ECLIPSE SURGICAL TECHNOLOGIES INC
Form 10-K/A
June 13, 2001
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO.2
TO
FORM 10-K

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

For the fiscal year ended December 31, 2000
Commission file number: 0-28288

Eclipse Surgical Technologies, Inc.

(Exact name of Registrant as specified in its charter)

California	**77-0223740**
(State of incorporation)	(I.R.S. Employer Identification Number)

1049 Kiel Court
Sunnyvale, California 94089
(Address of principal executive officers)

(408) 548-2100
(Registrant s telephone number, including area code)

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, no par value	Nasdaq National Market

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

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated herein by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $23,923,872 as of March 30, 2001, based upon the closing sale price reported for that date on the Nasdaq National Market. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

Indicate the number of shares outstanding of each of the issuer s classes of common stock outstanding as of the last practicable date.

31,696,061 shares
As of March 30, 2001

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PART I

Item 1. *Business*.

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. The statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including without limitation statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this document or incorporated by reference herein are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in Item 7 and elsewhere.

General

Eclipse Surgical Technologies, Inc., incorporated in California in 1989, designs, develops, manufactures and distributes laser-based surgical products and disposable fiber-optic accessories for the treatment of advanced cardiovascular disease through transmyocardial revascularization (TMR) and percutaneous transluminal myocardial revascularization (PTMR). TMR and PTMR are recent laser-based heart treatments in which channels are made in the heart muscle. It is believed these procedures encourage new vessel formation, or angiogenesis. TMR is performed by a cardiac surgeon through a small incision in the chest under general anesthesia. PTMR is performed by a cardiologist in a catheter based procedure which utilizes local anesthesia. Clinical studies have demonstrated a significant reduction in angina and increase in exercise duration in patients treated with TMR or PTMR plus medications, when compared with patients who received medications alone.

We received CE Mark approval for our TMR system in May 1997 and our PTMR systems in April 1998. On February 11, 1999, we received final approval from the FDA for our TMR products for treatment of stable patients with angina (Canadian Cardiovascular Society Class 4)

refractory to other medical treatments and secondary to objectively demonstrated coronary artery atherosclerosis and with a region of the myocardium with reversible ischemia not amenable to direct coronary revascularization. Effective July 1, 1999, the Health Care Financial Administration began to provide Medicare coverage for TMR. Hospitals and physicians are now eligible to receive Medicare reimbursement for TMR equipment and procedures.

We have completed pivotal clinical trials involving PTMR, and study results were submitted to the FDA in a Pre Market Approval application in December of 1999 along with subsequent amendments. We are currently in final negotiations with the FDA in the PTMR market approval process. There can be no assurance, however, that we will receive a favorable decision from that agency.

On March 17, 1999, we merged with CardioGenesis Corporation. Under the terms of the combination, each share of CardioGenesis common stock was converted into 0.8 of a share of our common stock, and CardioGenesis has become a wholly owned subsidiary of ours. As a result of the transaction, our outstanding shares increased by approximately 9.9 million shares. The transaction was structured to qualify as a tax-free reorganization and has been accounted for as a pooling of interests. Accordingly, the accompanying financial statements have been restated as if the combined entity existed for the 1998 period prior to the merger.

Background

Cardiovascular disease is the leading cause of death and disability in the U.S. according to the American Heart Association. Coronary artery disease is the principal form of cardiovascular disease and is characterized by a progressive narrowing of the coronary arteries which supply blood to the heart. This narrowing process is usually due to atherosclerosis, which is the buildup of fatty deposits, or plaque, on the inner lining of the arteries. Coronary artery disease reduces the available supply of oxygenated blood to the heart muscle, potentially resulting in severe chest pain known as angina, as well as damage to the heart. Typically, the condition worsens over time and often leads to heart attack and/or death.

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Based on standards promulgated by the Canadian Heart Association, angina is typically classified into four classes, ranging from Class 1, in which angina pain results only from strenuous exertion, to the most severe class, Class 4, in which the patient is unable to conduct any physical activity without angina and angina may be present even at rest. The American Heart Association estimates that more than six million Americans experience angina symptoms.

The primary therapeutic options for treatment of coronary artery disease are drug therapy, balloon angioplasty also known as percutaneous transluminal coronary angioplasty or (PTCA), other interventional techniques which augment or replace PTCA such as stent placement and atherectomy, and coronary artery bypass grafting or (CABG). The objective of each of these approaches is to increase blood flow through the coronary arteries to the heart.

Drug therapy may be effective for mild cases of coronary artery disease and angina either through medical effects on the arteries that improve blood flow without reducing the plaque or by decreasing the rate of formation of additional plaque (e.g., by reducing blood levels of cholesterol). Because of the progressive nature of the disease, however, many patients with angina ultimately undergo either PTCA or CABG.

PTCA is a less-invasive alternative to CABG introduced in the early 1980s in which a balloon-tipped catheter is inserted into an artery, typically near the groin, and guided to the areas of blockage in the coronary arteries. The balloon is then inflated and deflated at each blockage site, thereby rupturing the blockage and stretching the vessel. Although the procedure is usually successful in widening the blocked channel, the artery often re-narrows within six months of the procedure, a process called restenosis, often necessitating a repeat procedure. A variety of techniques for use in conjunction with PTCA have been developed in an attempt to reduce the frequency of restenosis, including stent placement and atherectomy. Stents are small metal frames delivered to the area of blockage using a balloon catheter and deployed or expanded within the coronary artery. The stent is a permanent implant intended to keep the channel open. Atherectomy is a means of using mechanical, laser or other techniques at the tip of a catheter to cut or grind away plaque.

CABG is an open chest procedure developed in the 1960s in which conduit vessels are taken from elsewhere in the body and grafted to the blocked coronary arteries so that blood can bypass the blockage. CABG typically requires the use of a heart-lung bypass machine to render the heart inactive (to allow the surgeon to operate on a still, relatively bloodless heart) and involves prolonged hospitalization and patient recovery

periods. Accordingly, it is generally reserved for patients with severe cases of coronary artery disease or those who have previously failed to receive adequate relief of their symptoms from PTCA or related techniques. Most bypass grafts fail within one to fifteen years following the procedure. Repeating the surgery (re-do bypass surgery) is possible, but is made more difficult because of scar tissue and adhesions that typically form as a result of the first operation. Moreover, for many patients CABG is inadvisable for various reasons, such as the severity of the patient s overall condition, the extent of coronary artery disease or the small size of the blocked arteries.

When these treatment options are exhausted, the patient is left with no viable surgical or interventional alternative other than, in limited cases, heart transplantation. Without a viable surgical alternative, the patient is generally managed with drug therapy, often with significant lifestyle limitations. TMR, which bears the CE Marking and has received FDA approval, and PTMR, which bears the CE Marking and is currently under review at the FDA for approval in the U.S., offer potential relief to a large population of patients with severe cardiovascular disease.

The TMR and PTMR Procedure

TMR, or transmyocardial revascularization, is a surgical procedure performed on the beating or non-beating heart, in which a laser device is used to create pathways through the myocardium directly into the heart chamber. The pathways are intended to supply blood to ischemic, or oxygen-deprived regions of the myocardium and reduce angina in the patient. TMR can be performed using open chest surgery or minimally invasive surgery through a small incision between the ribs. TMR offers end-stage cardiac patients who have regions of ischemia

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not amenable to PTCA or CABG a means to alleviate their symptoms and improve their quality of life. We have received FDA approval for U.S. commercial distribution of our TMR laser system for treatment of stable patients with angina (Canadian Cardiovascular Society Class 4) refractory to medical treatment and secondary to objectively demonstrated coronary artery atherosclerosis and with a region of the myocardium with reversible ischemia not amenable to direct coronary revascularization.

PTMR, or percutaneous transluminal myocardial revascularization, is an interventional procedure performed by a cardiologist. PTMR is based upon the same principles as TMR, but the procedure is much less invasive. The patient is under local anesthesia and is treated through a catheter inserted in the femoral artery at the top of the leg. A laser transmitting catheter is threaded up into the heart chamber, where channels are created in the inner portion of the myocardium (i.e. heart muscle). We have completed pivotal clinical trials involving PTMR, and study results were submitted to the FDA in a Pre Market Approval application in December of 1999 along with subsequent amendments.

Business Strategy

Our objective is to become a recognized leader in the field of myocardial revascularization, with TMR and PTMR established as well-known and acceptable therapies. Our strategies to achieve this goal are as follows:

Expand Market for our Products. We are seeking to expand market awareness of our products among opinion leaders in the cardiovascular field, the referring physician community and the targeted patient population. In connection with the FDA approved TMR product, we have prioritized our initial efforts in the U.S. on the top 600 hospitals that perform the greatest number of cardiovascular procedures. To support the TMR launch, we are expanding the domestic sales force to thirty-one territory managers in four sales areas. We also sell our products in Europe and to the rest of the world through our direct international sales organization along with several distributors and agents. In addition, we have developed a comprehensive training program to assist physicians in acquiring the expertise necessary to utilize our TMR or PTMR products and procedures.

Demonstrate Clinical Utility of PTMR. We are seeking to demonstrate the clinical safety and effectiveness of PTMR. We have completed a pivotal clinical trial regarding PTMR, and the study results were submitted to the FDA in a Pre Market Approval Supplemental application in December of 1999. We are currently in final negotiations with the FDA in the PMA process. There can be no assurance, however, that we will receive a favorable decision from the agency.

Leverage Proprietary Technology. We believe that our significant expertise in laser and catheter-based systems for cardiovascular disease and the proprietary technologies we have developed are important factors in our efforts to demonstrate the safety and effectiveness of our TMR and PTMR procedures. We are seeking to develop additional proprietary technologies for TMR, PTMR and related procedures. We have 91 foreign and U.S. patents or allowed patent applications and 51 U.S. and 27 foreign patent applications pending relating to various aspects of TMR, PTMR and other cardiovascular therapies.

Products and Technology

Eclipse TMR System

The Eclipse TMR system consists of our TMR 2000 laser console and a line of fiber-optic, laser-based surgical tools. Each surgical tool utilizes an optical fiber assembly to deliver laser energy from the source laser base unit to the distal tip of the surgical handpiece or PTMR catheter. The compact base unit occupies a small amount of operating room floor space, operates on a standard 208 or 220-volt power supply, and is light enough to move within the operating room or among operating rooms in order to use operating room space efficiently. Moreover, the flexible fiberoptic assembly used to deliver the laser energy to the patient enables ready access to the patient and to various sites within the heart.

Our TMR system and related surgical procedures are designed to be used without the requirement of the external systems utilized with certain competitive TMR systems. For example, our TMR 2000 system does not require electrocardiogram synchronization, which monitors the electrical output of the heart and times the use of the laser to minimize electrical disruption of the heart, or transesophageal echocardiography, which tests each application of the laser to the myocardium during the TMR procedure to determine if the pathway has penetrated through the myocardium into the heart chamber.

Eclipse Holmium Laser. Our TMR 2000 laser base unit generates laser light of a 2-micron wavelength by photoelectric excitation of a solid state holmium crystal. The holmium laser, because it uses a solid state crystal as its source, is compact, reliable and requires minimal maintenance.

SoloGrip. The single use SoloGrip handpiece system contains multiple, fine fiber-optic strands in a one millimeter diameter bundle. The flexible fiber optic delivery system combined with the ergonomic handpiece provides access for treating all regions of the left ventricle.

The SoloGrip and SlimFlex PTMR fiber-optic delivery systems each have an easy to install connector which screws into the laser base unit, and each device is pre-calibrated in the factory so it requires no special preparation.

Eclipse PTMR System

The Eclipse PTMR System is currently sold only outside the United States. The PTMR System consists of the PTMR Laser and ECG Monitor.

Eclipse PTMR Laser. The holmium laser base unit generates laser light of a 2.1 micron wavelength in the mid-infrared spectrum. It provides a reliable source for laser energy with low maintenance.

The Axcis Catheter system. The Axcis catheter system is an over-the-wire system that consists of two components, the Axcis laser catheter and Axcis aligning catheter. The Axcis catheter system is designed to provide controlled navigation and access to target regions of the left ventricle. The coaxial Axcis laser catheter has an independent, extendible lens with radiopaque lens markers which show the location and orientation of the tip for optimal contact with the ventricle wall. The Axcis laser catheter also has nitinol petals at the laser-lens tip which are designed for safe penetration of the endocardium and to provide depth control.

SlimFlex Catheter System. The SlimFlex PTMR system is an over-the-wire, steerable, single use catheter system that features torque control, deflection capability, infusion port and radio-opaque markers for enhanced visualization and depth control. After insertion into an artery of the leg, the PTMR catheter is advanced over the aortic arch, across the aortic valve and into the heart chamber. Visualization is achieved using standard fluoroscopic or x-ray techniques common to all hospitals doing cardiac catheterization.

Regulatory Status

On February 11, 1999, we received final approval from the FDA for use of our TMR 2000 laser console and SoloGrip handpiece for treatment of stable patients with angina (Canadian Cardiovascular Society Class 4) refractory to other medical treatments and secondary to objectively demonstrated coronary artery atherosclerosis and with a region of the myocardium with reversible ischemia not amenable to direct coronary revascularization.

In February 1996, we obtained FDA clearance to undertake Phase I of a clinical study of TMR intended to assess the safety and effectiveness of TMR Used in Conjunction with CABG as compared with CABG alone. In September 1996, the FDA provided us with clearance to begin Phase II of this study, which was subsequently completed. In July 1999, we submitted a PMA supplement to the FDA for an expanded indication to our approved TMR labeling to include TMR in conjunction with CABG. In January 2000, we received a response from the FDA requesting that we either provide more information or modify our labeling request. Since TMR and CABG are

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each presently utilized to treat separate regions of the heart, we concluded that our present FDA approved labeling is adequate, and that the physician can best decide how to use the laser system within the approved labeling. As a result, in March 2000, we decided that we will not pursue any wording changes to our already approved TMR labeling, and have withdrawn our submission to the FDA for TMR in conjunction with CABG.

We submitted a PMA supplement for our PTMR system to the FDA in December 1999. The PTMR study compares PTMR to conventional medical therapy in patients with no option for other treatment. We are currently in final negotiations with the FDA in the PMA process. There can be no assurance, however, that we will receive a favorable decision from the agency.

We have decided not to pursue any additional claims for adjunctive procedures. Therefore, all studies involving adjunctive procedures have been halted and terminated.

In addition, we have obtained approval to affix the CE Marking to substantially all of our products, which enables us to commercially distribute our TMR and PTMR products throughout the European Community.

Sales and Marketing

We have received FDA approval for our surgical TMR laser system. The Health Care Finance Administration has also announced its coverage policy for the TMR with FDA approved systems. We are promoting market awareness of our approved surgical products among opinion leaders in the cardiovascular field and are recruiting physicians and hospitals. To drive the clinical awareness and acceptance of the surgical product platform, we are expanding the domestic sales force to thirty-one territory managers in four sales regions.

In the United States, we currently offer a laser base unit at a current end user list price of $320,000 per unit, and the disposable TMR handpiece (at least one of which must be used with each TMR procedure) at an end user unit list price of $2,745. In order to accelerate market adoption of the TMR procedure, we intend to continue selling lasers to hospitals outright, loaning lasers to hospitals in return for the hospital purchasing a minimum number of handpieces at a premium over the list price, and to begin renting lasers to hospitals.

Internationally, we sell our products through a direct sales and support organization of four people and distributors and agents.

We have developed, in conjunction with several major hospitals using our TMR or PTMR products, a training program to assist physicians in acquiring the expertise necessary to utilize our products and procedures. This program includes a comprehensive one-day course including didactic training and hands-on performance of TMR or PTMR in vivo. To date over 750 cardiothoracic surgeons have been trained on the Eclipse TMR system.

We exhibit our products at major cardiovascular meetings. Investigators of our products have made presentations at meetings around the world, describing their results. Abstracts and articles have been published in peer-reviewed publications and industry journals to present the

results of our clinical trials.

Research and Development

We believe that streamlining our research and product effort is essential to our ability to stimulate growth and maintain our market leadership position. Our ongoing research and product development efforts are focused on the development of new and enhanced lasers and fiber-optic handpieces for TMR and PTMR applications.

In the fourth quarter of 2000, we increased our ownership interest in privately-held Microheart Holdings, Inc. to 32.1 percent. Microheart is a research and development company working on developing a number of full-featured clinical devices for diagnostic assessment and site-specific delivery of biopharmaceuticals and other therapeutic agents applicable to the cardiovascular and other markets.

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We believe our future success will depend, in part, upon the success of our research and development programs. There can be no assurance that we will realize financial benefit from these efforts or that products or technologies developed by others will not render our products or technologies obsolete or non-competitive.

Manufacturing

We manufacture and assemble our products from purchased components and subassemblies at our facility in Sunnyvale, California.

The core components of our laser units and fiber-optic handpieces are generally acquired from multiple sources. We currently purchase certain laser and fiber-optic components and subassemblies from single sources. Although we have identified alternative vendors, the qualification of additional or replacement vendors for certain components or services is a lengthy process. Any significant supply interruption would have a material adverse effect on our ability to manufacture our products and, therefore, would harm our business. We intend to continue to qualify multiple sources for components that are presently single sourced and also to maintain an inventory of these items for use in the event of supply interruptions.

Competition

We expect that the market for TMR and PTMR, which is currently in the early stages of development, will be intensely competitive. Competitors include PLC Systems, Inc. (PLC), Johnson & Johnson, and Boston Scientific which are either selling FDA-approved TMR products in the U.S. and abroad, or PTMR products for investigational use in the U.S. and commercially abroad. Other competitors may also enter the market, including large companies in the laser and cardiac surgery markets. Many of these companies have or may have significantly greater financial, research and development, marketing and other resources than we do.

PLC is a publicly traded corporation which uses a CO2 laser and an articulated mechanical arm in its TMR products. PLC obtained a Pre Market Approval for TMR in 1998. PLC has received the CE Marking, which allows sales of its products commercially in all European Union countries. PLC has been issued patents for its apparatus and methods for TMR. PLC recently announced a co-marketing agreement with Edwards Life Sciences to distribute their lasers and disposables. This action will add another 18 direct domestic sales representatives involved in promoting the PLC technology.

Johnson & Johnson is a publicly traded company which uses a holmium laser and fiber-optics in its DMR (direct myocardial revascularization) products. Johnson & Johnson has acquired a ventricular mapping company to further its DMR product line and has begun U.S. trials under an IDE. Based upon recently presented trial results, the status of the regulatory submission for the Johnson & Johnson DMR system is unclear at this time.

Boston Scientific is a publicly traded company which has acquired radio frequency technology to begin a percutaneous feasibility trial in the U.S. under a preliminary IDE.

We believe that the factors which will be critical to market success include: the timing of receipt of requisite regulatory approvals, effectiveness and ease of use of the TMR products and applications, breadth of product line, system reliability, brand name recognition and effectiveness of distribution channels and cost of capital equipment and disposable devices.

TMR and PTMR also compete with other methods for the treatment of cardiovascular disease, including drug therapy, PTCA and CABG. Even with the FDA approval of our TMR system in patients for whom other cardiovascular treatments are not likely to provide relief, and when used in conjunction with other treatments, we can not assure you that our TMR or PTMR products will be accepted. Moreover, technological advances in other therapies for cardiovascular disease such as pharmaceuticals or future innovations in cardiac surgery techniques could make such other therapies more effective or lower in cost than our TMR procedure and could render our technology obsolete. We can not assure you that physicians will use our TMR procedure to replace or supplement

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established treatments, or that our TMR procedure will be competitive with current or future technologies. Such competition could harm our business.

Our TMR laser system and any other product developed by us that gains regulatory approval will face competition for market acceptance and market share. An important factor in such competition may be the timing of market introduction of competitive products. Accordingly, the relative pace at which we can develop products, complete clinical testing, achieve regulatory approval, gain reimbursement acceptance and supply commercial quantities of the product to the market are expected to be important competitive factors. In the event a competitor is able to obtain a PMA for its products prior to our doing so, we may not be able to compete successfully. We may not be able to compete successfully against current and future competitors even if we obtain a PMA prior to our competitors.

Government Regulation

Laser-based surgical products and disposable fiber-optic accessories for the treatment of advanced cardiovascular disease through TMR are considered medical devices, and as such are subject to regulation in the U.S. by the FDA and comparable international regulatory agencies. Our devices require the rigorous PMA process for approval to market the product in the U.S. and must bear the CE Marketing for commercial distribution in the European Community.

To obtain a Pre Market Approval (PMA) for a medical device, we must file a PMA application that includes clinical data and the results of pre-clinical and other testing sufficient to show that there is a reasonable assurance of safety and effectiveness of the product for its intended use. To begin a clinical study, an Investigational Device Exemption (IDE) must be obtained and the study must be conducted in accordance with FDA regulations. An IDE application must contain preclinical test data demonstrating the safety of the product for human investigational use, information on manufacturing processes and procedures, and proposed clinical protocols. If the FDA clears the IDE application, human clinical trials may begin. The results obtained from these trials are accumulated and, if satisfactory, are submitted to the FDA in support of a PMA application. Prior to U.S. commercial distribution, premarket approval is required from the FDA. In addition to the results of clinical trials, the PMA application must include other information relevant to the safety and effectiveness of the device, a description of the facilities and controls used in the manufacturing of the device, and proposed labeling. By law, the FDA has 180 days to review a PMA application. While the FDA has responded to PMA applications within the allotted time frame, reviews more often occur over a significantly longer period and may include requests for additional information or extensive additional trials. There can be no assurance that we will not be required to conduct additional trials which may result in substantial costs and delays, nor can there be any assurance that a PMA will be obtained for each product in a timely manner, if at all. In addition, changes in existing regulations or the adoption of new regulations or policies could prevent or delay regulatory approval of our products. Furthermore, even if a PMA is granted, subsequent modifications of the approved device or the manufacturing process may require a supplemental PMA or the submission of a new PMA which could require substantial additional clinical efficacy data and FDA review. After the FDA accepts a PMA application for filing, and after FDA review of the application, a public meeting is frequently held before an FDA advisory panel in which the PMA is reviewed and discussed. The panel then issues a favorable or unfavorable recommendation to the FDA or recommends approval with conditions. Although the FDA is not bound by the panel s recommendations, it tends to give such recommendations significant weight. In February 1999, we received a PMA for our TMR laser system for use in certain indications.

Products manufactured or distributed by us pursuant to a PMA will be subject to pervasive and continuing regulation by the FDA, including, among other things, postmarket surveillance and adverse event reporting requirements. Failure to comply with applicable regulatory

requirements can result in, among other things, warning letters, fines, suspensions or delays of approvals, seizures or recalls of products, operating restrictions or criminal prosecutions. The Federal Food, Drug and Cosmetic Act requires us to manufacture our products in registered establishments and in accordance with Good Manufacturing Practices (GMP) regulations and to list our devices with the FDA. Furthermore, as a condition to receipt of a PMA, our facilities, procedures and practices will be subject to additional pre-approval GMP inspections and thereafter to ongoing, periodic GMP

inspections by the FDA. These GMP regulations impose certain procedural and documentation requirements upon us with respect to manufacturing and quality assurance activities. Labeling and promotional activities are subject to scrutiny by the FDA. Current FDA enforcement policy prohibits the marketing of approved medical devices for unapproved uses. Changes in existing regulatory requirements or adoption of new requirements could harm our business. We may be required to incur significant costs to comply with laws and regulations in the future and current or future laws and regulations may harm our business.

We are also regulated by the FDA under the Radiation Control for Health and Safety Act, which requires laser products to comply with performance standards, including design and operation requirements, and manufacturers to certify in product labeling and in reports to the FDA that our products comply with all such standards. The law also requires laser manufacturers to file new product and annual reports, maintain manufacturing, testing and sales records, and report product defects. Various warning labels must be affixed and certain protective devices installed, depending on the class of the product. In addition, we are subject to California regulations governing the manufacture of medical devices, including an annual licensing requirement. Our facilities are subject to ongoing, periodic inspections by the FDA and California regulatory authorities.

Sales, manufacturing and further development of our TMR and PTMR systems also may be subject to additional federal regulations pertaining to export controls and environmental and worker protection, as well as to state and local health, safety and other regulations that vary by locality and which may require obtaining additional permits. We can not predict the impact of these regulations on our business.

Sales of medical devices outside of the U.S. are subject to foreign regulatory requirements that vary widely by country. In addition, the FDA must approve the export of devices to certain countries. To market in Europe, a manufacturer must obtain the certifications necessary to affix to its products the CE Marking. The CE Marking is an international symbol of adherence to quality assurance standards and compliance with applicable European medical device directives. In order to obtain and to maintain a CE Marking, a manufacturer must be in compliance with appropriate ISO 9001 standards and obtain certification of its quality assurance systems by a recognized European Union notified body. However, certain individual countries within Europe require further approval by their national regulatory agencies. We have achieved International Standards Organization and European Union certification for our manufacturing facility. In addition, we have completed CE mark registration for all of our products in accordance with the implementation of various medical device directives in the European Union. Failure to maintain the right to affix the CE Marking or other requisite approvals could prohibit us from selling our TMR products in member countries of the European Union or elsewhere.

Intellectual Property Matters

Our success will depend, in part, on our ability to obtain patent protection for our products, preserve our trade secrets, and operate without infringing the proprietary rights of others. Our policy is to seek to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications related to our technology, inventions and improvements that are important to the development of our business. We have 91 U.S. and foreign patents or allowed patent applications and 78 U.S. and foreign patent applications pending relating to various aspects of TMR, PTMR and other cardiovascular therapies. On December 5, 2000 we were granted United States Patent No. 6,156,031 entitled Transmyocardial Revascularization Using Radiofrequency Energy . Our patents or patent applications may be challenged, invalidated or circumvented in the future or the rights granted may not provide a competitive advantage. We intend to vigorously protect and defend our intellectual property. We do not know if patent protection will continue to be available for surgical methods in the future. Costly and time-consuming litigation brought by us may be necessary to enforce our patents and to protect our trade secrets and know-how, or to determine the enforceability, scope and validity of the proprietary rights of others.

We also rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. We typically require our employees, consultants and advisors to execute confidentiality and assignment of inventions agreements in

connection with their employment, consulting, or advisory relationships with us. These agreements may be breached or we may not have adequate remedies for any breach. Furthermore, our competitors may independently develop substantially equivalent proprietary information

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and techniques or otherwise gain access to our proprietary technology, or we may not be able to meaningfully protect our rights in unpatented proprietary technology.

The medical device industry in general, and the industry segment that includes products for the treatment of cardiovascular disease in particular, have been characterized by substantial competition and litigation regarding patent and other intellectual property rights. In this regard, our competitors have been issued a number of patents related to TMR and PTMR. In September 1995 we received from a competitor a notice of potential infringement of the competitor s patent regarding a method for TMR utilizing synchronization of laser pulses to the electrical signals from the heart. We concluded, following discussion with our patent counsel, that we did not utilize the process and/or apparatus which is the subject of the patent at issue. We responded to the competitor to such effect and have received no further correspondence on this matter. There can be no assurance, however, that further claims or proceedings will not be initiated by a competitor, or that claims by other parties will not arise in the future. Any such claims in the future, with or without merit, could be time-consuming and expensive to respond to and could divert the attention of our technical and management personnel. We may be involved in litigation to defend against claims of our infringement, to enforce our patents, or to protect our trade secrets. If any relevant claims of third party patents are upheld as valid and enforceable in any litigation or administrative proceeding, we could be prevented from practicing the subject matter claimed in such patents, or we could be required to obtain licenses from the patent owners of each such patent or to redesign our products or processes to avoid infringement.

Until recently, patent applications in the U.S. were maintained in secrecy until patents issue, and patent applications in foreign countries are maintained in secrecy for a period after filing. Most of our U.S. applications are maintained in secrecy unless they have issued. Publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries and the filing of related patent applications. Accordingly, we can not assure you our current and potential competitors and other third parties have not filed or in the future will not file applications for, or have not received or in the future will not receive, patents or obtain additional proprietary rights that will prevent, limit or interfere with our ability to make, use or sell our products either in the U.S. or internationally. In the event we were to require licenses to patents issued to third parties, such licenses may not be available or, if available, may not be available on terms acceptable to us. In addition, we may not be successful in any attempt to redesign our products or processes to avoid infringement or that any such redesign could be accomplished in a cost-effective manner. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would harm our business.

Unrelated to the products used in our TMR procedure, we have received notices from three holders of patents requesting we become a licensee. Although we believe that either these patents are subject to challenge as being invalid or are not infringed by our products, we may not prevail in any such action. In one case, we have entered into a non-exclusive license to a patent involving arthroscopy use. In a second case, we buy components only from licensees of the patent holder, which we believe obviates the need for a separate license. If we determine that it is necessary to obtain a license to any patents or intellectual property, any such license may not be available on acceptable terms or at all, or we may not be able to develop or otherwise obtain alternative technology. Failure to obtain necessary licenses could prevent us from manufacturing and selling our products, which would harm our business.

Third Party Reimbursement

We expect that sales volumes and prices of our products will depend significantly on the availability of reimbursement for surgical procedures using our products from third party payors such as governmental programs, private insurance and private health plans. Reimbursement is a significant factor considered by hospitals in determining whether to acquire new equipment. Reimbursement rates from third party payors vary depending on the third party payor, the procedure performed and other factors. Moreover, third party payors, including government programs, private insurance and private health plans, have in recent years been instituting increasing cost containment measures designed to limit payments made to healthcare providers by, among other measures,

reducing reimbursement rates, limiting services covered, negotiating prospective or discounted contract pricing and carefully reviewing and increasingly challenging the prices charged for medical products and services.

Medicare reimburses hospitals on a prospectively determined fixed amount for the costs associated with an in-patient hospitalization based on the patient s discharge diagnosis, and reimburses physicians on a prospectively determined fixed amount based on the procedure performed, regardless of the actual costs incurred by the hospital or physician in furnishing the care and unrelated to the specific devices used in that procedure. Medicare and other third party payors are increasingly scrutinizing whether to cover new products and the level of reimbursement for covered products. In addition, Medicare traditionally has considered items or services involving devices that have not been approved or cleared for marketing by the FDA to be precluded from Medicare coverage. In July 1999 HCFA began coverage of FDA approved TMR systems for any manufacturer s TMR procedures.

We have limited experience to date with the acceptability of our TMR procedures for reimbursement by private insurance and private health plans. Private insurance and private health plans may not approve reimbursement for TMR or PTMR. The lack of private insurance and health plans reimbursement may harm our business.

In foreign markets, reimbursement is obtained from a variety of sources, including governmental authorities, private health insurance plans and labor unions. In most foreign countries, there are also private insurance systems that may offer payments for alternative therapies. Although not as prevalent as in the U.S., health maintenance organizations are emerging in certain European countries. We may need to seek international reimbursement approvals, and we may not be able to attain these approvals in a timely manner, if at all. Failure to receive foreign reimbursement approvals could make market acceptance of our products in the foreign markets in which such approvals are sought more difficult.

We believe that reimbursement in the future will be subject to increased restrictions such as those described above, both in the U.S. and in foreign markets. We also believe that the escalating cost of medical products and services has led to and will continue to lead to increased pressures on the health care industry, both foreign and domestic, to reduce the cost of products and services, including products offered by us. Third party reimbursement and coverage may not be available or adequate in U.S. or foreign markets, current levels of reimbursement may be decreased in the future or future legislation, regulation, or reimbursement policies of third party payors may reduce the demand for our products or our ability to sell our products on a profitable basis. Fundamental reforms in the healthcare industry in the U.S. and Europe that could affect the availability of third party reimbursement continue to be proposed, and we cannot predict the timing or effect of any such proposal. If third party payor coverage or reimbursement is unavailable or inadequate, our business may suffer.

Product Liability and Insurance

We maintain insurance against product liability claims in the amount of $10 million per occurrence and $10 million in the aggregate. We may not be able to obtain additional coverage or continue coverage in the amount desired or on terms acceptable to us, and such coverage may not be adequate for liabilities actually incurred. Any uninsured or underinsured claim brought against us or any claim or product recall that results in a significant cost to or adverse publicity against us could harm our business.

Employees

As of December 31, 2000 we had 123 employees, including 16 in research and development, 49 in manufacturing, 38 in sales and marketing and 20 in administration. Other than confidentiality agreements with all employees, as a general policy matter, we do not enter into employment agreements with any of our employees. In connection with the recent hirings of Michael J. Quinn as our Chief Executive Officer and Darrell Eckstein as our Vice President of Operations, we did, however, provide both officers with letter employment agreements. None of our employees is covered by a collective bargaining agreement and we have not experienced any work stoppages to date.

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Our executive officers as of March 28, 2001 are as follows:

Name	Age	Position
Michael J. Quinn	56	Chief Executive Officer, President, Chairman of the Board and Director
Darrell F. Eckstein	43	Vice President of Operations
Ian A. Johnston	46	Vice President of Finance and Treasurer
Thomas L. Kinder	38	Vice President of Worldwide Sales and Service
Richard P. Lanigan	42	Vice President of Government Affairs and Business Development
Christopher M. Owens	32	Vice President of Marketing
Ilene L. Janofsky	46	Chief Legal Counsel

Michael J. Quinn has served as our Chief Executive Officer, President and Chairman of the Board since October 2000. From November 1999 to September 2000, Mr. Quinn served as Chief Executive Officer, President and a member of the Board of Directors for Premier Laser Systems, a manufacturer of surgical and dental products. From January 1998 to November 1999, Mr. Quinn served as President and Chief Operating Officer of Imagyn Medical Technologies, Inc., a manufacturer of minimally invasive surgical specialty products. From 1995 through December 1997, Mr. Quinn served as President and Chief Operating Officer of Fisher Scientific Company. Prior to 1995, Mr. Quinn held senior operating management positions at major healthcare organizations including American Hospital Supply Corporation, Picker International, Cardinal Health Group and Bergen Brunswig.

Darrell F. Eckstein has served as our Vice President of Operations since December 2000. From 1996 to 2000 he served as Vice President and General Manager of the Surgical Products Division of Imagyn Medical Technologies, a manufacturer of minimally invasive surgical specialty products. From 1995 to 1996, Mr. Eckstein was Vice President of Finance, Chief Financial Officer and an Executive Committee member of Richard-Allen Medical Industries Inc., a medical devices company. From 1991 to 1995, Mr. Eckstein was Vice President of Finance, Chief Financial Officer and an Executive Committee member of National Emergency Services Inc., a health care services company that provides physician contract management, medical billing and insurance services. Prior to 1991, Mr. Eckstein worked for Deloitte and Touche, most recently as a Senior Audit Manager, for 11 years. He received his Bachelor of Science degree in Accounting from Indiana University.

Ian A. Johnston has been our Vice President of Finance since July 2000 and Corporate Controller since March 1999. From 1998 to 1999 Mr. Johnston was also Controller of CardioGenesis Corporation. From 1989 to 1998 Mr. Johnston served in a variety of financial positions (most recently as Controller) at Toshiba America MRI, Inc., a medical imaging company. From 1985 to 1989 Mr. Johnston was an auditor with Arthur Andersen & Co. Mr. Johnston has a Masters in Business Administration and a Bachelor of Arts in Economics from the University of California Berkeley and is a member of the American Institute of Certified Public Accountants.

Thomas L. Kinder has served as our Vice President of Sales since March 2001 and as General Manager, West Area since November 2000. From June 2000 to November 2000, Mr. Kinder served as Vice President of Sales for Watchitwork.om. From September 1999 to November 2000, Mr. Kinder served as General Manager for Karl Storz Endoscopy. From March 1996 to September 1999, Mr. Kinder served in the roles of Business Director, Area Vice-President and, most recently, Vice President of Sales for Imagyn Medical Technologies, Inc. From March 1996 to April 1997, Mr. Kinder served as Director of Sales for Microsurg, a company that was later sold to Imagyn Medical Technologies, Inc.

Richard P. Lanigan has been our Vice President of Government Affairs and Business Development since March 2001, Vice President of Sales and Marketing since March 2000 and Director of Marketing since 1997. From 1992 to 1997, Mr. Lanigan served in various positions, most recently Marketing Manager, at Stryker Endoscopy. From 1987 to 1992, Mr. Lanigan served in Manufacturing and Operations management at Raychem Corporation. From 1981 to 1987, he served in the U.S. Navy where he completed six years of service as

Lieutenant in the Supply Corps. Mr. Lanigan has a Bachelors of Arts in Finance from Notre Dame and a Masters degree in Systems Management from the University of Southern California.

Christopher M. Owens has been our Vice President of Marketing since March 2001. Prior to Eclipse, Mr. Owens was Director of Marketing for the global Lamellar Surgery business of Bausch & Lomb. The Lamellar Surgery business provides surgical products for vision correction procedures. From 1997 to 2000, Mr. Owens served in a variety of sales related positions (most recently National Sales Manager) at Imagyn Medical Technologies, Inc., a manufacturer of minimally invasive surgical specialty products. From 1996 to 1997, Mr. Owens was Marketing Product Manager for Stackhouse, Inc From 1990 to 1996 he also served as a Product Development Engineer at Baxter Healthcare Corp. He has both a Bachelors and Masters degree in Plastics Engineering from the University of Massachusetts and a Masters in Business Administration from the University of Phoenix.

Ilene L. Janofsky has served as our Chief Legal Counsel since January 2001. From 1999 to 2000 Ms. Janofsky served as Patent Manager, Intellectual Property Counsel and from June 1998 to March 1999 she served as Patent Counsel. >From 1993 to 1998 Ms. Janofsky worked as an independent patent law consultant. >From 1990 to 1993 Ms. Janofsky was employed as a Patent Attorney with the Liposome Company. She has also worked as a Patent Attorney on an independent basis from 1988 to 1989 and with the New York city law firm of Ladas & Parry from 1987 to 1988. Ms. Janofsky is admitted to practice law in New York (1986), New Jersey (1986) and before the United States Patent and Trademark Office (1983). She passed the California Bar exam in July 2000 and is awaiting admission. Ms. Janofsky received her Bachelor of Science in Clinical Nutrition from the University of Florida, Gainesville in 1976 and her Juris Doctorate from St. John s University Law School in 1985.

Item 2. ***Description of Property*.**

Our facilities, located in Sunnyvale, California, are comprised of 45,960 square feet under two separate leases. The manufacturing facility contains a Class 10,000 clean room for laser handpiece and catheter fabrication. The leases expire from July 2002 through September 2002. Our headquarters is located in Sunnyvale, California. We believe our facilities are adequate to meet our foreseeable requirements. There can be no assurance that additional facilities will be available to us, if and when needed, thereafter.

Item 3. ***Legal Proceedings*.**

There are no pending legal proceedings against us other than ordinary litigation incidental to our business, the outcome of which, individually or in the aggregate, is not expected to have a material adverse effect on our business or financial condition.

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

None.

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PART II

Item 5. ***Market for Registrants Shares and Related Shareholder Matters*****.**

(a) Our common stock has been traded on the Nasdaq National Market under the symbol, ESTI, since May 31, 1996. For the periods indicated, the following table presents the range of high and low sale prices for the common stock as reported by the Nasdaq National Market.

	High	Low
2000		
First Quarter	$11.50	$6.75
Second Quarter	$7.69	$2.88
Third Quarter	$4.69	$3.31
Fourth Quarter	$4.06	$0.50

	High	Low
1999		
First Quarter	$14.25	$7.25
Second Quarter	$12.38	$7.69
Third Quarter	$18.69	$9.75
Fourth Quarter	$15.94	$5.00

As of December 31, 2000 shares of our common stock were held by 190 shareholders of record.

We have never paid a cash dividend on our common stock and do not anticipate paying any cash dividends in the foreseeable future, as we intend to retain our earnings, if any, to generate increased growth and for general corporate purposes.

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Item 6. ***Selected Consolidated Financial Data*****.**

The following selected consolidated statement of operations data for fiscal years ended 2000, 1999 and 1998 and the consolidated balance sheet data for 2000 and 1999 set forth below are derived from the our consolidated financial statements and are qualified by reference to our consolidated financial statements included herein.

The selected consolidated statement of operations data for fiscal year ended 1997 and 1996 and the consolidated balance sheet data for 1998, 1997 and 1996 have been derived from our audited financial statements not included herein. These historical results are not necessarily indicative of the results of operations to be expected for any future period. As a result of our pooling of interest with CardioGenesis, all prior period data has been restated as if the combined entity existed for all periods presented.

Selected Consolidated Financial Data
(in thousands, except per share amounts)

	Year Ended December 31,				
	2000	**1999(1)**	**1998**	**1997**	**1996**
Statement of Operations Data:					
Net revenues	$22,210	$25,324	$15,080	$13,058	$13,718
Cost of revenues	10,055	13,246	7,868	7,295	6,424
Gross profit	12,155	12,078	7,212	5,763	7,294
Operating expenses:					
Research and development	5,065	11,353	29,861	26,217	13,323
Sales and marketing	15,349	16,553	17,663	11,542	5,949
General and administrative	6,660	8,028	10,821	9,462	4,820
Merger-related costs		5,214			
Total operating expenses	27,074	41,148	58,345	47,221	24,092
Operating loss	(14,919)	(29,070)	(51,133)	(41,458)	(16,798)
Interest and other income (expense), net	310	737	3,366	5,240	3,842

Net loss
$(14,609)$(28,333)$(47,767)$(36,218)$(12,956)

Net loss per share basic and diluted
(0.48)(0.99)(1.77)(1.39)$(0.65)

Shares used in per share calculation
30,16628,62927,00026,02720,019

Balance Sheet Data:
Cash, cash equivalents and marketable securities
$3,357$13,313$27,941$75,729$110,271
Working capital
4,66210,03122,24368,999105,185
Total assets
16,96534,01952,97891,714123,003
Long-term debt, less current portion
4058151141020
Accumulated deficit
(153,833)(139,224)(110,891)(63,124)(26,906)
Total shareholders equity
7,97418,57337,27682,374117,061

(1) Cost of revenues includes $2.5 million of inventory write-offs and upgrades associated with the March 1999 merger.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations*.**

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains descriptions of our expectations regarding future trends affecting our business. These forward-looking statements and other forward-looking statements made elsewhere in this document are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Please read the section below titled Factors Affecting Future Results to review conditions which we believe could cause actual results to differ materially from those contemplated by the forward-looking statements. Forward-looking statements are identified by words such as believes, anticipates, expects, intends, plans, will, may and similar expressions. In addition, any statements that refer to our plans, expectations, strategies or other characterizations of future events or circumstances are forward-looking statements. Our business may have changed since the date hereof and we undertake no obligation to update these forward looking statements.

The following discussion should be read in conjunction with financial statements and notes thereto included in this Annual Report on Form 10-K.

Overview

Eclipse Surgical Technologies, Inc., incorporated in California in 1989, designs, develops, manufactures and distributes laser-based surgical products and disposable fiber-optic accessories for the treatment of advanced cardiovascular disease through transmyocardial revascularization (TMR) and percutaneous transluminal myocardial revascularization (PTMR).

On February 11, 1999, we received final approval from the FDA for our TMR products for certain indications, and we are now able to sell those products in the U.S. on a commercial basis. We have also received the European Conforming Mark (CE Mark) allowing the commercial sale of our TMR laser systems and our PTMR catheter system to customers in the European Community. Effective July 1, 1999, Health Care Financial Administration began providing Medicare coverage for TMR. Hospitals and physicians are now eligible to receive Medicare reimbursement for TMR equipment and procedures.

We have completed pivotal clinical trials involving PTMR, and study results were submitted to the FDA in a Pre Market Approval (PMA) application in December of 1999 along with subsequent amendments. We are currently in final negotiations with the FDA in the PTMR market approval process. There can be no assurance, however, that we will receive a favorable decision from the agency.

As of December 31, 2000, we had an accumulated deficit of $153,833,000. We expect to continue to incur operating losses related to the expansion of sales and marketing activities. The timing and amounts of our expenditures will depend upon a number of factors, including the efforts required to develop our sales and marketing organization, the timing of market acceptance, if any, of our products and the status and timing of regulatory approvals.

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net Revenues

Net revenues of $22,210,000 for the year ended December 31, 2000 decreased $3,114,000 or 12% when compared to net revenues of $25,324,000 for the year ended December 31, 1999. The decrease in revenue was mainly due to a reduction in sales of laser systems resulting from a change, made at the end of 1999, to a new sales model which emphasizes laser system placements to develop the disposable handpiece market more rapidly. The reduction in laser sales is partially offset by an increase in disposable handpiece sales generated from the new

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sales model. International sales accounted for approximately 10% and 14% of total sales for the years ended December 31, 2000 and 1999, respectively. We define international sales as sales to customers located outside of the United States. (See Risk Factors.)

Gross Profit

Gross profit increased to $12,155,000 or 55% of net revenues for the year ended December 31, 2000 as compared to $12,078,000 or 48% of net revenues for the year ended December 31, 1999. In 1999 we incurred $2,523,000 in cost of revenues for inventory write-offs and a laser upgrade program resulting from our merger with CardioGenesis. Excluding these one-time charges, gross margin in the year ended December 31, 2000 decreased $2,446,000 compared to the prior year. This decrease in gross margin in absolute terms and as a percentage of sales resulted from the fixed component of cost of goods sold becoming a larger portion of sales, due to the decrease in sales volumes.

Research and Development

Research and development expenditures of $5,065,000 decreased $6,288,000 or 55% for the year ended December 31, 2000 when compared to $11,353,000 for the year ended December 31, 1999. The decrease in overall research and development expense is comprised of a $4,875,000 reduction in expenses related to clinical trials, a $675,000 reduction in engineering project expenses and a $725,000 reduction in employee related expenses as headcount has fallen through general attrition. We expect research and development expenses to continue to decline in the upcoming year with a continuing reduction in clinical and product development activities.

Sales and Marketing

Sales and marketing expenditures of $15,349,000 decreased $1,204,000 or 7% for the year ended December 31, 2000 when compared to $16,553,000 for the year ended December 31, 1999. The decrease in absolute sales and marketing dollars is mainly due to commission payments made for laser sales. Not only was laser revenue in 2000 $8,700,000 lower than in 1999, the average commission rate on the year 2000 laser sales was substantially lower due to the transition from an outside distributor to an inside sales force for a region of the US at the end of 1999. We expect that spending on sales and marketing will decrease in the upcoming year, despite continued development of the TMR and PTMR market, as the Company s focus on cost reduction becomes reflected in lower expenditures for outside services and travel costs. At year-end a sales force transition was underway which is expected to continue through the second quarter of 2001. New sales representatives are being hired to fill openings resulting from general attrition and the release of sales representatives who did not meet their sales objectives.

General and Administrative

General and administrative expenses decreased by $1,368,000 or 17% to $6,660,000 in 2000 from $8,028,000 in 1999. The decrease is due mainly to a $1,000,000 reduction of salary and wage expense associated with the elimination of redundant positions that existed between CardioGenesis and Eclipse prior to the March 17, 1999 merger and with the CEO position that was filled for only a portion of 2000. Another significant reduction was an $850,000 reduction in bad debt expenseWe expect general and administrative expenses to decline somewhat from prior year levels as we anticipate reductions in deferred compensation and bad debt expense and we plan to outsource patent work.

Merger Related Costs

There were no merger related costs in 2000 associated with the merger between us and CardioGenesis Corporation, while in 1999 there was $5,214,000 in merger related costs.

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Interest and Other Income (Expense), Net

Interest and other income of $400,000 decreased $401,000 or 50% for the year ended December 31, 2000 when compared to $801,000 for the year ended December 31, 1999. The decrease was due to lower investments in marketable securities and cash and cash equivalents.

Interest expense of $32,000 decreased $32,000 or 50% for the year ended December 31, 2000 when compared to $64,000 for the year ended December 31, 1999. This decrease reflects a lower level of debt outstanding.

Equity in net loss of investee is a new non-cash expense in 2000. It represents our share of the net loss of Microheart Holdings, Inc., given our November 15, 2000 exercise of warrants to increase our ownership percentage to 32.1%.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net Revenues

Net revenues of $25,324,000 for the year ended December 31, 1999 increased $10,244,000 or 68% when compared to net revenues of $15,080,000 for the year ended December 31, 1998. The increase in revenues was due to $7,300,000 in higher sales of laser systems and $2,580,000 in higher sales of disposable products resulting from the receipt of FDA approval on our TMR products and an increase in research revenue associated with the sale of intellectual property of $310,000. Export sales accounted for approximately 14% and 24% of total sales for the years ended December 31, 1999 and 1998, respectively. The percentage decrease relative to total sales is mainly due to higher domestic sales from the receipt of FDA approval on our TMR products, as international sales fell by only $30,000. We define export sales as sales to customers located outside of the United States. (See Risk Factors.)

Gross Profit

Gross profit increased to $12,078,000, $14,601,000 net of the merger related inventory write-offs and a laser upgrade program or 58% of net revenues for the year ended December 31, 1999, as compared to $7,212,000 or 48% of net revenues for the year ended December 31, 1998, an increase of $7,389,000. This increase both in percentage and in absolute terms resulted from greater unit sales volume and a higher average sales price on lasers and disposables; these factors increased gross margin by approximately $3,100,000 and $3,800,000, respectively. Lower unit cost contributed an additional $500,000 towards gross margin, as the fixed manufacturing expense were applied over higher production volumes. Gross profit percentage, including the inventory and upgrade program write-off related to the merger, was 48% of net revenues.

Research and Development

Research and development expenditures of $11,353,000 decreased $18,508,000 or 62% for the year ended December 31, 1999 when compared to $29,861,000 for the year ended December 31, 1998. The decrease in these expenses reflects cost savings resulting from the merger with CardioGenesis by the elimination of redundant TMR and PTMR clinical trials, engineering and clinical support activity of $2 million, $8 million and $2 million, respectively. There was an additional $6 million of clinical expense reductions during 1999 attributed to the completion of major trials in 1998 and early 1999.

Sales and Marketing

Sales and Marketing expenditures of $16,553,000 decreased $1,110,000 or 6% for the year ended December 31, 1999 when compared to $17,663,000 for the year ended December 31, 1998. The decrease in absolute dollars is mainly due to cost efficiencies realized from the merger. Prior to the merger, both Eclipse and

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CardioGenesis were operating separate sales units in Europe. Cost savings from the elimination of this redundancy was approximately $1.5 million. This savings is partially offset by $250,000 in increased general marketing expenses supporting the commercial TMR products and $200,000 in increased commissions.

General and Administrative

General and administrative expenses decreased by $2,793,000 or 26% to $8,028,000 in 1999 from $10,821,000 in 1998. The decrease is due to a $3.5 million reduction in litigation expenses offset by a $700,000 increase in deferred compensation to consultants.

Merger Related Costs

CardioGenesis was a medical device company like us, which developed, manufactured, and marketed cardiac revascularization products for the treatment of advanced cardiovascular disease and severe angina pain through TMR and PTMR. CardioGenesis also manufactured and

marketed disposable products to perform intraoperative transmyocardial revascularization, catheter-based percutaneous myocardial revascularization, and thorascopic transmyocardial revascularization to treat patients afflicted with debilitating angina. During the quarter ended March 31, 1999, we recognized merger-related costs of $6,893,000 for financial advisory and legal fees, personnel severance, terminated relationships and other costs including write-offs of fixed assets and inventory. A majority of the terminated employees were located in California and worked in operations, sales, marketing, quality, research and development and administrative functions. A total of 40 employees were terminated.

During the remaining three quarters in the year ended December 31, 1999, we recognized additional merger-related costs of $844,000, which was mainly due to an upgrade program to replace customer owned equipment rendered unusable by the merger. This increase brought the total of merger related costs for the twelve months ended December 31, 1999 to $7,737,000; this includes inventory write-offs and the laser upgrade program totaling $2,523,000 that are accounted for in our cost of revenues. We do not expect any further charges for merger related expense and anticipate the last merger-related payment to occur in the second part of 2001. The following table summarizes the merger-related costs (in thousands).

Reinsurance receivables	**254**	16
Other receivables	**(4)**	76
Deferred acquisition costs	**(1)**	(7)
Insurance reserves	**(135)**	(139)
Other liabilities	**(42)**	(133)
Trading securities	**(584)**	457
Other, net	**8**	(19)
Net cash flow operating activities	**294**	1,138
Investing Activities:		
Purchases of fixed maturities	**(5,351)**	(7,079)

Proceeds from sales of fixed maturities	**2,737**	7,046
Proceeds from maturities of fixed maturities	**846**	827
Purchases of equity securities	**(42)**	(134)
Proceeds from sales of equity securities	**25**	146
Purchases of property, plant and equipment	**(212)**	(567)
Change in collateral on loaned securities and derivatives	**1**	45
Change in short term investments	**1,628**	(1,457)
Other, net	**(43)**	65
Net cash flow investing activities	**$(411)**	$(1,108)

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31	**2010**	2009
(In millions)		
Financing Activities:		
Dividends paid	**$ (26)**	$ (27)
Dividends paid to noncontrolling interests	**(166)**	(161)
Purchases of treasury shares	**(188)**	
Issuance of common stock	**1**	1
Proceeds from sale of subsidiary stock	**333**	
Principal payments on debt	**(1)**	(10)
Issuance of debt	**125**	171
Policyholders investment contract net deposits (withdrawals)	**(2)**	(7)
Other, net	**(12)**	12
Net cash flow financing activities	**64**	(21)
Effect of foreign exchange rate on cash	**(2)**	(2)
Net change in cash	**(55)**	7
Cash, beginning of period	**190**	131
Cash, end of period	**$ 135**	$ 138

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (CNA), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (HighMount), a wholly owned subsidiary); the operation of interstate natural gas pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 66% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). In the first quarter of 2010 the Company sold 11.5 million common units of its subsidiary, Boardwalk Pipeline, for $333 million, reducing the Company s ownership interest from 72% to 66%. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2010 and December 31, 2009 and the results of operations, comprehensive income (loss) and changes in cash flows for the three months ended March 31, 2010 and 2009.

Net income (loss) for the first quarter of each of the years is not necessarily indicative of net income (loss) for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2009 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Operations. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock options and stock appreciation rights (SARs) of 2.4 million shares were not included in the diluted weighted average shares amount for the three months ended March 31, 2010 due to the exercise price being greater than the average stock price. For the three months ended March 31, 2009, 5.6 million of common equivalent shares, consisting solely of stock options and SARs, are not included in the diluted weighted average shares amount as their effects are antidilutive.

Accounting changes In June of 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance which amended the requirements for determination of the primary beneficiary of a variable interest entity, required an ongoing assessment of whether an entity is the primary beneficiary and required enhanced interim and annual disclosures. The updated accounting guidance became effective for quarterly and annual reporting periods beginning after November 15, 2009, except for investment company type entities for which the requirements under this guidance have been deferred indefinitely. The adoption of this updated accounting guidance as of January 1, 2010 had no impact on the Company s financial condition or results of operations.

New accounting pronouncements not yet adopted In March of 2009, the FASB issued updated accounting guidance which amends the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in collateralized debt obligations (CDOs) and synthetic CDOs, are considered embedded derivatives subject to potential bifurcation. The updated accounting guidance is effective for the first quarter beginning after June 15, 2010. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations.

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2. Investments

Three Months Ended March 31 (In millions)	2010	2009
Net investment income consisted of:		
Fixed maturity securities	**$ 510**	$ 475
Short term investments	**7**	11
Limited partnerships	**80**	(70)
Equity securities	**10**	14
Income from trading portfolio	**21**	26
Other	**3**	3
Total investment income	**631**	459
Investment expenses	**(14)**	(12)
Net investment income	**$ 617**	$ 447
Investment gains (losses) are as follows:		
Fixed maturity securities	**$ 27**	$ (358)
Equity securities	**3**	(216)
Derivative instruments	**(13)**	31
Short term investments	**3**	14
Other	**1**	(2)
Investment gains (losses) (a)	**$ 21**	$ (531)

(a) Includes gross realized gains of $102 and $108 and gross realized losses of $72 and $682 on available-for-sale securities for the three months ended March 31, 2010 and 2009.

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

Three Months Ended March 31 (In millions)	2010	2009
Fixed maturity securities available-for-sale:		
Asset-backed securities:		
Residential mortgage-backed securities	**$ 26**	$ 149
Commercial mortgage-backed securities	**2**	16
Other asset-backed securities		31
Total asset-backed securities	**28**	196
States, municipalities and political subdivisions-tax-exempt securities	**14**	
Corporate and other taxable bonds	**18**	190
Redeemable preferred stock		9
Total fixed maturities available-for-sale	**60**	395

Equity securities available-for-sale:		
Common stock		3
Preferred stock		216
Total equity securities available-for-sale	**-**	219
Net OTTI losses recognized in earnings	**$ 60**	$ 614

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded OTTI losses, otherwise defined as an unrealized loss. When a security is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

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Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. CNA follows a consistent and systematic process for determining and recording an OTTI loss. CNA has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by CNA s Chief Financial Officer. The Impairment Committee is responsible for evaluating securities in an unrealized loss position on at least a quarterly basis.

The Impairment Committee s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that CNA intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. In order to determine if a credit loss exists, the factors considered by the Impairment Committee include (i) the financial condition and near term prospects of the issuer, (ii) whether the debtor is current on interest and principal payments, (iii) credit ratings of the securities and (iv) general market conditions and industry or sector specific outlook. CNA also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as an OTTI loss in Other comprehensive income.

CNA performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. For asset-backed securities, significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, credit support from lower level tranches and impacts of rating agency downgrades. The discount rate utilized is either the yield at acquisition or, for lower rated structured securities, the current yield.

CNA applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near term prospects of the issuer, (iii) the intent and ability of CNA to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (iv) general market conditions and industry or sector specific outlook.

Prior to adoption of the updated accounting guidance related to OTTI in the second quarter of 2009, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

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

March 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	**$ 165**	**$ 16**	**$ 1**		**$ 180**	
Asset-backed securities:						
Residential mortgage-backed securities	**7,304**	**83**	**43**	**$ 406**	**6,938**	**$ 265**
Commercial mortgage-backed securities	**820**	**13**	**3**	**101**	**729**	
Other asset-backed securities	**811**	**17**	**1**	**18**	**809**	
Total asset-backed securities	**8,935**	**113**	**47**	**525**	**8,476**	**265**
States, municipalities and political subdivisions-tax-exempt securities	**6,458**	**191**	**24**	**316**	**6,309**	
Corporate and other taxable bonds	**21,518**	**1,276**	**35**	**131**	**22,628**	**26**
Redeemable preferred stock	**51**	**9**			**60**	
Fixed maturities available- for-sale	**37,127**	**1,605**	**107**	**972**	**37,653**	**291**
Fixed maturities, trading	**464**	**2**		**15**	**451**	
Total fixed maturities	**37,591**	**1,607**	**107**	**987**	**38,104**	**291**
Equity securities:						
Common stock	**79**	**15**		**2**	**92**	
Preferred stock	**572**	**49**		**32**	**589**	
Equity securities available-for-sale	**651**	**64**	**-**	**34**	**681**	**-**
Equity securities, trading	**287**	**114**	**9**	**26**	**366**	
Total equity securities	**938**	**178**	**9**	**60**	**1,047**	**-**
Total	**$ 38,529**	**$ 1,785**	**$ 116**	**$ 1,047**	**$ 39,151**	**$ 291**
December 31, 2009						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	$ 184	$ 16	$ 1		$ 199	
Asset-backed securities:						
Residential mortgage-backed securities	7,470	72	43	$ 561	6,938	$ 246
Commercial mortgage-backed securities	709	10	1	134	584	3
Other asset-backed securities	858	14	1	39	832	
Total asset-backed securities	9,037	96	45	734	8,354	249
States, municipalities and political subdivisions-tax-exempt securities	7,142	201	25	325	6,993	

Corporate and other taxable bonds	19,015	1,123	50	249	19,839	26
Redeemable preferred stock	51	4		1	54	
Fixed maturities available-for-sale	35,429	1,440	121	1,309	35,439	275
Fixed maturities, trading	395	3		21	377	
Total fixed maturities	35,824	1,443	121	1,330	35,816	275
Equity securities:						
Common stock	61	14	1	1	73	
Preferred stock	572	40		41	571	
Equity securities available-for-sale	633	54	1	42	644	-
Equity securities, trading	310	109	10	46	363	
Total equity securities	943	163	11	88	1,007	-
Total	$ 36,767	$ 1,606	$ 132	$ 1,418	$ 36,823	$ 275

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was $32 million for the three months ended March 31, 2010.

Activity for the three months ended March 31, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at March 31, 2010 was as follows:

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(In millions)		Three Months Ended March 31, 2010
Beginning balance of credit losses on fixed maturity securities	$	164
Additional credit losses for which an OTTI loss was previously recognized		11
Additional credit losses for which an OTTI loss was not previously recognized		5
Reductions for securities sold during the period		(9)
Ending balance of credit losses on fixed maturity securities	$	171

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the March 31, 2010 summary of fixed maturity and equity securities table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from the three major providers, Standard & Poor s, Moody s Investors Service, Inc. and Fitch Ratings in that order of preference. If a security is not rated by any of the three, the Company formulates an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

Asset-Backed Securities

The fair value of total asset-backed holdings at March 31, 2010 was $8,476 million which was comprised of 2,142 different asset-backed structured securities. The fair value of these securities does not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 202 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

Residential mortgage-backed securities include 270 structured securities in a gross unrealized loss position. In addition, there were 60 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8.8% of amortized cost.

Commercial mortgage-backed securities include 35 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 16.4% of amortized cost. Other asset-backed securities include 40 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6.5% of amortized cost.

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The asset-backed securities in a gross unrealized loss position by ratings distribution are as follows:

March 31, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government Agencies	**$ 1,568**	**$ 1,549**	**$ 19**
AAA	**1,933**	**1,752**	**181**
AA	**485**	**420**	**65**
A	**302**	**243**	**59**
BBB	**436**	**392**	**44**
Non-investment grade and equity tranches	**1,330**	**1,126**	**204**
Total	**$ 6,054**	**$ 5,482**	**$ 572**

The Company believes the unrealized losses are primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads, and are not indicative of the quality of the underlying collateral. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Generally, non-investment grade securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

States, Municipalities and Political Subdivisions Tax-Exempt Securities

The tax-exempt portfolio consists primarily of special revenue and assessment bonds, representing 82.8% of the overall portfolio, followed by general obligation political subdivision bonds at 12.7% and state general obligation bonds at 4.5%.

The unrealized losses on the Company s investments in tax-exempt municipal securities are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market recovery. Market conditions in the tax-exempt sector continued to improve in the first quarter of 2010. However, yields for certain issuers and types of securities, such as zero coupon bonds, auction rate and tobacco securitizations, continue to be higher than historical norms relative to after tax returns on other fixed income alternatives. The holdings for all tax-exempt securities in this category include 313 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 11.6% of amortized cost.

The tax-exempt securities in a gross unrealized loss position by ratings distribution are as follows:

March 31, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	**$ 1,195**	**$ 1,130**	**$ 65**
AA	**801**	**666**	**135**
A	**424**	**402**	**22**
BBB	**480**	**363**	**117**
Non-investment grade	**21**	**20**	**1**
Total	**$ 2,921**	**$ 2,581**	**$ 340**

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The largest exposures at March 31, 2010 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $105 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $79 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

Corporate and Other Taxable Bonds

The holdings in this category include 489 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was 3.4% of amortized cost.

The corporate and other taxable bonds in a gross unrealized loss position by ratings distribution are as follows:

March 31, 2010	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
(In millions)			
Ratings distribution:			
AAA	$ 322	$ 316	$ 6
AA	791	785	6
A	1,368	1,332	36
BBB	1,691	1,617	74
Non-investment grade	680	636	44
Total	$ 4,852	$ 4,686	$ 166

The unrealized losses on corporate and other taxable bonds are attributable to lingering impacts of the broader credit market deterioration primarily in the financial sector of the portfolio. Overall conditions in the corporate bond market have continued to improve in the first quarter of 2010, resulting in improvement in the Company s unrealized position. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

The Company has invested in securities with characteristics of both debt and equity investments, often referred to as hybrid debt securities. Such securities are typically debt instruments issued with long or extendable maturity dates, may provide for the ability to defer interest payments without defaulting and are usually lower in the capital structure of the issuer than traditional bonds. The data in the table above includes financial industry sector hybrid debt securities with an aggregate fair value of $670 million and an aggregate amortized cost of $700 million.

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Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2010 and December 31, 2009. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

	March 31, 2010		December 31, 2009	
(In millions)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 1,333**	**$ 1,325**	$ 1,240	$ 1,219
Due after one year through five years	**11,371**	**11,679**	10,046	10,244
Due after five years through ten years	**10,469**	**10,567**	10,647	10,539
Due after ten years	**13,954**	**14,082**	13,496	13,437
Total	**$ 37,127**	**$ 37,653**	$ 35,429	$ 35,439

Investment Commitments

As of March 31, 2010, the Company had committed approximately $243 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loans as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of March 31, 2010, the Company had commitments to purchase $337 million and sell $110 million of various bank loans.

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 market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 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.

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

fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

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

March 31, 2010 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 130	$ 50		$ 180
Asset-backed securities:				
Residential mortgage-backed securities		6,259	$ 679	6,938
Commercial mortgage-backed securities		617	112	729
Other asset-backed securities		441	368	809
Total asset-backed securities	-	7,317	1,159	8,476
States, municipalities and political subdivisions-tax-exempt securities		5,572	737	6,309
Corporate and other taxable bonds	118	21,830	680	22,628
Redeemable preferred stock	3	53	4	60
Fixed maturities available-for-sale	251	34,822	2,580	37,653
Fixed maturities, trading	147	88	216	451
Total fixed maturities	$ 398	$ 34,910	$ 2,796	$ 38,104
Equity securities available-for-sale	$ 526	$ 147	$ 8	$ 681
Equity securities, trading	366			366
Total equity securities	$ 892	$ 147	$ 8	$ 1,047
Short term investments	$ 5,676	$ 510	$ 1	$ 6,187
Receivables		126	2	128
Life settlement contracts			131	131
Separate account business	44	358	40	442
Payable to brokers	(71)	(146)	(29)	(246)
Discontinued operations investments, included in Other assets	14	110	15	139

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December 31, 2009 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 145	$ 54		$ 199
Asset-backed securities:				
Residential mortgage-backed securities		6,309	$ 629	6,938
Commercial mortgage-backed securities		461	123	584
Other asset-backed securities		484	348	832
Total asset-backed securities		7,254	1,100	8,354
States, municipalities and political subdivisions-tax-exempt securities		6,237	756	6,993
Corporate and other taxable bonds	139	19,091	609	19,839
Redeemable preferred stock	3	49	2	54
Fixed maturities available-for-sale	287	32,685	2,467	35,439
Fixed maturities, trading	102	78	197	377
Total fixed maturities	$ 389	$ 32,763	$ 2,664	$ 35,816
Equity securities available-for-sale	$ 503	$ 130	$ 11	$ 644
Equity securities, trading	363			363
Total equity securities	$ 866	$ 130	$ 11	$ 1,007
Short term investments	$ 6,818	$ 397		$ 7,215
Receivables		53	$ 2	55
Life settlement contracts			130	130
Separate account business	43	342	38	423
Payable to brokers	(87)	(135)	(50)	(272)
Discontinued operations investments, included in Other liabilities	19	106	16	141

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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 three months ended March 31, 2010 and 2009:

		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)						Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities
2010	**Beginning Balance**	**Included in Net Income**	**Included in OCI**	**Purchases, Sales, Issuances and Settlements**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance, March 31**	**Held at March 31**
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 629	$ (10)	$ 26	$ 42		$ (8)	$ 679	$ (11)
Commercial mortgage-backed securities	123	(1)	(4)	(5)	$ 7	(8)	112	(2)
Other asset-backed securities	348	4	21	(5)			368	
Total asset-backed securities	1,100	(7)	43	32	7	(16)	1,159	(13)
States, municipalities and political subdivisions-tax-exempt securities	756		2	(21)			737	
Corporate and other taxable bonds	609	2	29	55	9	(24)	680	
Redeemable preferred stock	2		2				4	
Fixed maturities available-for-sale	2,467	(5)	76	66	16	(40)	2,580	(13)
Fixed maturities, trading	197	6		13			216	6
Total fixed maturities	$ 2,664	$ 1	$ 76	$ 79	$ 16	$ (40)	$ 2,796	$ (7)
Equity securities available-for-sale	$ 11				$ 2	$ (5)	$ 8	
Short term investments					1		1	
Life settlement contracts	130	$ 10		$ (9)			131	$ 3
Separate account business	38			2			40	
Discontinued operations investments	16		$ 1	(2)			15	
	(48)	(8)	14	15			(27)	

Derivative financial instruments, net

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2009	Beginning Balance	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income (Loss)	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at March 31
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 782	$ (17)	$ 1	$ (23)			$ 743	$ (19)
Commercial mortgage-backed securities	186	(10)	(13)	(5)			158	(9)
Other asset-backed securities	139	(30)	30	(40)	$ 153		252	(32)
Total asset-backed securities	1,107	(57)	18	(68)	153		1,153	(60)
States, municipalities and political subdivisions-tax-exempt securities	750		37	(3)			784	
Corporate and other taxable bonds	622	(5)	(1)	204	2	$ (13)	809	(6)
Redeemable preferred stock	13	(9)	8	7			19	(9)
Fixed maturities available-for-sale	2,492	(71)	62	140	155	(13)	2,765	(75)
Fixed maturities, trading	218	3		(8)			213	
Total fixed maturities	$ 2,710	$ (68)	$ 62	$ 132	$ 155	$ (13)	$ 2,978	$ (75)
Equity securities available-for-sale	$ 210						$ 210	
Life settlement contracts	129	$ 11		$ (13)			127	$ 2
Separate account business	38		$ 1	(1)			38	
Discontinued operations investments	15		(1)	(1)			13	
Derivative financial instruments, net	(72)	18	(10)	6			(58)	24

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

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Operations 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

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

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Securities shown in the Level 3 tables may be transferred in or out based on the availability of observable market information used to verify pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. The Company s policy is to 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, including an 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 debt securities issued by foreign governments, which are included in the corporate and other taxable bond category, for which quoted market prices are available. The remaining fixed maturity securities are valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves, broker/dealer quotes and other pricing models utilizing observable inputs. The valuation for most fixed maturity securities is classified as Level 2. Securities within Level 2 include certain corporate bonds, municipal bonds, asset-backed securities, mortgage-backed pass-through securities and redeemable preferred stock. Level 2 securities may also include securities that have firm sale commitments and prices that are not recorded until the settlement date. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. These securities include certain corporate bonds, asset-backed securities, municipal bonds and redeemable preferred stock. Within corporate bonds and municipal bonds, Level 3 securities also include tax-exempt auction rate certificates. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to maturity.

Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred securities and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing observable inputs. Level 3 securities include equity securities that are priced using internal models with inputs 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. Level 2 derivatives include currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, commodity swaps, credit default swaps, equity warrants and options are valued using inputs including broker/dealer quotes and are classified within Level 2 or Level 3 of the valuation hierarchy, depending on the amount of transparency as to 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 market funds and treasury bills. Level 2 includes commercial paper, for which all inputs are observable. Level 3 securities include bank debt securities purchased within one year of maturity where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency to the market inputs used.

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Life Settlement Contracts

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as CNA s own assumptions for mortality, premium expense, and 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 methodologies for these asset types have been described above.

Separate Account Business

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

Assets and Liabilities Not Measured at Fair Value

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
(In millions)				
Financial liabilities:				
Premium deposits and annuity contracts	**$ 104**	**$ 105**	$ 105	$ 106
Short term debt	**62**	**62**	10	10
Long term debt	**9,549**	**9,836**	9,475	9,574

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

Premium deposits and annuity contracts were valued based on cash surrender values, estimated fair values or policyholder liabilities, net of 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 for debt was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

4. Derivative Financial Instruments

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

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

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain 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 (principally interest rate risk, equity stock price risk, commodity price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). The Company s principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

CNA s use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through 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 rates. The Company attempts to mitigate its exposure to interest rate risk in the normal course of portfolio management, which includes rebalancing its existing portfolios of assets and liabilities. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt. The Company infrequently designates these types of instruments as hedges against specific assets or liabilities.

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

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

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company s foreign transactions are primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency forwards. In May of 2009, Diamond Offshore began a hedging 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 purposes of income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered 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 used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS

agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Company is entitled to receive the referenced defaulted security or the cash equivalent.

The tables below summarize CDS contracts where the Company sold credit protection as of March 31, 2010 and December 31, 2009. The fair value of the contracts represents the amount that the Company would receive at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

March 31, 2010	**Fair Value of Credit Default Swaps**	**Maximum Amount of Future Payments under Credit Default Swaps**	**Weighted Average Years To Maturity**
(In millions)			
B	**$ 1**	**$ 8**	**2.9**
Total	**$ 1**	**$ 8**	**2.9**
December 31, 2009			
B		$ 8	3.1
Total		$ 8	3.1

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of collateral provided by the Company was $13 million at March 31, 2010 and $7 million at December 31, 2009 and primarily consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was $2 million at March 31, 2010 and $1 million at December 31, 2009.

The agreements governing HighMount s derivative instruments contain certain covenants, including a maximum debt to capitalization ratio reviewed quarterly. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount s derivative instruments that are in a liability position was $161 million at March 31, 2010. HighMount was not required to post any collateral under the governing agreements. At March 31, 2010, HighMount was in compliance with all of its covenants under the derivatives agreements.

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 instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

	March 31, 2010			December 31, 2009		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (Liability)
(In millions)						
With hedge designation						
Interest rate risk:						
Interest rate swaps	**$ 1,095**		**$ (94)**	$ 1,600		$ (135)
Commodities:						
Forwards short	**656**	**$ 120**	**(23)**	715	$ 50	(39)
Foreign exchange:						
Currency forwards short	**78**	**2**	**(1)**	114	3	
Other				13	2	
Without hedge designation						
Equity markets:						
Options purchased	**173**	**26**		242	45	
written	**174**		**(6)**	282		(9)
Interest rate risk:						
Interest rate swaps	**514**		**(44)**	9		
Credit default swaps purchased protection	**70**		**(5)**	116		(11)
sold protection	**8**	**1**		8		
Futures long	**58**					
short	**727**			132		
Commodities:						
Forwards short	**41**	**13**				
Foreign exchange:						
Currency options short	**225**		**(8)**			
Other	**8**			2		
Total	**$ 3,827**	**$ 162**	**$ (181)**	$ 3,233	$ 100	$ (194)

Derivatives without hedge designation For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately $104 million and $6.1 billion in notional value while derivative termination activity totaled approximately $149 million and $6.1 billion during the three months ended March 31, 2010 and 2009. This activity was primarily attributable to credit default swaps and forward commitments for mortgage-backed securities.

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

Three Months Ended March 31	2010	2009
(In millions)		
Included in Net investment income:		
Equity risk:		
Equity options purchased	$ (13)	$ 5
written	6	
Futures long	1	
short	(4)	
Foreign exchange:		
Currency forwards long		(8)
short		7
Currency options short	2	
Interest rate risk:		
Credit default swaps purchased protection		9
sold protection		(6)
Options on government securities short		11
Futures long	3	5
short	3	
Other	(1)	(3)
	(3)	20
Included in Investment gains (losses):		
Equity options written		11
Interest rate risk:		
Interest rate swaps	(26)	21
Credit default swaps purchased protection		(9)
sold protection		(6)
Futures short		14
Commodity forwards short	13	
	(13)	31
Total	$ (16)	$ 51

Cash flow hedges A significant portion of the Company s hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of natural gas and other energy-related products. As of March 31, 2010, approximately 104.5 billion cubic feet of natural gas equivalents was hedged by qualifying cash flow hedges. The effective portion of these commodity hedges is reclassified from OCI into earnings when the anticipated transaction affects earnings. Approximately 47% of these derivatives have settlement dates in 2010 and 41% have settlement dates in 2011. As of March 31, 2010, the estimated amount of net unrealized gains associated with commodity contracts that will be reclassified into earnings during the next twelve months was $74 million. However, these amounts are likely to vary materially as a result of changes in market conditions. Diamond Offshore uses foreign currency forward exchange contracts to reduce exposure to foreign currency losses on future foreign currency expenditures. The effective portion of these hedges is reclassified from OCI into earnings when the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. As of March 31, 2010, the estimated amount of net unrealized gains associated with these contracts that will be reclassified into earnings over the next twelve months was $1 million. The Company also uses interest rate swaps to hedge its exposure to variable interest rates or risk attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over the term of the related notes. As of March 31, 2010, the estimated amount of

net unrealized losses associated with interest rate swaps that will be reclassified into earnings during the next twelve

months was $64 million. However, this is likely to vary as a result of changes in the LIBOR rate. For the three months ended March 31, 2010 and 2009, the net amounts recognized due to ineffectiveness were less than $1 million.

In February of 2010, HighMount determined that a portion of the expected underlying transactions related to its cash flow hedging activities were no longer probable of occurring and discontinued hedge accounting treatment for a portion of its interest rate swaps and its commodity price swaps. In March of 2010, HighMount entered into a definitive agreement to sell substantially all of its exploration and production assets located in the Antrim Shale in Michigan and recorded a loss of $22 million in Investment gains (losses) in the Consolidated Condensed Statements of Operations, reflecting the reclassification of net derivative losses from AOCI to earnings.

The following table summarizes the effective portion of the net derivative gains or losses included in OCI and the amount reclassified into Income (loss) for derivatives designated as cash flow hedges:

Three Months Ended March 31, 2010 (In millions)	Amount of Gain (Loss) Recognized in OCI	Location of Gain (Loss) Reclassified from OCI into Income (Loss)	Amount of Gain (Loss) Reclassified from OCI into Income (Loss)
Commodities	**$ 104**	**Other revenues**	**$ 30**
Foreign exchange		**Contract drilling expenses**	**2**
Interest rate risks	**(22)**	**Interest**	**(46)**
Total	**$ 82**		**$ (14)**
Three Months Ended March 31, 2009			
Commodities	$ 92	Other revenues	$ 74
Interest rate risks	(9)	Interest	(14)
Total	$ 83		$ 60

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. These sales resulted in proceeds of $53 million with fair value liabilities of $65 million at March 31, 2010. These positions are marked to market and investment gains or losses are included in Net investment income in the Consolidated Condensed Statements of Operations.

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

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

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professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $40 million and $13 million for the three months ended March 31, 2010 and 2009 for events occurring in those periods. Catastrophe losses in the first quarter of 2010 related primarily to winter storms and the Chilean earthquake. There can be no assurance that CNA s ultimate cost for catastrophes will not exceed current estimates.

The following provides discussion of the Company s Asbestos and Environmental Pollution (A&E) reserves.

A&E Reserves

The Company s property and casualty insurance subsidiaries have actual and potential exposures related to A&E claims.

The following table provides data related to the Company s A&E claim and claim adjustment expense reserves.

	March 31, 2010		December 31, 2009	
	Asbestos	**Environmental Pollution**	Asbestos	Environmental Pollution
(In millions)				
Gross reserves	**$ 1,991**	**$ 467**	$ 2,046	$ 482
Ceded reserves	**(895)**	**(195)**	(909)	(196)
Net reserves	**$ 1,096**	**$ 272**	$ 1,137	$ 286

Asbestos

The table below provides a reconciliation between CNA s beginning and ending net reserves for asbestos.

Asbestos Reserves

Three Months Ended March 31	**2010**	2009
(In millions)		
Beginning net reserves	**$ 1,137**	$ 1,202
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**-**	-
Paid claims, net of reinsurance recoveries	**(41)**	(51)
Ending net reserves	**$ 1,096**	$ 1,151

The ultimate cost of reported claims, and in particular A&E claims, is subject to a great many uncertainties, including future developments of various kinds that CNA does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified, pending rulings are critical to the evaluation of the ultimate cost to CNA. Accordingly, the extent of losses beyond any amounts that may be

accrued are not readily determinable at this time.

Some asbestos-related defendants have asserted that their insurance policies are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called non-products liability coverage contained within their policies rather than products liability coverage, and that the claimed non-products coverage is not subject to any aggregate limit. It is difficult to predict the

ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert non-products claims outside the products liability aggregate will succeed. CNA s policies also contain other limits applicable to these claims and CNA has additional coverage defenses to certain claims. CNA has attempted to manage its asbestos exposure by aggressively seeking to settle claims on acceptable terms. There can be no assurance that any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Where CNA cannot settle a claim on acceptable terms, CNA aggressively litigates the claim. However, adverse developments with respect to such matters could have a material adverse effect on the Company s results of operations and/or equity.

Certain asbestos claim litigation in which CNA is currently engaged is described below:

A.P. Green: In February 2003, CNA announced it had resolved asbestos-related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow Liptak Corporation. Under the agreement, CNA is required to pay $70 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement received initial bankruptcy court approval in August 2003. The debtor s plan of reorganization includes an injunction to protect CNA from any future claims. The bankruptcy court issued an opinion in September 2007 recommending confirmation of that plan. In July 2008, the District Court affirmed the Bankruptcy Court s ruling. Several insurers have appealed that ruling to the Third Circuit Court of Appeals; that appeal was argued in May 2009 and the parties are awaiting the court s decision.

Direct Action Case - Montana: In March 2002, a direct action was filed in Montana (*Pennock, et al. v. Maryland Casualty, et al.* First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. (W.R. Grace)) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace s pending bankruptcy. In April 2008, W.R. Grace announced a settlement in principle with the asbestos personal injury claimants committee subject to confirmation of a plan of reorganization by the bankruptcy court. The confirmation hearing was held in two phases. The first phase was held in June 2009. The second phase concluded in January 2010 and the bankruptcy court has taken the matter under advisement. The settlement in principle with the asbestos claimants has no present impact on the stay currently imposed on the Montana direct action and with respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA is vigorously defending these and other cases and believes that it has meritorious defenses to the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure represented by these matters. Adverse developments with respect to any of these matters could have a material adverse effect on CNA s business, insurer financial strength and debt ratings and the Company s results of operations and/or equity.

Environmental Pollution

The table below provides a reconciliation between CNA s beginning and ending net reserves for environmental pollution.

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Environmental Pollution Reserves

Three Months Ended March 31 **(In millions)**	**2010**	2009
Beginning net reserves	**$ 286**	$ 262
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**-**	-
Paid claims, net of reinsurance recoveries	**(14)**	(14)
Ending net reserves	**$ 272**	$ 248

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Other Insurance. Favorable net prior year development of $9 million was recorded in the Life & Group Non-Core segment for the three months ended March 31, 2010. Included in this amount is favorable reserve development of $24 million arising from a commutation of an assumed reinsurance agreement. For the three months ended March 31, 2009 for the Life & Group Non-Core segment, unfavorable net prior year development of $11 million was recorded.

Three Months Ended March 31, 2010 **(In millions)**	**CNA Specialty**	**CNA Commercial**	**Other Insurance**	**Total**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	**$ (25)**	**$ (28)**	**$ 2**	**$ (51)**
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	**(25)**	**(28)**	**2**	**(51)**
Pretax (favorable) unfavorable premium development	**(4)**	**21**	**(1)**	**16**
Total pretax (favorable) unfavorable net prior year development	**$ (29)**	**$ (7)**	**$ 1**	**$ (35)**

Three Months Ended March 31, 2009				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (29)	$ (42)	$ 1	$ (70)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(29)	(42)	1	(70)
Pretax (favorable) unfavorable premium development	(5)	20	(1)	14
Total pretax (favorable) unfavorable net prior year development	$ (34)	$ (22)	$ -	$ (56)

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable incurred loss emergence in several professional liability lines of business primarily in accident years 2007 and prior. This favorability was partially offset by unfavorable development in the employee practices liability line driven by higher unemployment, primarily in accident years 2008 and 2009.

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CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in non-catastrophe related property coverages in accident years 2007 and prior.

2009 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in liability coverages. This favorable development was the result of decreased frequency of large claims in accident years 2007 and prior.

An additional $7 million of favorable claim and allocated claim adjustment expense reserve development was a result of favorable outcomes on claims relating to catastrophes in accident years 2005 and 2008.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages, including $31 million resulting from favorable frequency and severity on claims relating to catastrophes in accident year 2008.

6. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. Benefits for certain plans are determined annually based on a specified percentage of annual earnings (based on the participant s age or years of service) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The benefits for another plan which cover salaried employees are based on formulas which include, among others, years of service and average pay. The Company s funding policy is 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 retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

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

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

The components of net periodic benefit cost are as follows:

	Pension Benefits		**Other Postretirement Benefits**	
Three Months Ended March 31	**2010**	2009	**2010**	2009
(In millions)				
Service cost	**$ 6**	$ 7	**$ 1**	$ 1
Interest cost	**42**	43	**3**	3
Expected return on plan assets	**(44)**	(39)	**(1)**	(1)

Amortization of unrecognized net loss	**7**	7	**1**	1
Amortization of unrecognized prior service cost			**(6)**	(6)
Regulatory asset decrease			**1**	1
Net periodic benefit cost	**$ 11**	$ 18	**$ (1)**	$ (1)

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7. Business Segments

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

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

CNA s non-core operations are managed in two segments: Life & Group Non-Core and Other Insurance. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Other Insurance primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business primarily in run-off, including CNA Re. This segment also includes the results related to the centralized adjusting and settlement of A&E.

Diamond Offshore s business primarily consists of operating 47 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. On March 31, 2010, Diamond Offshore s drilling rigs were located offshore twelve countries in addition to the United States.

HighMount s business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama. In April of 2010, HighMount sold its exploration and production assets located in the Antrim Shale in Michigan and entered into a definitive agreement with another purchaser to sell its exploration and production assets located in the Black Warrior Basin in Alabama.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of three interstate natural gas pipeline systems originating in the Gulf Coast area and running north and east through Texas, Louisiana, Mississippi, Alabama, Florida, 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, which 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-insurance 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 addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment s carried insurance reserves, as adjusted.

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

Three Months Ended March 31 **(In millions)**	**2010**	2009
Revenues (a):		
CNA Financial:		
CNA Specialty	**$ 866**	$ 690
CNA Commercial	**1,073**	836
Life and Group Non-Core	**320**	124
Other Insurance	**56**	(12)
Total CNA Financial	**2,315**	1,638
Diamond Offshore	**862**	886
HighMount	**148**	175
Boardwalk Pipeline	**301**	224
Loews Hotels	**75**	73
Corporate and other	**12**	27
Total	**$ 3,713**	$ 3,023
Income (loss) before income tax and noncontrolling interest (a):		
CNA Financial:		
CNA Specialty	**$ 216**	$ 55
CNA Commercial	**163**	(87)
Life and Group Non-Core	**(21)**	(240)
Other Insurance	**2**	(60)
Total CNA Financial	**360**	(332)
Diamond Offshore	**405**	451
HighMount	**57**	(1,006)
Boardwalk Pipeline	**88**	51
Loews Hotels	**(1)**	(29)
Corporate and other	**(13)**	(3)
Total	**$ 896**	$ (868)
Net income (loss) - Loews (a):		
CNA Financial:		
CNA Specialty	**$ 123**	$ 35
CNA Commercial	**100**	(44)
Life and Group Non-Core	**(3)**	(131)
Other Insurance	**5**	(30)
Total CNA Financial	**225**	(170)
Diamond Offshore	**136**	163
HighMount	**32**	(641)
Boardwalk Pipeline	**38**	22
Loews Hotels	**(1)**	(18)

Corporate and other		**(10)**		(3)
Total	**$**	**420**	$	(647)

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

Three Months Ended March 31	**2010**	2009
Revenues and Income (loss) before income tax and noncontrolling interest:		
CNA Financial:		
CNA Specialty	**$ 13**	$ (109)
CNA Commercial	**21**	(186)
Life and Group Non-Core	**(4)**	(190)
Other Insurance	**4**	(47)
Total CNA Financial	**34**	(532)
Corporate and other	**(13)**	1
Total	**$ 21**	$ (531)
Net income (loss) - Loews:		
CNA Financial:		
CNA Specialty	**$ 8**	$ (63)
CNA Commercial	**12**	(108)
Life and Group Non-Core	**(4)**	(111)
Other Insurance	**3**	(28)
Total CNA Financial	**19**	(310)
Corporate and other	**(8)**	
Total	**$ 11**	$ (310)

8. Legal Proceedings

On August 1, 2005, CNA and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation,* Civil No. 04-5184 (FSH). The plaintiffs allege bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs have appealed the dismissal of their complaint to the Third Circuit Court of Appeals. The parties have filed their briefs on the appeal. Oral argument was held on April 21, 2009, and the Court took the matter under advisement. CNA believes it has meritorious defenses to this action and 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 facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

CNA is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note 5 for further discussion.

The Company has been named as a defendant in the following three cases alleging substantial damages based on alleged health effects caused by smoking cigarettes, exposure to tobacco smoke or exposure to asbestos fibers incorporated into filter material used in one brand of cigarette that ceased manufacture more than 50 years ago, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *Clalit vs. Philip Morris, Inc., et al.* (1998, Jerusalem District Court of Israel), the court initially permitted plaintiff to serve the Company outside the jurisdiction but it cancelled the leave of service in response to the Company s application, and plaintiff s appeal is pending. In *Young vs. The American Tobacco Company, Inc. et*

al. (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending.

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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 have a material affect on its results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Company 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 of the operation or conduct of Lorillard s business, including among other things, smoking and health claims and litigation such as the three cases described above. Please read Item 1. Business - Separation of Lorillard and Note 19. Legal Proceedings of the Notes to the Consolidated 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 any of this litigation. Litigation is subject to many uncertainties. It is possible that one or more of the pending actions could be decided unfavorably.

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

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 out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of March 31, 2010, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $819 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2010, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

As of March 31, 2010 and December 31, 2009, CNA has recorded liabilities of approximately $16 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

10. Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at March 31, 2010 and December 31, 2009, and consolidating statements of operations information for the three months ended March 31, 2010 and 2009. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company s subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company s subsidiaries use a classified balance sheet which 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 corporate long term debt. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company s investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

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Loews Corporation

Consolidating Balance Sheet Information

March 31, 2010 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 42,826	$ 933	$ 144	$ 113	$ 39	$ 3,447		$ 47,502
Cash	95	24	1	13	2			135
Receivables	8,908	808	164	89	39	138	$ (146)	10,000
Property, plant and equipment	297	4,424	1,798	6,334	358	38		13,249
Deferred income taxes	1,133		583				(847)	869
Goodwill	86	20	584	163	3			856
Investments in capital stocks of subsidiaries						15,576	(15,576)	-
Other assets	727	530	42	356	23	15		1,693
Deferred acquisition costs of insurance subsidiaries	1,109							1,109
Separate account business	442							442
Total assets	$ 55,623	$ 6,739	$ 3,316	$ 7,068	$ 464	$ 19,214	$ (16,569)	$ 75,855
Liabilities and Equity:								
Insurance reserves	$ 38,109							$ 38,109
Payable to brokers	289	$ 101	$ 183			$ 89		662
Short term debt		4			$ 58			62
Long term debt	2,304	1,487	1,600	$ 3,225	166	867	$ (100)	9,549
Deferred income taxes		534		356	45	446	(1,381)	-
Other liabilities	2,810	937	133	443	21	206	488	5,038
Separate account business	442							442
Total liabilities	43,954	3,063	1,916	4,024	290	1,608	(993)	53,862
Total shareholders equity	10,175	1,870	1,400	1,897	174	17,606	(15,576)	17,546
Noncontrolling interests	1,494	1,806		1,147				4,447
Total equity	11,669	3,676	1,400	3,044	174	17,606	(15,576)	21,993
Total liabilities and equity	$ 55,623	$ 6,739	$ 3,316	$ 7,068	$ 464	$ 19,214	$ (16,569)	$ 75,855

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Loews Corporation

Consolidating Balance Sheet Information

December 31, 2009 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 41,996	$ 739	$ 80	$ 46	$ 61	$ 3,112		$ 46,034
Cash	140	39	3	4	2	2		190
Receivables	9,104	794	97	110	27	202	$ (122)	10,212
Property, plant and equipment	304	4,442	1,778	6,348	362	40		13,274
Deferred income taxes	1,368		636				(1,377)	627
Goodwill	86	20	584	163	3			856
Investments in capital stocks of subsidiaries						15,276	(15,276)	-
Other assets	712	220	47	343	19	5		1,346
Deferred acquisition costs of insurance subsidiaries	1,108							1,108
Separate account business	423							423
Total assets	$ 55,241	$ 6,254	$ 3,225	$ 7,014	$ 474	$ 18,637	$ (16,775)	$ 74,070
Liabilities and Equity:								
Insurance reserves	$ 38,263							$ 38,263
Payable to brokers	253		$ 196			$ 91		540
Short term debt		$ 4			$ 6			10
Long term debt	2,303	1,487	1,600	$ 3,100	218	867	$ (100)	9,475
Deferred income taxes		539		369	38	431	(1,377)	-
Other liabilities	2,889	560	112	416	38	281	(22)	4,274
Separate account business	423							423
Total liabilities	44,131	2,590	1,908	3,885	300	1,670	(1,499)	52,985
Total shareholders equity	9,674	1,864	1,317	2,179	174	16,967	(15,276)	16,899
Noncontrolling interests	1,436	1,800		950				4,186
Total equity	11,110	3,664	1,317	3,129	174	16,967	(15,276)	21,085
Total liabilities and equity	$ 55,241	$ 6,254	$ 3,225	$ 7,014	$ 474	$ 18,637	$ (16,775)	$ 74,070

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Loews Corporation

Consolidating Statement of Operations Information

Three Months Ended March 31, 2010 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	$ 1,615							$ 1,615
Net investment income	590	$ 1				$ 26		617
Intercompany interest and dividends						237	$ (237)	-
Investment gains (losses)	34		$ (13)					21
Contract drilling revenues		844						844
Other	76	17	148	$ 301	$ 75	(1)		616
Total	2,315	862	135	301	75	262	(237)	3,713
Expenses:								
Insurance claims and policyholders benefits	1,308							1,308
Amortization of deferred acquisition costs	342							342
Contract drilling expenses		305						305
Other operating expenses	269	130	72	176	74	11		732
Interest	36	22	19	37	2	16	(2)	130
Total	1,955	457	91	213	76	27	(2)	2,817
Income (loss) before income tax	360	405	44	88	(1)	235	(235)	896
Income tax expense	(103)	(125)	(20)	(23)		(2)		(273)
Net income (loss)	257	280	24	65	(1)	233	(235)	623
Amounts attributable to noncontrolling interests	(32)	(144)		(27)				(203)
Net income (loss) attributable to Loews Corporation	$ 225	$ 136	$ 24	$ 38	$ (1)	$ 233	$ (235)	$ 420

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Loews Corporation

Consolidating Statement of Operations Information

Three Months Ended March 31, 2009 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	$ 1,672							$ 1,672
Net investment income	420	$ 1				$ 26		447
Intercompany interest and dividends						235	$ (235)	-
Investment gains (losses)	(532)	1						(531)
Contract drilling revenues		856						856
Other	78	29	$ 175	$ 224	$ 73			579
Total	1,638	887	175	224	73	261	(235)	3,023
Expenses:								
Insurance claims and policyholders benefits	1,342							1,342
Amortization of deferred acquisition costs	349							349
Contract drilling expenses		294						294
Impairment of natural gas and oil properties			1,036					1,036
Other operating expenses	248	140	126	146	100	16		776
Interest	31	1	19	27	2	14		94
Total	1,970	435	1,181	173	102	30	-	3,891
Income (loss) before income tax	(332)	452	(1,006)	51	(29)	231	(235)	(868)
Income tax (expense) benefit	149	(116)	365	(15)	11	1		395
Net income (loss)	(183)	336	(641)	36	(18)	232	(235)	(473)
Amounts attributable to noncontrolling interests	13	(173)		(14)				(174)
Net income (loss) attributable to Loews Corporation	$ (170)	$ 163	$ (641)	$ 22	$ (18)	$ 232	$ (235)	$ (647)

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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 conjunction with our Consolidated Condensed Financial Statements included in Item 1 of this Report, Risk Factors included in Part II, Item 1A of this Report, and the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2009. This MD&A is comprised of the following sections:

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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 subsidiary);

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

operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 66% 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 like terms refer t
business of Loews Corporation excluding its subsidiaries.

Consolidated Financial Results

Consolidated results for the first quarter of 2010 amounted to net income of $420 million, or $0.99 per share compared to a net loss of $647 million, or $1.49 per share in the 2009 first quarter.

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Income before net investment gains improved by $746 million in the first quarter of 2010 compared to the prior year period, primarily due to the absence of a non-cash impairment charge of $1.0 billion ($660 million after tax) related to the carrying value of HighMount s natural gas and oil properties included in the prior year period. This charge reflected declines in commodity prices. In addition, higher investment income at CNA, primarily from improved performance in limited partnerships and fixed maturities, also contributed to the improvement, partially offset by decreased earnings at Diamond Offshore reflecting lower operating income and increased interest expense.

Net income included net investment gains of $11 million (after tax and noncontrolling interest) in the first quarter of 2010 compared to net investment losses of $310 million in the comparable prior year period. Net investment gains in the first quarter of 2010 reflect other-than-temporary impairment losses of $35 million (after tax and noncontrolling interest) compared to $359 million in the prior year period.

Book value per common share increased to $41.80 at March 31, 2010, as compared to $39.76 at December 31, 2009.

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 balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our shareholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient earnings and funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies and compliance with covenants in their respective loan agreements. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the amounts reported in the consolidated 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, applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the consolidated condensed financial statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that we believe are reasonable under the known facts and circumstances.

We consider the accounting policies discussed below to be critical to an understanding of our consolidated condensed financial statements as 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, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section and the Results of Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties section of our MD&A included under Item 7 of our Form 10-K for the year ended December 31, 2009 for further information.

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RESULTS OF OPERATIONS BY BUSINESS SEGMENT

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

CNA Financial

The following table summarizes the results of operations for CNA for the three months ended March 31, 2010 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 March 31 **(In millions)**	**2010**	2009
Revenues:		
Insurance premiums	**$ 1,615**	$ 1,672
Net investment income	**590**	420
Investment gains (losses)	**34**	(532)
Other revenue	**76**	78
Total	**2,315**	1,638
Expenses:		
Insurance claims and policyholder benefits	**1,308**	1,342
Amortization of deferred acquisition costs	**342**	349
Other operating	**269**	248
Interest	**36**	31
Total	**1,955**	1,970
Income (loss) before income tax	**360**	(332)
Income tax (expense) benefit	**(103)**	149
Net income (loss)	**257**	(183)
Amounts attributable to noncontrolling interests	**(32)**	13
Net income (loss) attributable to Loews Corporation	**$ 225**	$ (170)

Three Months Ended March 31, 2010 Compared to 2009

Net results improved $395 million for the three months ended March 31, 2010 as compared to the same period in 2009. This improvement was driven by significantly improved net investment gains of $566 million ($329 million after tax and noncontrolling interest) and increased net investment income of $170 million. Net investment gains (losses) for the three months ended March 31, 2010 included other-than-temporary impairment (OTTI) losses of $35 million (after tax and noncontrolling interest) compared to $359 million for the three months ended March 31, 2009. See the Investments section of this MD&A for further discussion of net realized investment results and net investment income. The overall improvement was partially offset by costs associated with CNA s Information Technology (IT) Transformation as discussed below. CNA was also unfavorably impacted by higher catastrophe losses and decreased favorable net prior year development. Catastrophe losses were $23 million after tax and noncontrolling interest in the first quarter of 2010, as compared to catastrophe losses of $7 million after tax and noncontrolling interest in the first quarter of 2009. Favorable net prior year development of $35 million and $56 million was recorded for the three months ended March 31, 2010 and 2009. Further information on net prior year development for the three months ended March 31, 2010 and 2009 is included in Note 5 of the Consolidated Condensed Financial Statements included under Item 1.

CNA has commenced a program to significantly transform its IT organization and delivery model. CNA anticipates that the total costs for this program will be approximately $41 million, of which $25 million was incurred during the first quarter of 2010. When the results of this program are fully operational, CNA anticipates annual savings based on its current level of IT spending. A significant portion of the annual savings is

anticipated to be achieved in 2011 with full annual savings in 2012. Some or all of these estimated savings may be 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 from net income (loss) after tax and noncontrolling interest the effects of (i) net realized investment gains or losses, (ii) income or loss from discontinued operations and (iii) any cumulative effects of changes in accounting guidance. See further discussion regarding how CNA manages its business in Note 7 of the Consolidated Condensed

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Financial Statements included under Item 1. In evaluating the results of the CNA Specialty and CNA Commercial segments, CNA utilizes the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

CNA Specialty

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

Three Months Ended March 31 **(In millions, except %)**	**2010**	2009
Net written premiums	**$ 656**	$ 672
Net earned premiums	**654**	659
Net investment income	**147**	85
Net operating income	**115**	98
Net realized investment (gains) losses	**8**	(63)
Net income	**123**	35
Ratios:		
Loss and loss adjustment expense	**61.5%**	60.0%
Expense	**30.8**	28.7
Dividend	**0.2**	0.4
Combined	**92.5%**	89.1%

Three Months Ended March 31, 2010 Compared to 2009

Net written premiums for CNA Specialty decreased $16 million for the three months ended March 31, 2010 as compared with the same period in 2009. The decrease in net written premiums was driven by CNA s architects & engineers, realtors and CNA HealthPro lines of business, as current economic and competitive market conditions have led to decreased insured exposures and lower rates. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased $5 million as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Specialty s average rate decreased 1% for the three months ended March 31, 2010 as compared to a decrease of 3% for the three months ended March 31, 2009 for the policies that renewed during those periods. Retention rates of 86% and 85% were achieved for those policies that were available for renewal in each period.

Net income improved $88 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating income improved $17 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to higher net investment income, partially offset by increased expenses.

The combined ratio increased 3.4 points for the three months ended March 31, 2010 as compared with the same period in 2009. The loss ratio increased 1.5 points primarily due to decreased favorable net prior year development. The expense ratio increased 2.1 points, primarily related to higher underwriting expenses and higher commission rates. Underwriting expenses increased primarily due to IT Transformation costs related to the program to significantly transform CNA s IT organization and delivery model.

Favorable net prior year development of $29 million was recorded for the three months ended March 31, 2010, compared to favorable net prior year development of $34 million for the same period in 2009. Further information on CNA Specialty net prior year development for the three months ended March 31, 2010 and 2009 is included in Note 5 of the Consolidated Condensed Financial Statements included under Item 1.

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

(In millions)	March 31, 2010	December 31, 2009
Gross Case Reserves	**$ 2,248**	$ 2,208
Gross IBNR Reserves	**4,745**	4,714
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 6,993**	$ 6,922
Net Case Reserves	**$ 1,818**	$ 1,781
Net IBNR Reserves	**4,113**	4,085
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 5,931**	$ 5,866

CNA Commercial

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

Three Months Ended March 31 (In millions, except %)	2010	2009
Net written premiums	**$ 829**	$ 920
Net earned premiums	**816**	863
Net investment income	**218**	143
Net operating income	**88**	64
Net realized investment gains (losses)	**12**	(108)
Net income (loss)	**100**	(44)
Ratios:		
Loss and loss adjustment expense	**73.8%**	71.1%
Expense	**35.6**	33.5
Dividend	**0.1**	0.4
Combined	**109.5%**	105.0%

Three Months Ended March 31, 2010 Compared to 2009

Net written premiums for CNA Commercial decreased $91 million for the three months ended March 31, 2010 as compared with the same period in 2009. Premiums written were unfavorably impacted by decreased new business and lower retention as a result of competitive market conditions. Current economic conditions have also led to decreased insured exposures, such as in the construction industry due to smaller payrolls and reduced project volume. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased $47 million for the three months ended March 31, 2010 as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Commercial s average rate increased 1% for the three months ended March 31, 2010, as compared to a decrease of 1% for the three months ended March 31, 2009 for policies that renewed in each period. Retention rates of 79% and 83% were achieved for those policies that were available for renewal in each period.

Net results improved $144 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for further

discussion of net realized investment results and net investment income.

Net operating income improved $24 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily driven by higher net investment income, partially offset by higher catastrophe losses.

The combined ratio increased 4.5 points for the three months ended March 31, 2010 as compared with the same period in 2009. The loss ratio increased 2.7 points primarily due to increased catastrophe losses, partially offset by the impact of an improved current accident year non-catastrophe loss ratio. Catastrophe losses were $38 million, or 4.7 points of the loss ratio, for the three months ended March 31, 2010, as compared to $12 million, or 1.4 points of the loss ratio, for the

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same period in 2009. The 2009 accident year loss ratio excluding catastrophe losses for the three months ended March 31, 2009 was unfavorably impacted by several significant property losses.

The expense ratio increased 2.1 points for the three months ended March 31, 2010 as compared with the same period in 2009, primarily related to the lower net earned premium base. Underwriting expenses were unfavorably impacted by IT Transformation costs related to the program to significantly transform CNA s IT organization and delivery model.

Favorable net prior year development of $7 million was recorded for the three months ended March 31, 2010, compared to favorable net prior year development of $22 million for the same period in 2009. Further information on CNA Commercial net prior year development for the three months ended March 31, 2010 and 2009 is included in Note 5 of the Consolidated Condensed Financial Statements included under Item 1.

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

(In millions)	**March 31, 2010**	December 31, 2009
Gross Case Reserves	**$ 6,635**	$ 6,510
Gross IBNR Reserves	**6,345**	6,495
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 12,980**	$ 13,005
Net Case Reserves	**$ 5,398**	$ 5,269
Net IBNR Reserves	**5,468**	5,580
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 10,866**	$ 10,849

Life & Group Non-Core

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

Three Months Ended March 31 (In millions)	**2010**	2009
Net earned premiums	**$ 145**	$ 150
Net investment income	**175**	159
Net operating income (loss)	**1**	(20)
Net realized investment losses	**(4)**	(111)
Net loss	**(3)**	(131)

Three Months Ended March 31, 2010 Compared to 2009

Net earned premiums for Life & Group Non-Core decreased $5 million for the three months ended March 31, 2010 as compared with the same period in 2009. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss decreased by $128 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to improved net realized investment results. See the Investments section of this MD&A for further discussion of net realized investment results. In addition, favorable performance on CNA s remaining pension deposit business and favorable reserve development arising from a commutation of an assumed reinsurance agreement also contributed to the improvement. Partially offsetting these favorable impacts were unfavorable results in CNA s long term care business.

Certain of the separate account investment contracts related to CNA s pension deposit business guarantee principal and an annual minimum rate of interest, for which CNA recorded an additional pretax liability in Policyholders Funds during 2008 based on the results of the investments supporting this business at that time. During the first quarter of 2009 CNA further increased this pretax liability by $13 million. During the first quarter of 2010, based on improved results from these investments, CNA decreased this pretax liability by $13 million.

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Other Insurance

The following table summarizes the results of operations for the Other Insurance segment, including A&E and intrasegment eliminations.

Three Months Ended March 31 **(In millions)**	**2010**	2009
Net investment income	**$ 50**	$ 33
Net operating income (loss)	**2**	(2)
Net realized investment gains (losses)	**3**	(28)
Net income (loss)	**5**	(30)

Three Months Ended March 31, 2010 Compared to 2009

Net results improved $35 million for the three months ended March 31, 2010 as compared with the same period in 2009 primarily due to improved net realized investment results and higher net investment income. 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 $1 million was recorded for the three months ended March 31, 2010. No net prior year development was recorded for the three months ended March 31, 2009. Further information on Other Insurance net prior year development for the three months ended March 31, 2010 and 2009 is included in Note 5 of the Consolidated Condensed Financial Statements included under Item 1.

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

(In millions)	**March 31, 2010**	December 31, 2009
Gross Case Reserves	**$ 1,479**	$ 1,548
Gross IBNR Reserves	**2,378**	2,458
Total Gross Carried Claim and Claim Adjustment Expense Reserves	**$ 3,857**	$ 4,006
Net Case Reserves	**$ 952**	$ 972
Net IBNR Reserves	**1,457**	1,515
Total Net Carried Claim and Claim Adjustment Expense Reserves	**$ 2,409**	$ 2,487

Diamond Offshore

As has been widely reported, on April 20, 2010 a semisubmersible drilling rig, the *Deepwater Horizon*, owned by a company not affiliated with Diamond Offshore caught fire and sank in the U.S. Gulf of Mexico. As a result, oil from the well being worked on at the time has been flowing into the Gulf of Mexico. The cause of this accident has not been determined. We cannot predict at this time the impact that this incident may have on governmental regulation of offshore oil and gas drilling operations or on Diamond Offshore s operations, financial condition or results of operations in future periods.

The global economy remained relatively weak in the first quarter of 2010 and although oil prices improved to the low $80 per barrel range they remained volatile. Dayrates Diamond Offshore receives for new contracts are no longer at the peak levels achieved at the height of the most recent up-cycle. Given the unpredictable economic environment, the demand for Diamond Offshore services and the dayrates it is able to

command could soften further. This volatility and uncertainty could continue until the global economy improves. Absent global economic improvement the decline in drilling activity could be further exacerbated by the influx of new-build rigs over the next several years, particularly in regard to jack-up units.

Early in the economic downturn, Diamond Offshore experienced negative effects of the market such as customer credit problems, customers attempting to renegotiate or terminate contracts, and one customer seeking bankruptcy protection. More recently, Diamond Offshore has experienced declines in dayrates for new contracts with industry wide floater utilization stable at approximately 91%. During the first quarter of 2010, Diamond Offshore signed 14 new contracts totaling approximately $1.5 billion in backlog and ranging in length from one well to five years. As a result, at the end of the first quarter of 2010 its contract backlog was approximately $9.1 billion, which it expects to help mitigate the impact of the current market in 2010.

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Contract Drilling Backlog

The following table reflects Diamond Offshore s contract drilling backlog as of April 19, 2010 and February 1, 2010 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2009). Contract drilling backlog is calculated by multiplying the contracted operating dayrate by the firm contract period and adding one half of any

potential rig performance bonuses. Diamond Offshore s calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 95.0% 98.0% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Diamond Offshore s contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

(In millions)	**April 19, 2010**	February 1, 2010
High specification floaters (a)	**$ 5,175**	$ 4,177
Intermediate semisubmersible rigs (b)	**3,767**	4,030
Jack-ups	**185**	249
Total	**$ 9,127**	$ 8,456

(a) Contract drilling backlog as of April 19, 2010 for Diamond Offshore s high specification floaters includes $3.3 billion attributable to its expected operations offshore Brazil for the remainder of 2010 and for the years 2011 to 2016.

(b) Contract drilling backlog as of April 19, 2010 for Diamond Offshore s intermediate semisubmersible rigs includes $2.8 billion attributable to its expected operations offshore Brazil for the remainder of 2010 and for the years 2011 to 2015.

The following table reflects the amount of Diamond Offshore s contract drilling backlog by year as of April 19, 2010.

Year Ended December 31 **(In millions)**	**Total**	**2010 (a)**	**2011**	**2012**	**2013 - 2016**
High specification floaters (b)	**$ 5,175**	**$ 1,315**	**$ 1,569**	**$ 944**	**$ 1,347**
Intermediate semisubmersible rigs (c)	**3,767**	**1,133**	**1,030**	**860**	**744**
Jack-ups	**185**	**144**	**41**		
Total	**$ 9,127**	**$ 2,592**	**$ 2,640**	**$ 1,804**	**$ 2,091**

(a) Represents a nine month period beginning April 1, 2010.

(b) Contract drilling backlog as of April 19, 2010 for Diamond Offshore s high specification floaters includes $531 million, $808 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 years 2013 to 2016, attributable to its expected operations offshore Brazil.

(c) Contract drilling backlog as of April 19, 2010 for Diamond Offshore s intermediate semisubmersible rigs includes $560 million, $788 million and $732 million for the remainder of 2010 and for the years 2011 and 2012 and $687 million in the aggregate for the years 2013 to 2015, attributable to its expected operations offshore Brazil.

The following table reflects the percentage of rig days committed by year as of April 19, 2010. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in

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 - 2016**
High specification floaters	**97%**	76%	48%	18%
Intermediate semisubmersible rigs	**83%**	54%	44%	10%
Jack-ups	**39%**	7%		

(a) Represents a nine month period beginning April 1, 2010.

(b) Includes approximately 675 and 80 scheduled shipyard, survey and mobilization days for 2010 and 2011.

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Results of Operations

The following table summarizes the results of operations for Diamond Offshore for the three months ended March 31, 2010 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 March 31 **(In millions)**		**2010**		2009
Revenues:				
Contract drilling	**$**	**844**	$	856
Net investment income		**1**		1
Investment gains				1
Other revenue		**17**		29
Total		**862**		887
Expenses:				
Contract drilling		**305**		294
Other operating		**130**		140
Interest		**22**		1
Total		**457**		435
Income before income tax		**405**		452
Income tax expense		**(125)**		(116)
Net income		**280**		336
Amounts attributable to noncontrolling interests		**(144)**		(173)
Net income attributable to Loews Corporation	**$**	**136**	$	163

Three Months Ended March 31, 2010 Compared to 2009

Total revenues decreased $25 million, or 2.8%, for the first quarter of 2010, as compared to the corresponding period in 2009. The weak global economy continued to negatively impact the offshore drilling industry, despite an improvement in oil prices from prior year. However, Diamond Offshore s contracted revenue backlog enabled it to partially mitigate the impact of these market conditions. This decrease in revenue is primarily driven by an overall decrease in utilization, offset by an increase in dayrates for Diamond Offshore s floater fleet. In addition, the U.S. Gulf of Mexico and international jack-up markets continued to experience reduced demand and dayrates during the first quarter of 2010.

Revenues from high specification floaters and intermediate semisubmersible rigs increased by $35 million in the three months ended March 31, 2010, as compared to the corresponding period of the prior year. The increase primarily reflects increased dayrates of $42 million and increased mobilization fees of $15 million, partially offset by decreased utilization of $22 million.

Revenues from jack-up rigs decreased $47 million in the three months ended March 31, 2010, as compared to the corresponding period of the prior year, due primarily to decreased dayrates of $36 million and decreased utilization of $6 million. Revenues were unfavorably impacted by a decrease in the recognition of mobilization fees and other operating revenues.

Net income decreased $27 million, or 16.6% for the three months ended March 31, 2010, as compared to the corresponding period of the prior year, mainly due to decreased revenue as noted above. Total contract drilling expense increased during the first quarter of 2010, compared to the same period in 2009. This increase is primarily due to higher amortized mobilization expenses and higher operating costs due to several rigs operating internationally compared to operating in the U.S Gulf of Mexico in the first quarter of 2009, partially offset by lower costs resulting from fewer regulatory surveys and maintenance projects. Depreciation expense increased $12 million during the first quarter of 2010, compared to the same period in 2009 due to a higher depreciable asset base. Interest expense increased $21 million in the first quarter of 2010, compared to the same period in 2009, due to additional expense related to the issuance of 5.9% senior notes in May of 2009 and 5.7% senior notes in October of 2009.

Diamond Offshore s effective tax rate increased for the three months ended March 31, 2010, as compared to the corresponding period in the prior year. The higher effective tax rate in the current quarter is a result of differences in the mix of domestic and international pretax earnings and losses, as well as the mix of international tax jurisdictions in which Diamond Offshore operates. Also contributing to the higher effective tax rate in the current period was the expiration on December 31, 2009 of a tax law provision which allowed Diamond Offshore to defer recognition of

certain foreign earnings for U.S. income tax purposes. The United States Congress currently has a bill pending to extend this tax law provision for an additional year which, if passed, is expected to be retroactive to January 1, 2010 and would allow

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Diamond Offshore to defer recognition of certain foreign earnings for U.S. income tax purposes. However, Diamond Offshore s estimated annual effective tax rate for the three months ended March 31, 2010 reflects applicable tax law as of March 31, 2010 as the pending legislation has not been enacted.

HighMount

We use the following terms throughout this discussion of HighMount s results of operations, with equivalent volumes computed with oil and 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

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

During 2009 and the first quarter of 2010 natural gas prices remained low due largely to increased onshore natural gas production, plentiful levels of working gas in storage and reduced demand. Drilling costs and operating cost decreased during the second half of 2009 and remained relatively low in the first quarter of 2010. In light of the current low price environment, HighMount continued its limited drilling program implemented in the second half of 2009. Reduced drilling activity and low natural gas prices negatively impact production volumes and revenues.

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

As part of the acquisition of exploration and production assets from Dominion Resources, Inc. in July of 2007, HighMount assumed an obligation to deliver specified quantities of natural gas under previously existing Volumetric Production Payment (VPP) agreements, which expired in February of 2009. As a result of the expiration of the VPP agreements HighMount recognized additional gas sales volume of 1.5 Bcf and the related production costs during the three months ended March 31, 2010.

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Presented below are production and sales statistics related to HighMount s operations for the three months ended March 31, 2010 and 2009:

Three Months Ended March 31	2010	2009
Gas production (Bcf)	**17.6**	19.7
Gas sales (Bcf)	**16.2**	18.1
Oil production/sales (Mbbls)	**60.9**	102.8
NGL production/sales (Mbbls)	**734.4**	920.7
Equivalent production (Bcfe)	**22.4**	25.8
Equivalent sales (Bcfe)	**21.0**	24.2
Average realized prices without hedging results:		
Gas (per Mcf)	**$ 5.22**	$ 4.16
NGL (per Bbl)	**43.82**	20.67
Oil (per Bbl)	**74.19**	39.07
Equivalent (per Mcfe)	**5.78**	4.06
Average realized prices with hedging results:		
Gas (per Mcf)	**$ 7.16**	$ 7.68
NGL (per Bbl)	**34.43**	31.08
Oil (per Bbl)	**74.19**	39.07
Equivalent (per Mcfe)	**6.95**	7.08
Average cost per Mcfe:		
Production expenses	**$ 1.09**	$ 1.17
Production and ad valorem taxes	**0.37**	0.46
General and administrative expenses	**0.54**	0.59
Depletion expense	**0.89**	1.37

Sale of Assets

On April 30, 2010, HighMount completed the sale of substantially all of its exploration and production assets located in the Antrim Shale in Michigan to a subsidiary of Linn Energy, LLC for approximately $330 million, subject to adjustment. Also in April of 2010, HighMount entered into a definitive agreement with a subsidiary of Walter Energy to sell its exploration and production assets located in the Black Warrior Basin in Alabama for approximately $210 million, subject to adjustment. The Michigan and Alabama properties represent approximately 17% in aggregate of HighMount s total proved reserves. These sales will not result in a material gain or loss.

Results of Operations

The following table summarizes the results of operations for HighMount for the three months ended March 31, 2010 and 2009 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1.

Three Months Ended March 31	2010	2009
(In millions)		
Revenues:		
Other revenue, primarily operating	**$ 148**	$ 175
Investment losses	**(13)**	
Total	**135**	175
Expenses:		

Impairment of natural gas and oil properties		1,036
Operating	**72**	126
Interest	**19**	19
Total	**91**	1,181
Income (loss) before income tax	**44**	(1,006)
Income tax (expense) benefit	**(20)**	365
Net income (loss) attributable to Loews Corporation	**$ 24**	$ (641)

Three Months Ended March 31, 2010 Compared to 2009

HighMount s operating revenues decreased by $27 million to $148 million in the first quarter of 2010, compared to $175 million for the first quarter of 2009. Operating revenues decreased $13 million due to reduced average realized prices, and $13 million due to reduced sales volumes. HighMount sales volumes were 21.0 Bcfe in the first quarter of 2010 compared to 24.2 Bcfe in the first quarter of 2009. This decrease reflects the reduction in HighMount s drilling activity beginning in 2009, partially offset by the expiration of the VPP agreements in 2009.

In February of 2010, HighMount determined that a portion of the expected underlying transactions related to its hedging activities were no longer probable of occurring and discontinued hedge accounting treatment for a portion of its interest rate cash flow hedges and its commodity price swaps. Results for the three months ended March 31, 2010, include a pretax gain of $9 million for the mark-to-market valuation of these instruments. As a result of the sale of assets, HighMount recognized a pretax loss of $22 million from the reclassification of net derivative losses from AOCI to earnings. Derivative gains and losses not accounted for as hedge transactions are recorded as investment gains (losses) in the Consolidated Condensed Statement of Operations.

HighMount had hedges in place as of March 31, 2010 that cover approximately 75% and 49% of total estimated 2010 and 2011 natural gas equivalent production at a weighted average price of $6.07 and $6.41 per Mcfe.

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

Operating expenses primarily consist of production expenses, production and ad valorem taxes, general and administrative costs and DD&A. Operating expenses decreased by $54 million to $72 million for the first quarter of 2010, compared to $126 million for the first quarter of 2009. In 2009, HighMount elected to terminate contracts for five drilling rigs at its Permian Basin properties in the Sonora, Texas area and reduce its 2009 drilling activity. The fee for exercising this early termination right of $23 million was charged to Operating expenses. Operating expenses in 2009 also included a $9 million impairment charge related to a decline in the market value of tubular goods inventory.

Production expenses totaled $23 million during the first quarter of 2010, compared to $28 million in the first quarter of 2009. The decrease in production expenses of $5 million was primarily due to cost cutting efforts, offset partially by the absence of the VPP agreements in 2010. Production expenses on a per unit basis were $1.09 in the first quarter of 2010 compared to $1.17 in 2009. Production and ad valorem taxes were $8 million and $11 million for the three months ended March 31, 2010 and 2009. The decrease of $3 million was due primarily to decreased property taxes. Production and ad valorem taxes were $0.37 per Mcfe in the first quarter of 2010 as compared to $0.46 per Mcfe in 2009. General and administrative expenses declined to $12 million during the first quarter of 2010, compared to $15 million during 2009 primarily due to cost cutting efforts.

DD&A expenses in the first quarter of 2010 declined to $26 million from $40 million in 2009. DD&A expenses included depletion of natural gas and NGL properties of $20 million and $35 million for the three months ended March 31, 2010 and 2009. HighMount s depletion rate per Mcfe decreased by $0.48 per Mcfe to $0.89 per Mcfe in 2010, compared to $1.37 per Mcfe in 2009 primarily due to impairment of natural gas and oil properties recorded in March of 2009, as well as lower projected future development costs.

Boardwalk Pipeline

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

Boardwalk Pipeline s ability to market available capacity is impacted by competition from other pipelines, natural gas price volatility, the price differential between receipt and delivery points on its pipeline systems, economic conditions, and numerous other factors beyond Boardwalk Pipeline s control. Boardwalk Pipeline competes with numerous

interstate and intrastate pipelines which directly and indirectly compete with it for renewals of expiring transportation contracts, including several pipeline projects which have recently been placed in service or are in the process of being developed. Additionally, significant new sources of natural gas have recently been identified throughout the United States which have created changes in pricing dynamics between supply basins, pooling points and market areas. As a result of the increase in overall pipeline capacity and the new sources of supply, the price differentials on Boardwalk Pipeline s pipeline systems have narrowed. Given current market conditions, marketing Boardwalk Pipeline s available capacity and renewing expiring contracts has become more difficult.

During 2010, firm contracts representing approximately $101 million of annual reservation charges are due to expire. Boardwalk Pipeline has renewed or marketed some of the expiring contracts at lower rates. Through March 31, 2010, approximately 70.0% of the related pipeline capacity has been renewed or resold at rates that are approximately 85.0% of the previously contracted rates.

Expansion and Growth Projects

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

In 2009, while completing the requirements to operate its pipeline expansion projects at higher than normal operating pressures under special permits issued by the Pipeline and Hazardous Materials Safety Administration (PHMSA), Boardwalk Pipeline discovered anomalies in certain pipeline segments on each of the projects. In December of 2009, Boardwalk Pipeline received authority from PHMSA to operate the East Texas Pipeline, Southeast Expansion and Gulf Crossing Project at higher than normal operating pressures. Boardwalk Pipeline continues to seek authority from PHMSA to operate the Fayetteville Lateral at higher than normal operating pressures. If Boardwalk Pipeline is not able to operate the Fayetteville Lateral at higher than normal operating pressures, transportation revenues for that project will not grow as planned as the volume commitments under firm contracts increase. In that event, Boardwalk Pipeline could also incur additional costs for system upgrades to increase capacity to meet contracted volume commitments on that project.

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

Haynesville Project. The Haynesville Project consists of adding compression to the East Texas Pipeline in Louisiana, which will add approximately 0.6 billion cubic feet (Bcf) per day of peak-day transmission capacity with delivery capabilities from the DeSoto, Louisiana area to the Perryville, Louisiana area. Boardwalk Pipeline has received Federal Energy Regulatory Commission (FERC) approval for this expansion, which it anticipates will be in service in late 2010. Customers have contracted for substantially all 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, will add approximately 0.1 Bcf per day of peak-day transmission capacity. This project will receive gas from the Holly Field area in Northwest Louisiana, and deliver to a pipeline interconnect near Olla, Louisiana. Customers have contracted for approximately 0.1 Bcf per day of capacity with a weighted-average contract life of approximately 11.0 years. The compression is expected to be in service in late 2011, subject to FERC approval.

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Results of Operations

The following table summarizes the results of operations for Boardwalk Pipeline for the three months ended March 31, 2010 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 March 31 (In millions)	2010	2009
Revenues:		
Other revenue, primarily operating	$ 301	$ 224
Total	301	224
Expenses:		
Operating	176	146
Interest	37	27
Total	213	173
Income before income tax	88	51
Income tax expense	(23)	(15)
Net income	65	36
Amounts attributable to noncontrolling interests	(27)	(14)
Net income attributable to Loews Corporation	$ 38	$ 22

Three Months Ended March 31, 2010 Compared to 2009

Total revenues increased $77 million to $301 million for the first quarter of 2010, compared to $224 million for the 2009 period. Gas transportation revenues and fuel retained increased $74 million, primarily due to increased available capacities and throughput from the pipeline expansion projects. Gas storage revenues increased $1 million related to an increase in storage capacity associated with the western Kentucky storage expansion and PAL revenues increased $2 million due to favorable summer to summer natural gas price spreads.

Operating expenses increased $30 million to $176 million for the first quarter of 2010, compared to $146 million for the 2009 period. This increase was primarily driven by a $14 million increase in fuel consumed due to higher throughput from the pipeline expansion projects. There was a $7 million increase in depreciation due to a larger asset base from the pipeline expansion projects. There was a $7 million increase in administrative and general expense due to a legal settlement, increases in outside services and unit-based compensation driven by an increase in the price of Boardwalk Pipeline s common units. Interest expense increased $10 million in the first quarter of 2010 to $37 million due to higher debt levels in the first quarter of 2010 and lower capitalized interest due to the completion of Boardwalk Pipeline s pipeline expansion projects.

Net income increased $16 million to $38 million in the first quarter of 2010, compared to $22 million in the first quarter of 2009 due to higher revenues from transportation services primarily from increased capacities on the pipeline expansion projects, partially offset by increased operating expenses primarily related to the pipeline expansion projects and increased interest expense.

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Loews Hotels

The following table summarizes the results of operations for Loews Hotels for the three months ended March 31, 2010 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 March 31 **(In millions)**	**2010**	2009
Revenues:		
Other revenue, primarily operating	**$ 75**	$ 73
Total	**75**	73
Expenses:		
Operating	**74**	100
Interest	**2**	2
Total	**76**	102
Loss before income tax	**(1)**	(29)
Income tax benefit		11
Net loss attributable to Loews Corporation	**$ (1)**	$ (18)

Three Months Ended March 31, 2010 Compared to 2009

Revenues increased by $2 million or 2.7%, and the net loss declined by $17 million to $1 million for the three months ended March 31, 2010 as compared to a net loss of $18 million in the corresponding period of 2009.

Revenues increased in the three months ended March 31, 2010, as compared to the corresponding period of 2009, due to an increase in revenue per available room to $144.65, compared to $137.56 in the prior year. Occupancy rates increased from 62.4% to 65.3% in 2010 as compared to 2009. Average room rates increased by $1.03, or 0.5% in 2010 as compared to 2009.

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

During the first quarter of 2009, Loews Hotels wrote down its entire investment in the Loews Lake Las Vegas, resulting in a pretax impairment charge of $27 million recorded in operating expenses.

Corporate and Other

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

The following table summarizes the results of operations for Corporate and Other for the three months ended March 31, 2010 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 March 31 **(In millions)**	**2010**	2009

Revenues:				
Net investment income	**$**	**26**	$	26
Other		**(1)**		
Total		**25**		26
Expenses:				
Operating		**11**		16
Interest		**14**		14
Total		**25**		30
Loss before income tax		**-**		(4)
Income tax (expense) benefit		**(2)**		1
Net loss attributable to Loews Corporation	**$**	**(2)**	$	(3)

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LIQUIDITY AND CAPITAL RESOURCES

CNA Financial

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

For the three months ended March 31, 2010, net cash provided by operating activities was $364 million as compared with $187 million for the same period in 2009. Cash provided by operating activities was favorably impacted by increased investment income receipts in the first quarter of 2010 as compared with the same period in 2009. Additionally, during the second quarter of 2009 CNA resumed the use of a trading portfolio for income enhancement purposes. Because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows related to operating activities, operating cash flows were increased by $99 million related to net activities of trading securities at March 31, 2010.

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

For the three months ended March 31, 2010, net cash used by investing activities was $369 million as compared with $150 million for the same period in 2009. Cash flows used by investing activities related principally to purchases and sales of fixed maturity securities and short term investments. The cash flow from investing activities is impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

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

For the three months ended March 31, 2010, net cash used by financing activities was $38 million as compared with $26 million for the same period in 2009. Net cash used by financing activities in 2010 and 2009 was primarily related to the payment of dividends on the 2008 Senior Preferred Stock to Loews.

CNA believes that its present cash flows from operations, investing activities and financing activities are sufficient to fund its current and expected working capital and debt obligation needs and does not expect this to change in the near term.

Diamond Offshore

Cash and investments totaled $957 million at March 31, 2010 compared to $778 million at December 31, 2009. In the first three months of 2010, Diamond Offshore paid cash dividends totaling $279 million, consisting of special cash dividends of $261 million and regular quarterly cash dividends of $18 million. In April of 2010, Diamond Offshore declared a special dividend of $1.375 per share and a regular quarterly dividend of $0.125 per share.

Diamond Offshore s cash flows from operations are impacted by the ability of its customers to weather the continuing global financial crisis and restrictions in the credit market, as well as the volatility in energy prices. In general, before working for a customer with whom Diamond Offshore has not had a prior business relationship and/or whose financial stability may be uncertain Diamond Offshore performs a credit review on that company. Based on that analysis, Diamond Offshore may require that the customer present a letter of credit, prepay or provide other credit enhancements. If a potential customer is unable to obtain an adequate level of credit, it may preclude Diamond Offshore from doing business with that potential customer. The global financial crisis could also have an impact on existing customers, causing them to fail to meet their obligations to Diamond Offshore or attempt to renegotiate existing contract terms.

Cash provided by operating activities during the first three months of 2010 was $465 million, compared to $407 million in 2009. The increase in cash flows from operations in 2010 is primarily due to a decrease in net cash required to satisfy working capital requirements offset by a decrease in earnings in 2010 compared to 2009. Diamond Offshore s working capital requirements used $146 million less cash to satisfy its working capital requirements during the first quarter of 2010 compared to 2009. The decrease in cash required to satisfy working capital requirements is primarily due to a decrease in Diamond Offshore s outstanding accounts receivable balances at March 31, 2010 compared to 2009.

Diamond Offshore has budgeted approximately $435 million on capital expenditures for 2010 associated with its ongoing rig equipment replacement and enhancement programs, equipment required for its long-term international

contracts and other corporate requirements. In addition, Diamond Offshore expects to spend approximately $75 million in 2010 towards the commissioning and outfitting for service of the recently acquired *Ocean Courage* and *Ocean Valor.* During the first quarter of 2010, Diamond Offshore spent approximately $108 million towards these programs. Diamond Offshore expects to finance its 2010 capital expenditures through the use of its existing cash balances or internally generated funds. From time to time, however, Diamond Offshore may also make use of its credit facility to finance capital expenditures.

As of March 31, 2010, there were no loans outstanding under Diamond Offshore s $285 million credit facility; however, $63 million in 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 and debt service requirements. Diamond Offshore determines the amount of cash required to meet its capital commitments by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating its ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is the opinion of Diamond Offshore s management that its operating cash flows and cash reserves will be sufficient to meet both its working capital requirements and its capital commitments over the next twelve months; however, Diamond Offshore will continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required.

HighMount

At March 31, 2010 and December 31, 2009, cash and investments amounted to $145 million and $83 million. Net cash flows provided by operating activities were $98 million and $95 million in the three months ended March 31, 2010 and 2009. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

Cash used in investing activities for the three months ended March 31, 2010 and 2009 was $36 million and $113 million. The primary driver of cash used in investing activities was capital spent developing HighMount s natural gas and oil reserves. HighMount spent $27 million and $69 million on capital expenditures for its drilling program in the three months ended March 31, 2010 and 2009. In 2010, HighMount expects to spend approximately $214 million for capital expenditures. HighMount s 2010 capital budget is expected to be funded by HighMount s operating cash flows and existing cash balances.

At March 31, 2010, no borrowings were outstanding under HighMount s revolving credit facility, however, $4 million in letters of credit were issued. The available capacity under the facility is $366 million.

On April 30, 2010, HighMount sold substantially all of the exploration and production assets located in the Antrim Shale in Michigan to a subsidiary of Linn Energy, LLC for approximately $330 million, subject to adjustment. HighMount used the net proceeds of approximately $300 million to reduce the outstanding debt under its term loans. HighMount expects to use net proceeds of approximately $190 million from the sale of its exploration and production assets located in the Black Warrior Basin in Alabama to further reduce outstanding debt under its term loans.

The agreements governing HighMount s $1.6 billion term loans and revolving credit facility contain financial covenants typical for these types of agreements, including a maximum debt to capitalization ratio. The credit agreement also contains customary restrictions or limitations on HighMount s ability to enter or engage in certain transactions, including transactions with affiliates. At March 31, 2010, HighMount was in compliance with all of its covenants under the credit agreement.

Boardwalk Pipeline

At March 31, 2010 and December 31, 2009, cash and investments amounted to $126 million and $50 million. Funds from operations for the three months ended March 31, 2010 amounted to $105 million, compared to $28 million in 2009. For the three months ended March 31, 2010 and 2009, Boardwalk Pipeline s capital expenditures were $50 million and $302 million. Boardwalk Pipeline expects to fund its remaining 2010 capital expenditures through its operating cash flows.

As of March 31, 2010, Boardwalk Pipeline had $679 million of loans outstanding under its revolving credit facility with a weighted-average interest rate on the borrowings of 0.5% and had no letters of credit issued. At March 31, 2010, Boardwalk Pipeline was in compliance with all covenant requirements under its credit facility and had available borrowing capacity of $271 million.

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Loews Hotels

Cash and investments totaled $41 million at March 31, 2010, as compared to $63 million at December 31, 2009. During the three months ended March 31, 2010, Loews Hotels funded $10 million for a loan guarantee and $10 million related to a development project commitment. Funds for capital expenditures and working capital requirements are expected to be provided from existing cash balances, operations and advances or capital contributions from us.

Corporate and Other

Parent Company cash and investments, net of receivables and payables, at March 31, 2010 totaled $3.4 billion, as compared to $3.0 billion at December 31, 2009. The increase in net cash and investments is primarily due to proceeds of $333 million from the sale of 11.5 million Boardwalk Pipeline common units and $237 million in interest and dividends from our subsidiaries. These cash inflows were partially offset by the purchase of treasury stock for $197 million and $26 million of dividends paid to our shareholders.

As of March 31, 2010, there were 419.7 million shares of Loews common stock outstanding.

Depending on market and other conditions, we may purchase shares of our and our subsidiaries outstanding common stock in the open market or otherwise. During the three months ended March 31, 2010, we purchased 5.4 million shares of Loews common stock at an aggregate cost of $197 million. From April 1, 2010 through April 28, 2010, we acquired an additional 1.2 million shares of our common stock for $47 million.

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

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

INVESTMENTS

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

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

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized change in fair value of the derivative instruments recognized in the Consolidated Condensed Balance Sheets. We mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counter parties. We occasionally require collateral from our derivative investment counterparties depending on the amount of the exposure and the credit rating 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 opinion, result in a higher degree of risk. Please read Notes 2 Investments and 4 Derivative Financial Instruments , of the Notes to Consolidated Condensed Financial Statements included under Item 1 for additional information with respect to derivative instruments, including recognized gains and losses on these instruments.

Insurance

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

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Net Investment Income

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

Three Months Ended March 31 (In millions)	2010	2009
Fixed maturity securities	**$ 510**	$ 475
Short term investments	**6**	10
Limited partnerships	**72**	(70)
Equity securities	**10**	14
Trading portfolio	**4**	
Other	**2**	3
Gross investment income	**604**	432
Investment expense	**(14)**	(12)
Net investment income	**$ 590**	$ 420

Net investment income increased $170 million for the three months ended March 31, 2010 compared with the same period in 2009. The increase was primarily driven by improved results from limited partnership investments. Limited partnership investments generally present greater volatility, higher illiquidity and greater risk than fixed income investments.

The fixed maturity investment portfolio and short term investments provided a pretax effective income yield of 5.2% for the three months ended March 31, 2010 and 2009.

Net Realized Investment Gains (Losses)

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

Three Months Ended March 31 (In millions)	2010	2009
Realized investment gains (losses):		
Fixed maturity securities:		
U.S. Treasury securities and obligations of government agencies		$ (21)
Corporate and other taxable bonds	**$ 35**	(173)
States, municipalities and political subdivisions-tax-exempt securities	**(3)**	37
Asset-backed securities	**(5)**	(192)
Redeemable preferred stock		(9)
Total fixed maturity securities	**27**	(358)
Equity securities	**3**	(216)
Derivative securities		31
Short term investments	**3**	13
Other	**1**	(2)
Total realized investment gains (losses)	**34**	(532)
Income tax (expense) benefit	**(12)**	187
Net realized investment gains (losses)	**22**	(345)

Amounts attributable to noncontrolling interests	**(3)**	35
Net realized investment gains (losses) attributable to Loews Corporation	**$ 19**	$ (310)

Net realized investment losses improved $329 million for the three months ended March 31, 2010 compared with the same period in 2009 driven by significantly lower other-than-temporary impairment (OTTI) losses recognized in earnings. Further information on CNA s realized gains and losses, including CNA s OTTI losses and impairment decision process is set forth in Note 2 of the Notes to 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 higher) at March 31, 2010 and December 31, 2009. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from the three major providers, Standard & Poor s (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings in that order of preference. If

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a security is not rated by any of the three, CNA formulates an internal rating. For securities with 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)	March 31, 2010		December 31, 2009	
U.S. Government and Agencies	**$ 3,799**	**10.1%**	$ 3,705	10.4%
Other AAA rated	**5,514**	**14.6**	5,855	16.5
AA and A rated	**13,655**	**36.2**	12,464	35.0
BBB rated	**10,976**	**29.1**	10,122	28.4
Non-investment grade	**3,767**	**10.0**	3,466	9.7
Total	**$ 37,711**	**100.0%**	$ 35,612	100.0%

Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by rating agencies and other unrated securities that, according to CNA s analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of CNA s non-investment grade fixed maturity bond portfolio was $3,859 million and $3,637 million at March 31, 2010 and December 31, 2009. The following table summarizes the ratings of this portfolio at carrying value.

(In millions of dollars)	March 31, 2010		December 31, 2009	
BB	**$ 1,332**	**35.4%**	$ 1,352	39.0%
B	**1,223**	**32.5**	1,255	36.2
CCC-C	**1,082**	**28.6**	761	22.0
D	**130**	**3.5**	98	2.8
Total	**$ 3,767**	**100.0%**	$ 3,466	100.0%

Included within the fixed maturity portfolio are securities that contain credit support from third party guarantees from mono-line insurers. At March 31, 2010, $540 million of the carrying value of the fixed maturity portfolio had a third party guarantee that increased the underlying average rating of those securities from A+ to AA+. Of this amount, 98% was within the tax-exempt bond segment.

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

The carrying value of fixed maturity and equity securities that are either subject to trading restrictions or trade in illiquid private placement markets at March 31, 2010 was $181 million, which represents less than 0.5% of CNA s total investment portfolio. These securities were in a net unrealized gain position of $8 million at March 31, 2010.

The following table provides the composition of available-for-sale fixed maturity securities in a gross unrealized loss position at March 31, 2010 by maturity profile. Securities not due at a single date are allocated based on weighted average life.

	Percent of Market Value	Percent of Unrealized Loss
Due in one year or less	**4.0%**	**3.0%**
Due after one year through five years	**23.0**	**13.0**
Due after five years through ten years	**32.0**	**33.0**
Due after ten years	**41.0**	**51.0**
Total	**100.0%**	**100.0%**

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Duration

A primary objective in the management of the fixed maturity and equity portfolios is to optimize return relative to underlying liabilities and respective liquidity needs. CNA s views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions, and the domestic and global economic conditions, are some of the factors that enter into an investment decision. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures and may 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 ability to align the duration of the portfolio to those liabilities to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typically long term in nature, CNA segregates investments for asset/liability management purposes. The segregated investments support liabilities 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 derivatives are presented in the table below. CNA s short term investments are net of securities lending collateral and account payable and receivable amounts for securities purchased and sold, but not yet settled.

	March 31, 2010		December 31, 2009	
(In millions of dollars)	**Fair Value**	**Effective Duration (Years)**	Fair Value	Effective Duration (Years)
Segregated investments	**$ 10,830**	**11.0**	$ 10,376	11.2
Other interest sensitive investments	**29,855**	**4.4**	29,665	4.0
Total	**$ 40,685**	**6.1**	$ 40,041	5.8

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures About Market Risk in 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:

(In millions)	**March 31, 2010**	December 31, 2009
Short term investments available-for-sale:		
Commercial paper	**$ 383**	$ 185
U.S. Treasury securities	**1,576**	3,025
Money market funds	**169**	179
Other	**356**	560
Total short term investments	**$ 2,484**	$ 3,949

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

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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:

March 31, 2010 (In millions)	Security Type RMBS (a)	CMBS (b)	Other ABS (c)	Total
U.S. government Agencies	**$ 3,536**	**$ 34**		**$ 3,570**
AAA	**1,629**	**284**	**$ 610**	**2,523**
AA	**249**	**183**	**90**	**522**
A	**157**	**121**	**26**	**304**
BBB	**351**	**91**	**71**	**513**
Non-investment grade and equity tranches	**1,273**	**16**	**12**	**1,301**
Total fair value	**$ 7,195**	**$ 729**	**$ 809**	**$ 8,733**
Total amortized cost	**$ 7,561**	**$ 820**	**$ 811**	**$ 9,192**
Sub-prime (included above)				
Fair value	**$ 624**			**$ 624**
Amortized cost	**706**			**706**
Alt-A (included above)				
Fair value	**$ 668**			**$ 668**
Amortized cost	**762**			**762**

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

The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation (Alt-A) collateral is measured by the original deal structure. Of the securities with sub-prime exposure, approximately 64% were rated investment grade, while 82% of the Alt-A securities were rated investment grade. At March 31, 2010, $7 million of the carrying value of the sub-prime and Alt-A securities carried a third-party guarantee.

Pretax OTTI losses of $6 million for securities with sub-prime and Alt-A exposure were included in the $28 million of pretax OTTI losses related to asset-backed securities recognized in earnings on the Consolidated Condensed Statements of Operations for the three months ended March 31, 2010. Continued deterioration in the underlying collateral beyond our current expectations may cause us to reconsider and recognize additional OTTI losses in earnings. See Note 2 of the Notes to Consolidated Condensed Financial Statements included under 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 Notes to 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 some oral statements made by our officials and our subsidiaries during presentations about us, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words expect, intend, plan, anticipate,

estimate, believe, will be, will continue, will likely result, and similar expressions. In addition, any statement concerning future fina performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, which may be provided by management are also forward-looking statements as defined by the Act.

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Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or 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 overall 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 changes 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 increases and decline or non-renew under priced accounts, to achieve premium targets and profitability and to realize growth and retention 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 guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies and other financial industry participants under the Emergency Economic Stabilization Act of 2008 recoupment provisions;

weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse 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 limitations on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessments to 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 applicable terrorism legislation on coverages;

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

the occurrence of epidemics;

exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint and other mass torts;

the assertion of public nuisance theories of liability, pursuant to which plaintiffs seek to recover monies spent to administer public health care programs and/or to abate hazards to public health and safety;

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

the risks and uncertainties associated with CNA s loss reserves as outlined under Results of Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties in the MD&A portion of this Report, 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 distribution channels, and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices;

the effects of failures in the financial services industry, as well as irregularities in financial reporting and other corporate governance matters, on the markets for directors and officers, and errors and 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 CNA s insurance customers and create additional losses to CNA s lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services, and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;

the effectiveness of current initiatives by claims management to reduce the loss and expense ratios through more efficacious claims handling techniques; and

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

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;

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;

regulatory issues affecting natural gas transmission, including ratemaking and other proceedings particularly affecting our gas 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 future financial performance of planned expansion projects as well as the financing of such projects;

the ability of Boardwalk Pipeline to maintain or replace expiring customer contracts on favorable terms; 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 terrorism, the 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 Commission or regulatory agencies for any of our subsidiaries industries which may cause us or our subsidiaries to revise their financial accounting and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries business or financial performance;

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- 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; and
- the availability of indemnification by Lorillard and its subsidiaries for any tobacco-related liabilities that we may incur as a result of tobacco-related lawsuits or otherwise, as provided in the Separation Agreement.

Developments in any of these areas, which are more fully described elsewhere in this Report, could cause our results to differ materially from results that have been or may be anticipated or projected. Forward-looking statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes in our market risk components for the three months ended March 31, 2010. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A of our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2009 for further information. Additional information related to portfolio duration and market conditions is discussed in the Investments section of the Management s Discussion and Analysis of Financial Condition and Results of Operations 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 required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the Exchange Act), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company s management on a timely basis to allow decisions regarding required disclosure.

The Company s principal executive officer (CEO) and principal financial officer (CFO) undertook an evaluation of the Company s disclosure 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 report. The CEO and CFO have concluded that the Company s controls and procedures were effective as of March 31, 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) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended March 31, 2010 that have 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 Financial Statements included in Part I of this Report.

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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 facing our company. No updates or additions have been made to such risk factors as of March 31, 2010.

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 shares (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in millions)
January 1, 2010 - January 31, 2010	1,165,400	$ 36.69	N/A	N/A
February 1, 2010 - February 28, 2010	1,603,400	$ 35.30	N/A	N/A
March 1, 2010 - March 31, 2010	2,618,800	$ 37.32	N/A	N/A

Item 6. Exhibits.

Description of Exhibit	**Exhibit Number**
Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.1*
Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)	31.2*
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)	32.1*
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)	32.2*
XBRL Instance Document	101.INS**
XBRL Taxonomy Extension Schema	101.SCH**
XBRL Taxonomy Extension Calculation Linkbase	101.CAL**
XBRL Taxonomy Extension Definition Linkbase	101.DEF**
XBRL Taxonomy Label Linkbase	101.LAB**
XBRL Taxonomy Extension Presentation Linkbase	101.PRE**

* Filed herewith.

** The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act, and otherwise, not subject to liability under these sections.

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SIGNATURES

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

LOEWS CORPORATION
(Registrant)

Dated: May 4, 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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