the r
amendments in the Health Care and Education Reconciliation Act, as well as health care reform proposals at the state level;

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

regulatory requirements imposed by coastal state regulators in the wake of hurricanes or other natural disasters, including limi
on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessm
fund any shortfalls arising from the inability of quasi-governmental insurers to pay claims;

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

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to
ability to contain its terrorism exposure effectively, notwithstanding the extension through December 31, 2014 of the Terrorisr
Insurance Act of 2002;

the occurrence of epidemics;

mass tort claims, including bodily injury claims related to welding rods, benzene, lead and noise induced hearing loss claims, a
as claims relating to various medical products including pharmaceuticals;

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

the risks and uncertainties associated with CNA s loss reserves as outlined under Results of Operations by Business Segme
Financial Reserves Estimates and Uncertainties in the MD&A portion of our Annual Report on Form 10-K for the y
December 31, 2009, including the sufficiency of the reserves and the possibility for future increases;

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

the effects of failures in the financial services industry, as well as irregularities in financial reporting and other corporate gove
matters, on the markets for directors & officers, and errors & omissions coverages, as well as on capital and credit markets;

general economic and business conditions, including recessionary conditions that may decrease the size and number of
insurance customers and create additional losses to CNA s lines of business, especially those that provide managem
professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and profes
services, and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the seve
claims;

conditions in the capital and credit markets that may limit CNA s ability to raise significant amounts of capital on favorable t well as restrictions on the ability or willingness of the Company to provide additional capital support to CNA; and

with respect to the transaction in which CNA ceded A&EP liabilities referenced in this document, whether the other parties transaction will fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities a possible continued exposure of CNA to liabilities for A&EP claims.

Risks and uncertainties primarily affecting us and our energy subsidiaries

the impact of changes in worldwide demand for oil and natural gas and oil and gas price fluctuations on E&P activity, including possible write downs of the carrying value of natural gas and NGL properties and impairments of goodwill;

the effects of the Macondo well blowout, including, without limitation, the impact of the moratorium on drilling in the U.S. Gulf of Mexico, related delays in permitting activities and related regulations and market developments;

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costs and timing of rig upgrades;

market conditions in the offshore oil and gas drilling industry, including utilization levels and dayrates;

timing and duration of required regulatory inspections for offshore oil and gas drilling rigs;

the risk of physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico;

the availability and cost of insurance;

the impact of new pipelines or new gas supply sources on competition and basis spreads on Boardwalk Pipeline s pipeline s
which may impact its ability to maintain or replace expiring gas transportation and storage contracts and to sell short-term capac
its pipelines;

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

the ability of Boardwalk Pipeline to operate its expansion project pipelines at higher than normal operating pressures;

the successful completion, timing, cost, scope and financial performance of growth projects as well as the financing of such pr
and

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

Risks and uncertainties affecting us and our subsidiaries generally

general economic and business conditions;

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

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

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

- the results of financing efforts; by us and our subsidiaries, including any additional investments by us in our subsidiaries;
- the ability of customers and suppliers to meet their obligations to us and our subsidiaries;
- the closing of any contemplated transactions and agreements;
- the successful integration, transition and management of acquired businesses;
- the outcome of pending or future litigation, including any tobacco-related suits to which we are or may become a party;
- the availability of indemnification by Lorillard and its subsidiaries for any tobacco-related liabilities that we may incur as a re tobacco-related lawsuits or otherwise, as provided in the Separation Agreement; and
- potential future asset impairments.

Developments in any of these or other areas of risk and uncertainty, which are more fully described elsewhere in this Report and our filings with the SEC, could cause our results to differ materially from results that have been or may be anticipated or projected. Given risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking

statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statem reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-lo statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes in our market risk components for the nine months ended September 30, 2010. See the Quantitati Qualitative Disclosures About Market Risk included in Item 7A of our Form 10-K filed with the Securities and Exchange Commissi the year ended December 31, 2009 for further information. Additional information related to portfolio duration and market condit discussed in the Investments section of the Management s Discussion and Analysis of Financial Condition and Results of Op included in Part I, Item 2.

Item 4. Controls and Procedures.

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

The Company s principal executive officer (CEO) and principal financial officer (CFO) undertook an evaluation of the Compa controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this repo CEO and CFO have concluded that the Company s disclosure controls and procedures were effective as of September 30, 2010.

There were no changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) u Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended September 30, 2010 th materially affected or that are reasonably likely to materially affect the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Information with respect to legal proceedings is incorporated by reference to Note 8 of the Notes to Consolidated Condensed Fin Statements included in Part I of this Report.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2009 includes a detailed discussion of certain material risk factors our company. The information presented below reflects updates and additions to such risk factors and should be read in conjunction w risk factors and information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Certain of our subsidiaries are subject to extensive federal, state and government regulations.

Diamond Offshore. The drilling industry is dependent on demand for services from the oil and gas exploration industry and, accordi affected by changing tax and other laws relating to the energy business generally. Diamond Offshore may be required to make sign capital expenditures to comply with governmental laws and regulations. It is also possible that these laws and regulations may in the add significantly to Diamond Offshore s operating costs or may significantly limit drilling activity.

Governments in some countries are increasingly active in regulating and controlling the ownership of concessions, the exploration and gas and other aspects of the oil and gas industries. The modification of existing laws or regulations or the adoption of new l regulations curtailing exploratory or developmental drilling for oil and gas for economic, environmental or other reasons could ma and adversely affect Diamond Offshore s operations by limiting drilling opportunities.

As awareness of climate change issues increases, governments around the world are beginning to address the matter. This may result i
environmental regulations that may unfavorably impact Diamond Offshore, its suppliers and its customers. Diamond Offshore m
exposed to risks related to new laws or regulations pertaining to climate change,

carbon emissions or energy use that could decrease the use of oil or natural gas, thus reducing demand for hydrocarbon-based fu
Diamond Offshore s drilling services. Governments may also pass laws or regulations encouraging or mandating the use of alternative
sources, such as wind power and solar energy, which may reduce demand for oil and natural gas and Diamond Offshore s drilling serv
addition, new laws or regulations may require an increase in Diamond Offshore s capital spending for additional equipment to comp
such requirements and could also result in a reduction in revenues associated with downtime required to install such equipment.

Diamond Offshore s business involves numerous operating hazards which could expose it to significant losses and significant dam claims. Diamond Offshore is not fully insured against all of these risks and its contractual indemnity provisions may not fully prote Diamond Offshore.

Diamond Offshore s operations are subject to the significant hazards inherent in drilling for oil and gas offshore, such as blowouts, r
damage, loss of production, loss of well control, unstable or faulty sea floor conditions, fires and natural disasters such as hurricane
occurrence of any of these types of events could result in the suspension of drilling operations, damage to or destruction of the equi
involved and injury or death to rig personnel, damage to producing or potentially productive oil and gas formations, and oil spilla
leaks, well blowouts and extensive uncontrolled fires, any of which could cause significant environmental damage. In addition, of
drilling operations are subject to perils peculiar to marine operations, including capsizing, grounding, collision and loss or damage
severe weather. Any of the foregoing events could result in significant damage or loss to Diamond Offshore s properties and
significant loss of revenues, and significant damage claims against Diamond Offshore, which could have a material adverse effect
results of operations, financial condition and cash flows.

Diamond Offshore maintains liability insurance, which includes coverage for environmental damage; however, because of contr
provisions and policy limits, its insurance coverage may not adequately cover Diamond Offshore s losses and claim costs. In a
pollution and environmental risks are generally not fully insurable when they are determined to be the result of criminal acts. Also, Di
Offshore does not typically purchase loss-of-hire insurance to cover lost revenues when a rig is unable to work. Accordingly, it is po
that its losses from the hazards it faces could have a material adverse effect on the results of operations, financial condition and cash fl

Operations also may be suspended because of machinery breakdowns, abnormal drilling conditions, failure of subcontractors to perf
supply goods or services or personnel shortages.

Generally Diamond Offshore s contracts with its customers contain contractual rights to indemnity from its customer for, among other
pollution originating from the well, while Diamond Offshore retains responsibility for pollution originating from the rig. However, Di
Offshore s contractual rights to indemnification may be unenforceable or limited due to negligent or willful acts of commission or o
by Diamond Offshore, its subcontractors and/or suppliers and its customers may dispute, or be unable to meet, their contr
indemnification obligations to Diamond Offshore.

Diamond Offshore believes that the policy limit under its marine liability insurance is within the range that is customary for compa
Diamond Offshore s size in the offshore drilling industry and is appropriate for its business. However, if an accident or other even
that exceeds Diamond Offshore s coverage limits or is not an insurable event under its insurance policies, or is not fully cov
contractual indemnity, it could have a material adverse effect on Diamond Offshore s results of operations, financial position and cas
There can be no assurance that Diamond Offshore will continue to carry the insurance it currently maintains, that its insurance will co
types of losses or that those parties with contractual obligations to indemnify Diamond Offshore will necessarily be financially a
indemnify Diamond Offshore against all of these risks. In addition, no assurance can be made that Diamond Offshore will be a
maintain adequate insurance in the future at rates it considers to be reasonable or that Diamond Offshore will be able to obtain insu
against some risks.

Accordingly, the occurrence of any of the hazards Diamond Offshore faces could have a material adverse effect on its results of oper
financial condition and cash flows.

The aftermath of the moratorium on offshore drilling in the U.S. Gulf of Mexico and new regulations adopted as a result of the investigation into the Macondo well blowout could negatively impact Diamond Offshore.

In the near-term aftermath of the Macondo incident, on May 30, 2010, the U.S. government imposed a six month moratorium on c
drilling activities in water deeper than 500 feet in the GOM and subsequently implemented enhanced safety requirements applicable
drilling activity in the GOM, including drilling activities in water shallower than 500 feet. On October 12, 2010, the U.S. governmen
the moratorium subject to compliance with enhanced safety requirements, including those set forth in Notices to Lessees 2010-N0
2010-N06, both of which were implemented during the drilling ban. Additionally, all drilling in the GOM will be required to compl

the

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Interim Final Rule to Enhance Safety Measures for Energy Development on the Outer Continental Shelf (Drilling Safety Rule
Workplace Safety Rule on Safety and Environmental Management Systems, both of which were issued on September 30, 2010, onc
become final. Diamond Offshore continues to evaluate these new measures to ensure that its rigs and equipment are in full compl
where applicable. Additional requirements could be forthcoming based on further recommendations by regulatory agencies investigati
Macondo incident. Diamond Offshore is not able to predict the likelihood, nature or extent of additional rulemaking or when the i
rules, or any future rules, could become final. Nor is Diamond Offshore able to predict when the Bureau of Ocean Energy Manage
Regulation and Enforcement (BOEM), will issue drilling permits to its customers. Diamond Offshore is not able to predict the futu
of these events on its operations. Even with the drilling ban lifted, certain deepwater drilling activities remain suspended until the B
resumes its regular permitting of those activities.

The current and future regulatory environment in the GOM could result in a number of rigs being, or becoming available to be, mo
locations outside of the GOM, which could potentially put downward pressure on global dayrates and adversely affect Diamond Off
ability to contract its floating rigs that are currently uncontracted or coming off contract. Additional governmental regulations conc
licensing, taxation, equipment specifications, training requirements or other matters could increase the costs of operations, and esca
costs borne by Diamond Offshore s customers, along with permitting delays, could reduce exploration and development activity in th
and therefore demand for Diamond Offshore s services. In addition, insurance costs across the industry are expected to increase as a r
the Macondo incident, and in the future certain insurance coverage is likely to become more costly, and may become less available
available at all.

Diamond Offshore cannot predict when the U.S. government will begin to issue new drilling permits in a timely manner nor the po
impact of new regulations that may be forthcoming as the investigation into the Macondo well incident continues. The inability to re
Diamond Offshore s rigs impacted by the drilling moratorium, or to obtain dayrates sufficient to cover additional operating exper
mobilization costs if such impacted rigs are redeployed in international waters, could adversely affect Diamond Offshore s financial p
results of operations and cash flows. In addition, implementation of additional regulations may subject Diamond Offshore to increased
of operating and/or a reduction in the area of operation in the GOM.

CNA may face increased operating costs and underwriting losses arising from the federal health care reform legislation, as well as health care reform proposals at the state level.

The Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act, ena
March 2010, may increase CNA s operating costs and underwriting losses. This landmark legislation may lead to numerous change
health care industry that could create additional operating costs for CNA, particularly with respect to its workers compensation a
term care products. These costs might arise through the increased use of health care services by CNA s claimants or the in
complexities in health care bills that could require additional levels of review. In addition, due to the expected number of new particip
the health care system and the potential for additional malpractice claims, CNA may experience increased underwriting risk in the line
business that provide management and professional liability insurance to individuals and businesses engaged in the health care industr
lines of CNA s business that provide professional liability insurance to attorneys, accountants and other professionals who advise
regarding the health care reform legislation may also experience increased underwriting risk due to the complexity of the legislation
result, CNA may experience unanticipated underwriting losses with respect to these lines of business. Finally, CNA cannot predict wi
certainty the impact of the various health care reform proposals at the state level. Consequently, CNA s results of operations,
business, insurer financial strength and debt ratings could be materially adversely impacted.

CNA is unable to predict the impact of the new federal financial regulatory reform.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July, 2010, expands the federal presence in insu
oversight. The Act s requirements include streamlining the state-based regulation of reinsurance and nonadmitted insurance (pro
casualty insurance placed from insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state
Act also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with powers over all lines of insu
except health insurance, certain long-term care insurance and crop insurance, to, among other things, monitor aspects of the insu
industry, identify issues in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the o
financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under c
circumstances. As the Act calls for numerous studies and contemplates further regulation, CNA is unable to predict with any certai
overall impact the reform will have. As a result, CNA s results of operations, equity, business, and insurer financial strength and deb
could be materially adversely impacted.

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

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

(c) STOCK REPURCHASES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of (or approximate dollar v of shares that may yet purchased under the pla programs (in million
August 1, 2010 - August 31, 2010	892,100	$ 36.27	N/A	N/A
September 1, 2010 - September 30, 2010	1,416,300	$ 36.69	N/A	N/A

Item 6. Exhibits.

Description of Exhibit	Exl Nur
Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	
Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	
Certification by the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	
Certification by the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	
XBRL Instance Document	101
XBRL Taxonomy Extension Schema	101.S
XBRL Taxonomy Extension Calculation Linkbase	101.C
XBRL Taxonomy Extension Definition Linkbase	101.
XBRL Taxonomy Label Linkbase	101.L
XBRL Taxonomy Extension Presentation Linkbase	101.

* Filed herewith.

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SIGNATURES

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

LOEWS CORPORATION
(Registrant)

Dated: November 3, 2010

By: /s/ Peter W. Keegan
PETER W. KEEGAN
Senior Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer)

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