

CNA FINANCIAL CORP  
Form 10-Q  
August 03, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-5823**

**CNA FINANCIAL CORPORATION**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-6169860**  
(I.R.S. Employer  
Identification No.)

**333 S. Wabash**  
**Chicago, Illinois**  
(Address of principal executive offices)

**60604**  
(Zip Code)

**(312) 822-5000**

(Registrant's telephone number, including area code)

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  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

<b>Class</b>	<b>Outstanding at July 30, 2010</b>
Common Stock, Par value \$2.50	269,188,098

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**Table of Contents****CNA Financial Corporation****Part I. Financial Information****Item 1. Condensed Consolidated Financial Statements****Condensed Consolidated Statements of Operations (Unaudited)**

<b>Periods ended June 30</b> (In millions, except per share data)	<b>Three Months</b>		<b>Six Months</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>				
Net earned premiums	\$ 1,608	\$ 1,656	\$ 3,223	\$ 3,328
Net investment income	521	675	1,111	1,095
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(58)	(484)	(148)	(1,098)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	1	89	31	89
Net other-than-temporary impairment losses recognized in earnings	(57)	(395)	(117)	(1,009)
Other net realized investment gains	86	98	180	180
Net realized investment gains (losses), net of participating policyholders' interests	29	(297)	63	(829)
Other revenues	75	62	151	140
Total revenues	2,233	2,096	4,548	3,734
<b>Claims, Benefits and Expenses</b>				
Insurance claims and policyholders' benefits	1,147	1,294	2,455	2,636
Amortization of deferred acquisition costs	345	349	687	698
Other operating expenses	258	291	530	542
Interest	37	30	73	61
Total claims, benefits and expenses	1,787	1,964	3,745	3,937
Income (loss) from continuing operations before income tax	446	132	803	(203)
Income tax (expense) benefit	(145)	(12)	(247)	138
Income (loss) from continuing operations	301	120	556	(65)
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$0, \$0, \$0 and \$0	1	(1)	1	(1)

Net income (loss)	302	119	557	(66)
Net (income) loss attributable to noncontrolling interests	(19)	(14)	(29)	(24)
<b>Net income (loss) attributable to CNA</b>	<b>\$ 283</b>	<b>\$ 105</b>	<b>\$ 528</b>	<b>\$ (90)</b>
<b>Income (Loss) Attributable to CNA Common Stockholders</b>				
Income (loss) from continuing operations attributable to CNA	\$ 282	\$ 106	\$ 527	\$ (89)
Dividends on 2008 Senior Preferred	(25)	(32)	(50)	(63)
Income (loss) from continuing operations attributable to CNA common stockholders	257	74	477	(152)
Income (loss) from discontinued operations attributable to CNA common stockholders	1	(1)	1	(1)
<b>Income (loss) attributable to CNA common stockholders</b>	<b>\$ 258</b>	<b>\$ 73</b>	<b>\$ 478</b>	<b>\$ (153)</b>

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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<b>Periods ended June 30</b> (In millions, except per share data)	<b>Three Months</b>		<b>Six Months</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders</b>				
Income (loss) from continuing operations attributable to CNA common stockholders	\$ 0.96	\$ 0.28	\$ 1.77	\$ (0.56)
Income (loss) from discontinued operations attributable to CNA common stockholders		(0.01)	0.01	(0.01)
<b>Basic and diluted earnings (loss) per share attributable to CNA common stockholders</b>	\$ 0.96	\$ 0.27	\$ 1.78	\$ (0.57)
<b>Weighted Average Outstanding Common Stock and Common Stock Equivalents</b>				
Basic	269.1	269.0	269.1	269.0
Diluted	269.3	269.0	269.3	269.0

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements  
(Unaudited).

**Table of Contents****CNA Financial Corporation  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
<b>Other Comprehensive Income (Loss), Net of Tax</b>				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	\$ 17	\$ (34)	\$ 42	\$ (34)
Net unrealized gains on other investments	377	1,508	700	1,909
Net unrealized gains on investments	394	1,474	742	1,875
Net unrealized gains on discontinued operations and other	1	2	8	
Foreign currency translation adjustment	17	79	7	71
Pension and postretirement benefits	2	1	3	3
Allocation to participating policyholders	(5)	(19)	(28)	(19)
Other comprehensive income, net of tax	409	1,537	732	1,930
Net income (loss)	302	119	557	(66)
Comprehensive income	711	1,656	1,289	1,864
Changes in:				
Net unrealized (gains) losses on investments attributable to noncontrolling interests	(8)	(6)	(14)	(11)
Pension and postretirement benefits attributable to noncontrolling interests			(3)	
Other comprehensive (income) loss attributable to noncontrolling interests	(8)	(6)	(17)	(11)
Net (income) loss attributable to noncontrolling interests	(19)	(14)	(29)	(24)
Comprehensive (income) loss attributable to noncontrolling interests	(27)	(20)	(46)	(35)
<b>Total comprehensive income attributable to CNA</b>	<b>\$ 684</b>	<b>\$ 1,636</b>	<b>\$ 1,243</b>	<b>\$ 1,829</b>

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**Table of Contents****CNA Financial Corporation  
Condensed Consolidated Balance Sheets (Unaudited)**

(In millions, except share data)	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,410 and \$35,602)	\$ 37,565	\$ 35,612
Equity securities at fair value (cost of \$540 and \$633)	549	644
Limited partnership investments	2,059	1,787
Other invested assets	1	4
Mortgage loans	14	
Short term investments	3,040	3,949
 Total investments	 43,228	 41,996
Cash	72	140
Reinsurance receivables (less allowance for uncollectible receivables of \$348 and \$351)	6,209	6,581
Insurance receivables (less allowance for doubtful accounts of \$185 and \$202)	1,707	1,656
Accrued investment income	419	416
Deferred acquisition costs	1,095	1,108
Deferred income taxes	846	1,333
Property and equipment at cost (less accumulated depreciation of \$519 and \$498)	340	360
Goodwill and other intangible assets	141	141
Other assets	1,170	1,144
Separate account business	447	423
 <b>Total assets</b>	 <b>\$ 55,674</b>	 <b>\$ 55,298</b>
 <b>Liabilities and Equity</b>		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 25,968	\$ 26,816
Unearned premiums	3,303	3,274
Future policy benefits	8,217	7,981
Policyholders funds	172	192
Participating policyholders funds	61	56
Long term debt	2,254	2,303
Other liabilities	2,847	3,087
Separate account business	447	423
 <b>Total liabilities</b>	 <b>43,269</b>	 <b>44,132</b>

Commitments and contingencies (Notes D, E, G, H, and J)

Equity:

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Preferred stock (12,500,000 shares authorized) 2008 Senior Preferred (no par value; \$100,000 stated value; 10,000 shares issued and outstanding held by Loews Corporation)	1,000	1,000
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; and 269,085,821 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,200	2,177
Retained earnings	7,742	7,264
Accumulated other comprehensive income (loss)	390	(325)
Treasury stock (3,954,422 and 4,013,484 shares), at cost	(106)	(109)
Notes receivable for the issuance of common stock	(30)	(30)
<b>Total CNA stockholders equity</b>	11,879	10,660
Noncontrolling interests	526	506
<b>Total equity</b>	12,405	11,166
<b>Total liabilities and equity</b>	\$ 55,674	\$ 55,298

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements  
(Unaudited).

**Table of Contents****CNA Financial Corporation  
Condensed Consolidated Statements of Cash Flows (Unaudited)****Six months ended June 30**

(In millions)

	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 557	\$ (66)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
(Income) loss from discontinued operations	(1)	1
Loss on disposal of property and equipment		8
Deferred income tax expense (benefit)	82	(59)
Trading portfolio activity	153	(142)
Net realized investment (gains) losses, net of participating policyholders' interests	(63)	829
Equity method investees	14	(47)
Amortization of investments	(59)	(115)
Depreciation	41	42
Changes in:		
Receivables, net	314	386
Accrued investment income	(9)	(27)
Deferred acquisition costs	13	(20)
Insurance reserves	(437)	(245)
Other assets	40	(124)
Other liabilities	(52)	(125)
Other, net	2	3
 Total adjustments	 38	 365
 <b>Net cash flows provided by operating activities-continuing operations</b>	 \$ 595	 \$ 299
<b>Net cash flows used by operating activities-discontinued operations</b>	\$ (14)	\$ (12)
 <b>Net cash flows provided by operating activities-total</b>	 \$ 581	 \$ 287
 <b>Cash Flows from Investing Activities</b>		
Purchases of fixed maturity securities	\$ (9,478)	\$ (12,402)
Proceeds from fixed maturity securities:		
Sales	6,388	11,083
Maturities, calls and redemptions	1,866	1,723
Purchases of equity securities	(62)	(240)
Proceeds from sales of equity securities	128	440
Origination of mortgage loans	(14)	
Change in short term investments	789	(895)
Change in other investments	(199)	102
Purchases of property and equipment	(23)	(33)
Dispositions	65	
Other, net	3	(10)

<b>Net cash flows used by investing activities-continuing operations</b>	\$ (537)	\$ (232)
<b>Net cash flows provided by investing activities-discontinued operations</b>	\$ 14	\$ 12
<b>Net cash flows used by investing activities-total</b>	\$ (523)	\$ (220)

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements  
(Unaudited).

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**Six months ended June 30**  
(In millions)

**2010**