

CNA FINANCIAL CORP
Form DEF 14A
March 28, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CNA Financial Corporation

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(Name of Registrant as Specified In Its Charter)

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CNA FINANCIAL CORPORATION

Notice of Annual Meeting April 23, 2008

To the Stockholders of

CNA FINANCIAL CORPORATION:

The Annual Meeting of Stockholders of CNA Financial Corporation, a Delaware corporation, will be held at 333 South Wabash Avenue, Room 208N, Chicago, Illinois, on Wednesday, April 23, 2008, at 10:00 a.m., Chicago time, for the following purposes:

- (1) To elect eight Directors;
- (2) To ratify the appointment of Deloitte & Touche LLP as independent registered public accountants for the Company for 2008; and
- (3) To transact such other business as may properly come before the meeting.

Only Stockholders of record at the close of business on March 12, 2008 are entitled to notice of, and to vote at, this meeting.

We urge you to complete, date and sign the enclosed proxy and mail it promptly in the accompanying envelope, which requires no postage if mailed in the United States. You may revoke the proxy at any time before the authority granted therein is exercised.

By order of the Board of Directors,

JONATHAN D. KANTOR

Executive Vice President,

General Counsel and Secretary

Chicago, Illinois

March 28, 2008

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on April 23, 2008. The Proxy Statement and the 2007 Annual Report to Stockholders are available at <http://investor.cna.com>.

CNA FINANCIAL CORPORATION

333 SOUTH WABASH AVENUE, CHICAGO, ILLINOIS 60604

Proxy Statement

Annual Meeting, April 23, 2008

The Board of Directors of CNA Financial Corporation (CNA or the Company) submits this statement in connection with the solicitation of proxies from the Stockholders in the form enclosed.

The persons named in this statement as nominees for election as Directors have been designated by the Board of Directors.

Any Stockholder giving a proxy has the power to revoke it at any time before it is exercised. A subsequently dated proxy, duly received, will revoke an earlier dated proxy. A Stockholder may also revoke his or her proxy and vote in person at the Annual Meeting. Proxies will be voted in accordance with the Stockholder s specifications and, if no specifications are made, proxies will be voted in accordance with the Board of Directors recommendations. The approximate date of mailing of this Proxy Statement is March 28, 2008.

On March 12, 2008, we had outstanding 269,047,757 shares of common stock (Common Stock). The holders of Common Stock have one vote for each share of stock held. Stockholders of record at the close of business on March 12, 2008 will be entitled to notice of, and to vote at, this meeting. The holders of a majority of shares of Common Stock issued and outstanding and entitled to vote when present in person or represented by proxy constitute a quorum at all meetings of Stockholders.

In accordance with the Company s By-Laws and applicable law, the election of Directors will be determined by a plurality of the votes cast by the holders of shares present in person or by proxy and entitled to vote. Consequently, the eight nominees who receive the greatest number of votes cast for election as Directors will be elected as Directors of the Company. Shares present which are properly withheld as to voting with respect to any one or more nominees, and shares present with respect to which a broker indicates that it does not have authority to vote (broker non-votes), will not be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. The affirmative vote of shares representing a majority of the votes cast by the holders of shares present and entitled to vote is required to approve the other matters to be voted on at the Annual Meeting. Shares which are voted to abstain will be considered present at the meeting, but since they are not affirmative votes for the matter they will have the same effect as votes against the matter. Broker non-votes are not counted as present.

Principal Stockholders

The following table contains certain information as to all entities which, to the knowledge of the Company, were the beneficial owners of 5% or more of the outstanding shares of Common Stock as of February 29, 2008 (unless otherwise noted). Each such entity has sole voting and investment power with respect to the shares set forth:

Name and Address of Beneficial Owner	Amount Beneficially Owned	Percent of Class
Loews Corporation (Loews) 667 Madison Avenue New York, New York 10021-8087	241,483,773	89%

Because Loews holds a majority of our outstanding Common Stock of CNA, Loews has the power to approve matters submitted for consideration at the Annual Meeting without regard to the votes of the other Stockholders. Loews has advised the Company s Board of Directors that it intends to vote FOR the election of management s nominees for the Board of Directors and FOR ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accountants. There are no agreements between CNA and Loews with respect to the election of CNA Directors or Officers or with respect to the other matters to come before the meeting.

Director and Officer Holdings

The following table sets forth certain information as to the shares of our Common Stock beneficially owned by each Director and nominee, and each Executive Officer named in the Summary Compensation Table below (the "Named Executive Officers"), and by all Executive Officers and Directors of the Company as a group as of February 29, 2008, based on data furnished by them:

Name	Shares of the Company's Common Stock Beneficially Owned	Shares of Loews Corporation Common Stock Beneficially Owned
Michael Fusco	85,500(1)	0
Jonathan D. Kantor	161,500(2)	0
James R. Lewis	60,244(3)	0
Stephen W. Lilienthal	351,135(4)	0
Paul J. Liska	0	0
D. Craig Mense	73,304(5)	0
Jose O. Montemayor	0	0
Don M. Randel	0	0
Joseph Rosenberg	200	134,990(6)
Andrew H. Tisch	6,100	12,934,759(7)
James S. Tisch	6,100	13,421,856(8)
Marvin Zonis	683	0
All Executive Officers and Directors as a Group	746,766(9)	26,491,605(10)

1. Includes 70,000 shares issuable upon the exercise of options and 15,000 Stock Appreciation Right ("SARs") granted under the CNA Financial Corporation 2000 Incentive Compensation Plan (the "Incentive Compensation Plan") which are currently exercisable.
2. Includes 139,000 shares issuable upon the exercise of options and 22,500 SARs granted under the Incentive Compensation Plan which are currently exercisable.
3. Includes 30,000 shares issuable upon the exercise of options and 22,500 SARs granted under the Incentive Compensation Plan which are currently exercisable.
4. Includes 275,000 shares issuable upon the exercise of options and 56,250 SARs granted under the Incentive Compensation Plan which are currently exercisable.
5. Includes 37,500 shares issuable upon the exercise of options and 18,750 SARs granted under the Incentive Compensation Plan which are currently exercisable.
6. Represents shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Corporation 2000 Stock Option Plan ("Loews Stock Option Plan") which are currently exercisable.
7. Includes 390,000 shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Stock Option Plan which are currently exercisable. Also includes 10,116,794 shares held by trusts of which Mr. A. H. Tisch is the managing trustee (inclusive of 2,642,845 shares held in trust for his benefit) and 465,000 shares held by a charitable foundation as to which Mr. A. H. Tisch has shared voting and investment power. Loews Common Stock shares held by Mr. A. H. Tisch represent 2.4% of the outstanding shares of Loews Common Stock.

8. Includes 390,000 shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Stock Option Plan which are currently exercisable. Also includes 10,820,058 shares of Loews Common Stock held by trusts of which Mr. J. S. Tisch is managing trustee (inclusive of 2,347,625 shares held in trust for his benefit) and 484,100 shares of Loews Common Stock held by a charitable foundation as to which Mr. J. S. Tisch has shared voting and investment power. Loews Common Stock shares held by Mr. J. S. Tisch represent 2.5% of the outstanding shares of Loews Common Stock.
 9. Includes 551,500 shares issuable upon the exercise of options and 135,000 SARs granted under the Incentive Compensation Plan which are currently exercisable.
 10. Includes 914,990 shares of Loews Common Stock issuable upon the exercise of options granted under the Loews Stock Option Plan which are currently exercisable.
- Each holding represents less than 1% of the outstanding shares of Common Stock. For information with respect to the stock holdings of Loews, see Principal Stockholders above.

ELECTION OF DIRECTORS

(Proposal No. 1)

Pursuant to the By-Laws of the Company, the number of directors constituting the full Board of Directors has been fixed by the Board at eight. Each Director shall be elected at the Annual Meeting of Stockholders and each Director elected shall hold office until the next Annual Meeting of Stockholders and until his or her successor is elected and qualified. Directors need not be Stockholders. Unless authority to do so is withheld, the persons named in the enclosed proxy intend to vote the shares represented by the proxies given to them for the eight nominees hereinafter named.

Should any nominee or nominees become unavailable, the proxy holders will vote for the nominee or nominees designated by the Board of Directors. The Board of Directors has no reason to believe that any of the nominees will become unavailable.

Set forth below is the name, principal occupation and business experience during the time period that, at a minimum, includes the past five years, as well as certain other information for each nominee:

Stephen W. Lilienthal, Chairman of the Board and Chief Executive Officer of the Company. Mr. Lilienthal has been Chairman of the Board and Chief Executive Officer of CNA and its insurance companies since August 2002. Prior to that time, he was President and Chief Executive Officer, Property and Casualty Operations of the CNA insurance companies. He is a member of the Executive and Finance Committees. Mr. Lilienthal has been a Director since August of 2001. Age 58.

Paul J. Liska, Executive Vice President and Chief Financial Officer of Motorola, Inc. since March 1, 2008. Prior to joining Motorola, Mr. Liska served as an industrial partner for various private equity firms including MidOcean Partners, CVC Capital Holdings and Ripplewood Holdings LLC. From 2004 to 2006, Mr. Liska served as Executive Chairman of USF Corporation until its acquisition by Yellow Roadway Corporation and in various capacities with WRC Media, Inc. including Executive Chairman. Mr. Liska served as President, Credit and Financial Products at Sears Roebuck and Co. from October of 2002 until November of 2003. Prior to that, beginning in 2001, he was Executive Vice President and Chief Financial Officer for Sears. Mr. Liska has been a Director since February of 2004 and serves on the Executive and Finance Committees. Age 52.

Jose O. Montemayor, Principal of Black Diamond Capital Partners I, LP. From 1999 to 2005, he was Insurance Commissioner of the Texas Department of Insurance. From 1995 to 1998, he served as Associate Insurance Commissioner for Finance. He has been a Director since February 2007 and serves on the Audit, Executive and Finance Committees. Age 57.

Don M. Randel, President of the Andrew W. Mellon Foundation since July 2006. Prior to that, President of the University of Chicago since July 2000. He is a member of the Audit, Executive, Finance and Compensation Committees. Mr. Randel has been a Director since May of 2002. Age 67.

Joseph Rosenberg, Chief Investment Strategist of Loews since 1995. He serves on the Executive and Finance Committees. He has been a Director since August of 1995. Age 74.

Andrew H. Tisch, Co-Chairman of the Board, Chairman of the Executive Committee and a member of the Office of the President of Loews. He is a Director of Loews and of the general partner of Boardwalk Pipeline Partners LP, a subsidiary of Loews. He is Chairman of the Board of K12, Inc. He is a Chairman of the Executive Committee and serves on the Finance Committee. Mr. Tisch has served as a Director since February of 2006. Age 58.

James S. Tisch, President and Chief Executive Officer and a member of the Office of the President of Loews. He is a Director of Loews and Chairman of the Board and Chief Executive Officer of Diamond Offshore Drilling, Inc., a 51% owned subsidiary of Loews. He is Chairman of the Finance Committee and serves on the Executive Committee. Mr. Tisch has served as a Director since 1985. Age 55.

Marvin Zonis, Professor Emeritus of International Political Economy, Leadership and E-Commerce at the Graduate School of Business of the University of Chicago since 1989. He is principal of Marvin Zonis & Associates, Inc., an international consulting firm. He has been a Director since 1993, is the Chairman of the Audit and Compensation Committees and serves on the Executive and Finance Committees. Age 71.

Director Independence

Under the rules of the New York Stock Exchange (NYSE), listed companies like CNA that have a controlling stockholder are not required to have a majority of independent directors. Because Loews holds more than 50% of the voting power of the Company, CNA is a controlled company within the meaning of the rules of the NYSE. Accordingly, our Board of Directors is not composed of a majority of directors who are

independent. Nevertheless, our Board of Directors has

determined that the following directors are independent under the listing standards of the NYSE (Independent Directors): Jose O. Montemayor, Don M. Randel and Marvin Zonis. In assessing independence, each year our Board affirmatively determines whether or not each director or nominee has any material relationship with the Company. In assessing the materiality of any relationship, our Board considers all relevant facts and circumstances, not merely from the standpoint of the director or nominee, but from that of any person or organization with which the director or nominee has an affiliation. Our Board considers the frequency and regularity of any services provided by or to, or other transactions between, our Company and the director or nominee or affiliated organization, whether they are being carried out at arm's-length in the ordinary course of business and whether they are being provided or conducted substantially on the same terms as those prevailing at the time with unrelated parties for comparable transactions. Material relationships can include commercial banking, industrial, legal, accounting, charitable and familial relationships.

Our Board has established guidelines to assist it in determining director independence under these listing standards. Under our Board's guidelines, a director would not be considered independent if any of the following relationships exists: (i) during the past three years the director has been an employee, or an immediate family member has been an executive officer, of the Company; (ii) the director or an immediate family member received, during any twelve month period within the past three years, more than \$100,000 in direct compensation from the Company, excluding director and committee fees, pension payments and certain forms of deferred compensation; (iii) the director is a current partner or employee, or an immediate family member is a current partner of a firm that is the Company's internal or external auditor, or an immediate family member is a current employee of such a firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice or, within the last three years, the director or an immediate family member was a partner or employee of such a firm and personally worked on the Company's audit within that time; (iv) the director or an immediate family member has at any time during the past three years been employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; or (v) the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three years, exceeds the greater of \$1 million, or 2% of the other company's consolidated gross revenues.

Committees and Meetings

Our Board of Directors has an Audit, Compensation, Executive and Finance Committee. We do not have a Nominating Committee. Under the rules of the NYSE, listed companies like CNA that have a controlling stockholder are not required to have a Nominating Committee. Our Board of Directors as a whole therefore performs the functions of a Nominating Committee. Our Company does not have a specific policy regarding Stockholder nominations of potential directors to our Board of Directors other than through the process described under Stockholder Proposals for the 2009 Annual Meeting below. Nominations for membership to our Board of Directors are determined by our Board in consultation with our executive officers and other members of senior management. Possible nominees to our Board of Directors may be suggested by any director and given to our Chairman of the Board or by Stockholders as indicated above.

Audit Committee

The primary function of our Audit Committee is to assist our Board of Directors in fulfilling its responsibility to oversee management's conduct of our Company's financial reporting process, including review of the financial reports and other financial information of our Company, our Company's systems of internal accounting, our Company's financial controls, and the annual independent audit of our Company's financial statements. Our Audit Committee has sole authority to directly appoint, retain, compensate, evaluate and terminate our Company's independent registered public accounting firm and to approve all engagement fees and terms, including mandatory pre-approval of all engagements of the independent registered public accounting firm in accordance with policies and procedures adopted by our Audit Committee from time to time or as otherwise required. The Charter of our Audit Committee, as well as our Corporate Governance Guidelines and Code of Business Conduct and Ethics, are posted on the Company's website at www.cna.com and are also available in print free of charge to any Stockholder who requests them. Our management is responsible for the Company's financial statements and reporting process, including its system of internal controls. Our independent registered public accounting firm is responsible for expressing an opinion on the conformity of our audited financial statements with accounting principles generally accepted in the United States of America.

The current members of our Audit Committee are Jose O. Montemayor, Don M. Randel and Marvin Zonis (Chairman), each of whom is an Independent Director and also meets the additional independence requirements of applicable listing standards of the NYSE and Securities and Exchange Commission (SEC) regulations. Each of the current members is financially literate as determined by our Board. Our Board has determined that Mr. Montemayor is an audit committee financial expert under NYSE and SEC standards.

Our Independent Directors meet regularly in executive session without management participation. We have a position of presiding director (Presiding Director) whose primary responsibility is to preside over these executive sessions of the Independent Directors. The Chairman of our Audit and Compensation Committees alternate annually as the Presiding Director. Mr. Zonis, as Chairman of our Compensation Committee, serves as Presiding Director until the annual meeting on April 23, 2008. This procedure will require that the Chairman of our Compensation Committee be an Independent Director during any period in which he is serving as the Presiding Director.

Our Directors are asked annually to report to our Company the number of audit committees on which such Director serves. During 2007, no Director reported serving on more than three audit committees.

Compensation Committee

Under the rules of the NYSE, listed companies, like CNA, that have a controlling stockholder are not required to have a Compensation Committee. However, as noted above, the Company s Board does maintain a Compensation Committee (Compensation Committee) that administers the Incentive Compensation Plan and approves the total compensation of the Named Executive Officers. The Charter of the Compensation Committee is posted on the Company s website at www.cna.com and is also available in print free of charge to any Stockholder who requests it. The current members of our Compensation Committee are Marvin Zonis (Chairman) and Don M. Randel, each of whom is an Independent Director.

Meetings

During 2007 there were four meetings of our Board of Directors, four meetings of our Finance Committee, five meetings of our Audit Committee and four meetings of our Compensation Committee. Each Director of the Company attended not less than 75% of the total number of meetings of our Board of Directors and committees of our Board on which that Director served during 2007. Our Board recommends, but does not require, that all Directors attend our Stockholders meetings. All of our Directors attended our 2007 Annual Meeting of Stockholders.

Audit Committee Report

The role of our Audit Committee is to assist our Board of Directors with the responsibility of administering corporate policy in matters of accounting and control in its oversight of our financial reporting process. As set forth in the Charter of our Audit Committee, management of our Company is responsible for the preparation, presentation and integrity of the Company s financial statements. Our Company s accounting and financial reporting principles and internal controls and procedures are designed to assure compliance with accounting standards and applicable laws and regulations. Our Audit Committee functions as the liaison with our Company s independent registered public accounting firm and internal audit. The independent registered public accounting firm is responsible for auditing our Company s financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

In the performance of its oversight function, the Audit Committee has considered and discussed the audited financial statements with management and the independent registered public accounting firm. Our Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by the standard adopted or referenced by the Public Company Accounting Oversight Board (PCAOB) and SEC Rule 2-07, *Communication with Audit Committees*, as currently in effect. Finally, our Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the PCAOB. Our Audit Committee has discussed with the independent registered public accounting firm the firm s independence.

The members of the Audit Committee rely without independent verification on the information provided to them by management and the independent registered public accounting firm and on management s representation that our financial statements have been prepared with integrity and objectivity. They do not provide any expert or special assurance as to our financial statements or any professional certification as to the independent registered public accounting firm s work. Accordingly, our Audit Committee s oversight does not provide an independent basis to determine that management has applied appropriate accounting and financial reporting principles or internal controls and procedures, that the audit of our financial statements has been carried out in accordance with the standards of the PCAOB (United States), that our financial statements are presented in accordance with accounting principles generally accepted in the United States of America, or that our registered public accounting firm is in fact independent.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of our Audit Committee referred to above and in the Charter, our Audit Committee recommended to our Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC and determined that the provision of non-audit services by Deloitte & Touche LLP to the Company in 2007 was compatible with maintaining the independence of Deloitte & Touche LLP in its audit of the Company.

SUBMITTED BY THE AUDIT COMMITTEE

Jose O. Montemayor

Don M. Randel

Marvin Zonis (Chairman)

Director Compensation

Our Directors, who are not employees of CNA or any of its subsidiaries, received an annual retainer in 2007 of \$50,000. In addition, members of our committees received the following annual retainers: Finance \$4,000, Executive \$4,000, Compensation \$10,000 (Chairperson receives \$15,000), and until October 24, 2007, Audit \$25,000 (Chairperson received \$35,000). In addition, a meeting fee of \$600 per meeting was paid to the Chairpersons of the Audit and Compensation Committees for each meeting with management, the independent registered public accountants, advisors and other appropriate persons held to carry out their respective duties between regularly scheduled quarterly meetings of the Committees. Effective October 24, 2007, the Audit Committee retainer amount was increased to \$40,000 and our Audit Committee Chairperson retainer was increased to \$60,000. The following table shows, for each non-employee Director, the amount of cash compensation paid for his service during 2007:

Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Total (\$)
Paul J. Liska	58,000	58,000
Jose O. Montemayor	77,424	77,424
Don M. Randel	97,073	97,073
Joseph Rosenberg	58,000	58,000
Andrew H. Tisch	58,000	58,000
James S. Tisch	58,000	58,000
Marvin Zonis	129,722	129,722

Employment Agreements

Pursuant to an employment agreement dated October 26, 2005, Mr. Stephen W. Lilienthal serves as our Chairman of the Board and Chief Executive Officer of our Company and as Chairman of the Board and Chief Executive Officer of the CNA insurance companies. The term of the agreement expires December 31, 2008 and the annual base compensation is \$950,000, subject to discretionary adjustments by our Board of Directors. In addition, Mr. Lilienthal is entitled to earn annual incentive cash awards under the Incentive Compensation Plan with a maximum annual bonus opportunity of \$2.9 million as well as certain long-term incentive awards, calculated pursuant to net operating income goals and overall Company business performance as determined by the Compensation Committee and subject to its approval and adjustment. Under the employment agreement Mr. Lilienthal is also entitled to an annual target stock option grant of 75,000 shares of our Common Stock or equivalent (stock appreciation rights paid in stock (SARs)), subject to share availability under the Incentive Compensation Plan and Compensation Committee and Board approval.

If Mr. Lilienthal's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the agreement), he will receive severance payments in the aggregate amount equal to three multiplied by the sum of (i) the annual rate of his base compensation in effect immediately prior to his date of termination, plus (ii) two times the minimum annual target bonus amount of \$1.45 million. These severance payments would be made in 36 equal monthly installments following termination. In addition, he will receive a target bonus for the performance period in which the termination occurs prorated to the date of termination, a cash equivalent payment for stock options or SARs he would have received had his employment continued through the term of the agreement, up to three years of medical, dental, vision, life and disability plans in which he was enrolled in prior to termination, and immediate vesting of any unexercised stock options and/or SARs. In addition, all outstanding options and/or SARs will remain exercisable for up to one year following termination but no later than the remainder of their term. In the event of a termination through voluntary resignation by Mr. Lilienthal on or after January 1, 2007, he will receive the same payments and other benefits as for a termination by the Company without cause, except that the cash equivalent payment for stock options or SARs would be limited to the target number of such options or SARs for the year in which the termination occurs, prorated to the date of termination. In addition, Mr. Lilienthal is entitled to reimbursement, on an after-tax basis, for any excise tax due as a result of any payment under his employment agreement being treated as an excess parachute payment under Section 280G of the Internal Revenue Code.

In accordance with an employment agreement dated October 26, 2005, Mr. James R. Lewis serves as the President and Chief Executive Officer of Property and Casualty Operations of the CNA insurance companies. The term of the agreement expires December 31, 2008 and the annual base compensation is \$800,000, subject to discretionary adjustments by the CEO of CNA insurance companies and/or Compensation Committee. In addition, Mr. Lewis is entitled to earn annual incentive cash awards under the Incentive Compensation Plan with a maximum annual bonus opportunity of the greater of two hundred percent of his annual base compensation or \$1.6 million, as well as certain long-term incentive awards, calculated pursuant to net operating income goals and overall Company business performance as determined by the Compensation Committee and our Chairman of the Board and Chief Executive Officer, and subject to the Compensation Committee's approval and adjustment. Under the employment agreement Mr. Lewis is also entitled to a minimum annual stock option grant of 30,000 shares of the Company's Common Stock or equivalent (SARs), subject to share availability under the Incentive Compensation Plan and Compensation Committee approval.

If Mr. Lewis' employment is terminated by the Company without cause or he resigns for good reason (each as defined in the agreement), he will receive a severance payment equal to two times his annual base compensation plus two times annual target bonus. Severance is payable in 24 equal monthly installments following termination. In addition, he will receive a target annual bonus and cash long-term incentive award for the performance period in which the termination occurs prorated to the date of termination, and immediate vesting of any unexercised stock options and/or SARs, and up to two years of continued participation in health benefit plans in which he was enrolled in prior to termination. All outstanding options and/or SARs will remain exercisable for up to one year following termination but no later than the remainder of their term.

Pursuant to an employment agreement dated March 16, 2005, Mr. Jonathan D. Kantor serves as Executive Vice President, General Counsel & Secretary of the Company, with duties and responsibilities as designated by the Chairman of the Board and Chief Executive Officer. The term of the agreement expires March 31, 2008 and the annual base compensation is \$750,000, subject to annual increases at the discretion of the Chairman of the Board and Chief Executive Officer and/or the Compensation Committee. In addition, Mr. Kantor is entitled to earn annual incentive cash awards under the Incentive Compensation Plan with a maximum annual bonus opportunity of \$1.5 million as well as certain long-term incentive awards, calculated pursuant to net operating income goals and overall Company business performance as determined by the Compensation Committee and subject to its approval and adjustment. Under the employment agreement Mr. Kantor is also entitled to a minimum annual stock option grant of 30,000 shares of the Company's Common Stock, subject to share availability under the Incentive Compensation Plan and Compensation Committee approval.

If Mr. Kantor's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the agreement), he will receive prorated salary and benefits through the event, and severance payments equal to 24 months of his base annual compensation, two times his annual bonus (at 100% of base salary), and two times target cash long-term incentive award. Severance is payable over two years in equal monthly installments following termination. In addition, severance includes up to 18 months of continued participation in health benefit plans in which he was enrolled in prior to termination.

In accordance with an employment agreement dated August 1, 2007, Mr. D. Craig Mense serves as Executive Vice President and Chief Financial Officer of the Company. The term of the agreement expires December 31, 2010 and current annual base compensation is \$800,000 subject to discretionary adjustments by the Compensation Committee. In addition, Mr. Mense is entitled to earn annual incentive cash awards under the Incentive Compensation Plan, as well as certain long-term incentive awards in the form of annual cash awards and annual stock option grants, all subject to approval and adjustment by the Compensation Committee.

If Mr. Mense's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the agreement), he will receive a severance payment equal to 12 months of his annual base compensation and bonus calculated at 150% of base compensation, or the aggregate amount of unpaid base compensation due to him under the agreement, whichever is greater, in effect at the time of termination. The severance shall be paid not less frequently than in equal monthly installments following such termination. Upon such termination the Company would also pay him: (i) aggregate unpaid base compensation and current year's bonus calculated as 150% of base compensation and target CNA long-term incentive cash awards prorated to the date of termination; (ii) any previous year's unpaid bonus based upon actual or discretionary payouts, if any; and (iii) within 30 days of his termination, unpaid cash entitlements, if any, earned and accrued pursuant to the terms of any applicable Company plan or program prior to the date of termination.

Pursuant to an employment agreement dated April 1, 2004, Mr. Michael Fusco serves as Executive Vice President and Chief Actuary of the CNA insurance companies. In accordance with an amendment dated February 2, 2007, the terms of the agreement were extended to March 31, 2009 and the annual base compensation is \$550,000, subject to discretionary adjustments by the Compensation Committee. In addition, Mr. Fusco is entitled to earn annual incentive cash awards under the Incentive Compensation Plan, as well as certain long-term incentive awards in the form of annual cash awards and annual stock option grants, all subject to approval and adjustment by the Compensation Committee.

If Mr. Fusco's employment is terminated by the Company without cause or he resigns for good reason (each as defined in the agreement), he will receive a payment equal to sum of his base salary and prorated target bonus for the unexpired period of the employment term; however, in no event shall severance equal less than 12 months of his base salary and annual target bonus. In addition, he will receive a target annual bonus and cash long-term incentive award for the performance period in which the termination occurs prorated to date of termination and up to one year of continued participation in health benefit plans in which he was enrolled prior to termination.

In the event any of the foregoing employment agreements is not renewed or is terminated prior to the respective expiration dates, each executive may be entitled to certain payments, the continuation of certain benefits, and the vesting of certain stock options/and or SARs, all as determined in accordance with the applicable provisions of the respective agreements. Following the expiration or earlier termination of the agreements, each of the foregoing executives remains subject to certain confidentiality, non-competition, non-solicitation, non-interference and claims assistance covenants.

Retirement Plans

CNA sponsors funded, tax-qualified retirement plans for salaried employees, including executive officers (the Qualified Plans) and unfunded, non-qualified equalization plans (the Non-Qualified Plans) which provide for accruals and contributions not available under the Qualified Plans. The Qualified Plans and the Non-Qualified Plans both include defined contribution plans and defined benefit plans. The Qualified and Non-Qualified defined contribution plans are the CNA Savings and Capital Accumulation Plan (the S-CAP) and the CNA Supplemental Executive Savings and Capital Accumulation Plan (the SES-CAP), respectively. The Qualified and Non-Qualified defined benefit plans are the CNA Retirement Plan (the Retirement Plan) and the CNA Supplemental Executive Retirement Plan (the SERP), respectively.

In 2000, the Retirement Plan was amended and employees who were employed at December 31, 1999 and were still employed on April 24, 2000 were required to make a choice regarding their future accruals in this plan. Employees were given two choices: (1) to continue earning additional benefits under the formula described below; or (2) to convert the present value of their accrued benefit as of December 31, 1999 to an accrued pension account, which amount was credited with interest at a rate based on 30 year treasury securities.

Defined Contribution Plans

CNA's defined contribution plans consist of the S-CAP, which is a tax-qualified 401(k) plan, and the SES-CAP, which is a non-qualified deferred compensation plan. Each full-time employee is eligible to participate in the S-CAP immediately upon hire, and generally may elect to contribute a portion of their compensation to the S-CAP as before-tax, after-tax or Roth 401(k) contributions. An employee whose compensation exceeds the limit on compensation that may be taken into account under the S-CAP as a result of IRC Section 401(a)(17) (which includes all of the named executive officers) may elect to contribute up to 7% of eligible compensation to the S-CAP on a pre-tax or Roth basis, and defer up to 13% of eligible compensation to the SES-CAP until the Section 401(a)(17) limit is reached. Thereafter, the employee may defer up to 20% of the portion of eligible compensation that exceeds the Section 401(a)(17) limit to the SES-CAP. In addition, if the employee's total contributions to the S-CAP for a year would otherwise exceed the maximum amount that may be contributed for the year pursuant to IRC Section 402(g) or 415, the excess is credited to the SES-CAP.

Employer contributions to the SES-CAP are calculated on the same basis as contributions to the S-CAP as described below, but only to the extent that employer contributions to the S-CAP are limited by the IRC. The vesting requirements for employer contributions to the SES-CAP are also the same as the vesting requirements for contributions to the S-CAP. However, participants in the SES-CAP are not permitted to select among different investment funds, as are participants in the S-CAP. Instead, all accounts in the SES-CAP are credited with earnings at the rate earned by the S-CAP's Fixed Income Fund.

Employees who elected to forego earning additional benefits in the Retirement Plan and all employees hired by Continental Casualty Company on or after January 1, 2000 receive an annual basic Company contribution to the S-CAP and SES-CAP, if applicable, of 3% or 5% of their eligible compensation, depending on their age. In addition, these employees are eligible to receive discretionary annual performance contributions of up to 2% of eligible compensation and an additional Company match of up to 80% of the first 6% of salary contributed by the employee. The basic, performance and additional Company matching contributions are referred to herein as Enhanced S-CAP and Enhanced SES-CAP. All eligible employees, regardless of their choice, are entitled to a 70% Company matching contribution to the S-CAP and SES-CAP, if applicable, on the first 6% of eligible compensation contributed by the employee. The Company matching contribution rates for employees during the first year of service are 50% of the foregoing.

Matching, basic and performance contributions to both the S-CAP and SES-CAP vest at the rate of 20% per year commencing with the first year of service. After five years of service, all accounts are fully vested. All of the named executive officers other than Mr. Mense are fully vested in their S-CAP and SES-CAP account balances.

All salary amounts and annual cash incentive compensation amounts are considered eligible compensation for purposes of the Retirement Plan, the SERP, and for basic and performance contributions to the S-CAP and SES-CAP. Only salary is considered eligible compensation for purposes of Company matching contributions to the S-CAP and SES-CAP.

Under Mr. Lilienthal's employment agreement, one times his annual incentive cash compensation is considered eligible compensation for purposes of elective contributions and Company matching contributions to the SES-CAP.

Mr. Kantor chose to continue to accrue benefits under the Retirement Plan and SERP and is only eligible to receive Company matching contributions equal to 70% of his first 6% of eligible compensation contributed to the S-CAP and SES-CAP. Messrs. Fusco, Lewis, Lilienthal, and Mense are all participants in the Enhanced S-CAP and Enhanced SES-CAP.

CNA Retirement Plan

CNA sponsors two defined benefit pension plans in which its named executive officers participate. The Retirement Plan is a defined benefit pension plan available to employees hired on or before December 31, 1999. This plan is qualified under Section 401(a) of the Internal Revenue Code (IRC). The SERP is a nonqualified defined benefit pension plan that provides benefits to employees who are eligible to participate in the Retirement Plan and whose accrued benefit under such plan is restricted by IRC Sections 401(a)(17) or 415.

The Retirement Plan provides a life annuity benefit at normal retirement age equal to (1) less (2) below:

(1) The sum of (A) and (B) below:

(A) 2% of Highest Average Monthly Compensation multiplied by years and months of Accrual Service, up to a maximum of 25 years;

(B) 0.6667 % of Highest Average Monthly Compensation multiplied by years and months of Accrual Service over 25 years, up to 15 such years.

(2) 1.4% of Primary Social Security Amount multiplied by years and months of Accrual Service, up to a maximum of 35 years.

Highest Average Monthly Compensation is computed as the average of the 60 consecutive months of compensation over the entire period of employment which produce the highest monthly average. Compensation includes base salary, incentive compensation, overtime, and incentive or performance bonuses (such as under the Annual Incentive Bonus Plan) before these are reduced by contributions to tax-deferred or tax-exempt plans under IRC Sections 401(k), 125 or 132(f)(4). Compensation recognized under the Retirement Plan is limited under the provisions of IRC Section 401(a)(17).

Primary Social Security Amount is an estimate of the monthly primary insurance amount available at age 65 computed under the Social Security Act in effect on January 1 of the year of determination. This amount is estimated by assuming annual wages for the period after termination of employment to age 65 are equal to earnings in the last full year of employment and past wages are estimated assuming wage increases of 6% per year from the later of age 22 or January 1, 1951.

Accrual Service is determined in years and months from the date of hire, with one month credited for any month in which the employee works.

Eligible Employees include all employees of the Company and Continental Casualty Company hired prior to January 1, 2000. Eligible employees become participants in the Retirement Plan at the later of: (i) the date an employee attains age 21; (ii) the date an employee becomes an Eligible Employee; or (iii) the date the employee completes 1,000 hours of service.

A participant's right to an accrued benefit under the Retirement Plan becomes nonforfeitable after five years of vesting service or when the participant attains normal retirement age (later of sixty-fifth birthday or fifth anniversary of the date of participation.) The accrued benefit is

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payable on an unreduced basis on or after age 65. Participants who terminate with at least five years of vesting service and with the sum of their age and service greater than or equal to 65 (early retirement age)

may commence benefits at any time. Such benefits are reduced by 1/3 of 1 percent for each complete calendar month commencement precedes the first of the month coincident with or next following their sixty-second birthday. Participants who terminate with at least ten years of vesting service, but prior to early retirement age, may commence as early as age fifty-five with a reduction of 1/2 of 1 percent for each complete calendar month that benefit commencement precedes the first of the month coincident with or next following their sixty-fifth birthday. The CNA Plan will be amended effective January 1, 2008 to replace the five-year vesting schedule with a three-year vesting schedule.

Participants who commence benefits at an early retirement age are eligible for a supplemental benefit payable until they attain age 62. This benefit is equal to the offset described in (2) above reduced for early retirement.

The normal form of payment for a single participant is the single life annuity. The normal form of payment for a married participant is the qualified 50% joint and survivor annuity. Several optional forms of payment are offered. These include 50%,

66-2/3%, and 100% joint and contingent annuities, and the single life annuity. Benefits paid under any of these optional forms are actuarially equivalent to the single life annuity benefit available at commencement age. The CNA Plan will be amended effective January 1, 2008 to add a 75% joint and contingent annuity option.

The Retirement Plan provides benefits upon the death or disability of an active participant. The spouse of a deceased active participant who dies with at least ten years of vesting service and on or after age 45 (but before early retirement age) receives 50% of the participant's accrued benefit, assuming the participant had attained early retirement age at the date of death and retired with a 50% joint and survivor annuity payment form. The early retirement reduction in this case is 1/3 of 1 percent for each complete calendar month the date of death precedes the first of the month coincident with or next following the participant's sixty-second birthday. Upon becoming disabled after five years of vesting service, the participant is eligible for additional Accrual Service to the earliest to occur of the cessation of disability, normal retirement age or the election of an earlier annuity starting date. Compensation while disabled is credited at the same rate of compensation in the last full month worked.

Mr. Kantor is the only named executive officer eligible to participate in the Retirement Plan. Mr. Kantor is eligible for early retirement benefits under the Retirement Plan.

CNA Supplemental Executive Retirement Plan

The SERP provides that portion of the Retirement Plan benefit which cannot be paid from the Retirement Plan due to the compensation limitations of IRC Section 401(a)(17) or the benefit amount limitations of IRC Section 415.

The provisions of the SERP are the same as the Retirement Plan. A participant who retires and becomes eligible to receive a benefit under the Retirement Plan, whether a normal, early, or late retirement benefit, shall receive a benefit from the SERP equal to the excess, if any, of the amount the participant would have received from the Retirement Plan if neither IRC Section 401(a)(17) nor IRC Section 415 tax limits applied over the participant's actual Retirement Plan benefit. The amount of the benefit the participant would have received under the SERP shall be determined on the same basis as the participant's actual Retirement Plan benefit, taking into account the participant's age, compensation history, service, and form of benefit elected under the Retirement Plan. The provisions of the SERP with respect to death and disability benefits are the same as the Retirement Plan.

The SERP was amended effective January 1, 2008 to provide that the SERP benefit accrued after December 31, 2004 will be paid as a lump sum as soon as practical after the participant's termination of employment. The lump sum is equal to the actuarial equivalent of such benefit with actuarial equivalence determined under the term of the Retirement Plan. The Company has also currently elected to pay all benefits accrued prior to January 1, 2005 that do not exceed \$15,000.00 per month in the form of a lump sum, but retains discretion to pay benefits accrued prior to January 1, 2005 either as a lump sum or as an annuity regardless of amount.

Mr. Kantor is the only named executive officer eligible to participate in the SERP. Mr. Kantor is eligible for early retirement benefits under the SERP.

Compensation Discussion and Analysis

The Board of Directors believes that our success is dependent upon the quality of senior management, and that compensation programs are important in attracting and retaining named executive officers (NEO or NEOs) of superior

ability and motivating their efforts on behalf of the Company's interests. To that end, its compensation program for NEOs recognizes individual performance and contributions, as reflected both in the Company's overall results and in each NEO's contribution to them. To meet this objective the Company has established an approach to NEO compensation that combines elements of base salary and both cash and stock-based incentive compensation, as well as other benefits. In selecting these elements of NEO compensation, the Company has considered its historical compensation practices as they have evolved over the years, national surveys of executive compensation at comparable companies and the executive compensation programs of various peer companies, as well as applicable tax and accounting impacts of executive compensation. The Company's NEOs are identified in the table below headed "Compensation of Executive Officers."

Since the Company maintains written employment agreements, either directly or through one of its subsidiaries, with each of its NEOs, they (along with the Plan, as defined below) are the principal guides to structuring compensation for those executives. In preparing and negotiating the terms of these agreements, the Company seeks to realize these goals and objectives and to include the elements of compensation described in this report. These employment agreements are described elsewhere in this Proxy Statement.

The principal components of compensation for the Company's NEOs are:

base salary;

cash incentive compensation awards, based on both annual and longer-term performance measures;

grants of stock-based awards; and

retirement, medical and related benefits.

In establishing the aggregate amount of compensation for each NEO, the primary factor is an evaluation of the individual's performance in the context of the Company's contractual commitments to the individual executive, and the Company's performance during the period in question. The Company's past compensation policies are reflected in the terms agreed to in the NEOs' employment contracts. As noted above, the Company also reviews and considers compensation levels and practices as shown in surveys and other materials. Based on these factors, the Company determines an overall level of cash compensation—a portion of which is to be paid as base salary and the balance of which would be incentive-based—and equity-based awards, which are described in further detail below.

Base Salary. As a result of the performance reviews and other factors described below, and the impact of limits on the deductibility of compensation as described below, the annual base salary of each of the Company's NEOs has been effectively limited to a maximum of \$1 million. Under Section 162(m) of the Internal Revenue Code, unless classified as "qualified performance-based compensation" the amount of compensation deductible for federal income tax purposes which is paid by a publicly-held corporation to its CEO and certain highly compensated officers during any year is limited to a maximum of \$1 million per person, except that compensation which is considered to be "qualified performance-based compensation" is not subject to this limitation. To the extent the Company's compensation policy can be implemented in a manner that maximizes the deductibility of compensation paid by the Company, the Board of Directors seeks to do so, subject to the Company's contractual obligations to executives in particular cases.

Incentive Compensation Awards. The CNA Financial Corporation 2000 Incentive Compensation Plan (the "Plan") provides for annual and long-term cash and share-related incentive compensation for the NEOs of the Company, among other executives. It is designed to qualify the amounts paid from time to time under the Plan to certain of the Company's officers as "qualified performance-based compensation" under Section 162(m) of the Internal Revenue Code. The elements of incentive compensation recited in the Company's employment agreement with each NEO are subject to the terms of the Plan and the approval of the Compensation Committee.

The Plan is intended to assist us in retaining effective senior executives and attracting new senior leadership, and provide a means of rewarding NEOs, among other employees, with equity and cash compensation which, when coupled with a base salary, produces a competitive level of total compensation that reflects their individual performance and their contributions to the overall short-term and long-term enhancement of the value of the Company and its subsidiaries. The Plan is administered by the Compensation Committee, which has sole discretion to make all determinations on any matter relating to the Plan or any award granted under it. Under the Plan the measures to be used for purposes of incentive awards may include one or more or any combination of a wide variety of corporate and personal performance components, as described more fully in the Plan.

In February of 2007 our Board of Directors renamed the Incentive Compensation Committee as the Compensation Committee and approved a new Committee charter, establishing its purpose, structure and responsibilities. Pursuant to its charter, the Compensation Committee, in response to Company management recommendations, determines all elements of compensation for the NEOs and all stock-based compensation awards to senior officers of the Company. The Compensation Committee also reviews and approves the terms of written employment agreements between the NEOs and the Company or its subsidiaries.

Annual and long-term 2007 cash incentive awards under the Plan for the NEOs were based upon our net operating income for that year as defined by the Compensation Committee (NOI) at its meeting in February of 2007. The following is the definition of NOI approved at that meeting:

Net Operating Income is defined as net income to be reported to the stockholders in the Annual Report for 2007.

In addition, the following items shall also be excluded:

- 1) Realized capital gains or losses, net of tax.
- 2) Items of gain, loss, income or expense (including but not limited to changes in accounting principles) which in the judgment of the Compensation Committee were extraordinary or unusual in nature or infrequent in occurrence.
- 3) Reserve strengthening and adverse dividend or premium development associated with accident years prior to 2000 related to claims for asbestos, pollution and mass tort exposures.
- 4) Catastrophe losses of the Company or its subsidiaries in excess of the 2007 budgeted amount. To the extent that catastrophe losses are below the budgeted amount, include catastrophe losses up to the budgeted amount.
- 5) Surety losses related to bonds issued in connection with a large national contractor.

No changes were made either to the enumerated exclusions from net income or to the 2007 NOI definition as a whole after its approval by the Compensation Committee at the referenced February 2007 meeting. The foregoing NOI definition was approved by the Compensation Committee to be applied in the determination of both the annual incentive cash awards for 2007 payable in 2008 to the NEOs and the long term incentive cash awards payable in 2008 to the NEOs, as explained below.

With regard to 2007 incentive cash awards to NEOs, the Compensation Committee retained the authority to exercise negative discretion on any of the exclusions listed above except as specified in an employment agreement between the Company or one of its subsidiaries and an NEO. Although NOI as determined under this definition is derived from the Company's net income as recorded in our Annual Report for 2007, it is different from both that net income amount and our net operating income as reported in the Company's earnings release for 2007. The primary purpose of the exclusions from net income reflected in the above definition of NOI is to remove those elements of income or loss which relate to one-time or extraordinary events or developments or other matters that, in the judgment of the Compensation Committee, are not appropriate to consider for purposes of assessing an NEO's performance and contribution to our operating results. At its February 2008 meeting, the Compensation Committee established that NOI for 2007, determined pursuant to the above definition, was \$1,129 million. Net operating income as reported by the Company in our earnings release for 2007 was \$69 million lower than NOI as determined by the Compensation Committee for 2007.

Annual Incentive Cash Compensation Awards

The annual incentive cash compensation awards under the Plan for the NEOs for 2007 were primarily determined by performance compared to preset quantifiable financial goals based upon NOI as determined by the Compensation Committee, which also set the level or levels of cash incentive award opportunity within those goals for each NEO. Typical primary recurring factors taken into account for purposes of determining annual incentive cash compensation opportunity levels assigned for each NEO for a given year include such elements as: combined ratios; expense ratios; return on equity; catastrophe loss experience; handling of legal exposures; net written premium production; and investment gains and losses. As to any particular NEO, these factors may be considered both from an overall corporate viewpoint or in terms of performance for a particular factor within that executive's individual areas of responsibility, or both. For 2007, non-recurring developments taken into account for purposes of determining annual NEO incentive cash compensation opportunities included: maintenance of financial and operating conditions allowing for the declaration of quarterly dividends on the Company's Common Stock for the first time in more than thirty years, successful claims and litigation management; a positive rating agency review of the Company's enterprise risk management processes; planning and design of a comprehensive revision of the Company's financial reporting systems; and substantial completion of a legal entity consolidation project intended to simplify and render more efficient the Company's subsidiaries.

For Messrs. Lilienthal and Lewis, the annual incentive cash compensation opportunities for 2007 were based upon NOI targets expressed as ranges or fixed amounts, at or within which certain levels of incentive opportunity would be available to the executive. For Mr. Lilienthal, the annual incentive cash compensation opportunity for 2007 extends from a minimum of \$0 to a maximum of \$2.9 million, subject to the limitation on the exercise of negative discretion by the Compensation Committee discussed below, and with a target bonus payout of \$1.45 million. For Mr. Lewis, the annual incentive cash compensation opportunity for 2007 extends from a minimum of \$0 to a maximum of \$1.6 million, with a target bonus payout of \$0.8 million. For these two executives, assessment of individual performance in prior years and their respective responsibilities in 2007 are reflected in the levels of incentive opportunity provided for at various NOI target ranges or fixed amounts.

For Messrs. Kantor, Mense and Fusco, the annual incentive cash compensation opportunities for 2007 were based upon a payout formula in each case of one-third of one percent of 2007 NOI as defined by the Compensation Committee, limited by individual maximum payment amounts of \$1.5 million, \$1.25 million and \$1.1 million, respectively. For these three executives, assessment of individual performance in prior years and their respective responsibilities in 2007 are reflected as factors in the maximum individual payout amounts established as to each.

For all NEOs except Mr. Lilienthal, the Compensation Committee retained the power to exercise negative discretion for 2007 annual incentive cash compensation amounts up to 100% of the amount produced by the applicable payout formula or NOI target ranges or amounts, as applicable. For Mr. Lilienthal the Compensation Committee agreed to retain the power to exercise negative discretion on the 2007 annual incentive cash compensation amount only in excess of \$1.45 million, based upon a contractual commitment in the Company's employment agreement with him. Thus for all NEOs the Compensation Committee's exercise of negative discretion in any particular case is an additional factor reflecting that executive's individual performance as assessed by the Compensation Committee and Company management. In making recommendations to the Compensation Committee for 2007 annual incentive bonus payment amounts within the above parameters for the NEOs at its meeting in February of 2008, the Company reviewed specific 2007 performance achievements of each executive and explained why in the Company's view the proposed bonus amounts were warranted. An additional bonus of \$250,000 was recommended for Mr. Mense in recognition of the renewal of his employment contract in the fourth quarter of 2007.

The NOI ranges or fixed amounts set to establish the various levels of 2007 annual incentive cash compensation opportunities for Messrs. Lilienthal and Lewis were determined by consideration of a number of factors, principally recent NOI production by the Company and anticipated production for the performance year in question in light of known factors. The Company's goal in setting such ranges and fixed amounts is to compensate the executive competitively with management in similar positions at peer companies for NOI achievement in a given performance year. For those two executives, the difficulty in reaching the highest level of annual incentive cash compensation opportunity for any given year is a product of both the large number of cumulative factors affecting actual NOI production for that year and the accuracy of the pre-set NOI ranges or fixed amounts in reflecting what can reasonably be regarded as achievable NOI production for the period. For Messrs. Kantor, Mense and Fusco there is no requirement to reach a particular performance goal or payout formula in order to qualify for the 2007 annual incentive cash compensation opportunity, but payouts are limited by both actual 2007 NOI production and the individual pre-determined maximum payout amounts. For all NEOs the potential for exercise of negative discretion by the Compensation Committee as described above is a further limiting factor.

Company management performs an analytical and advisory role in the process of determining incentive compensation for its NEOs. The Chairman of the Board and Chief Executive Officer reviews all elements of incentive compensation for NEOs other than himself with the Company's Senior Human Resources Officer, and approves all recommendations to be made to the Compensation Committee as to those executives. Proposed incentive compensation awards to the Chief Executive Officer himself are developed by the Company's Senior Human Resources Officer in consultation with the majority stockholder of the Company's common stock, and then recommended to the Compensation Committee. Since each NEO who reports to the Chief Executive Officer is assessed separately by him and the Compensation Committee as to each element of compensation, there is no direct relationship among those elements from one NEO to another. The relationship among the various elements of compensation for each NEO individually is driven by the goal of providing the executive with an overall package of base and incentive compensation that fairly recompenses him for both Company and individual performance, in the judgment of the Compensation Committee in consultation with management. Accordingly, there is an annual assessment of all compensation elements collectively for each NEO, to assure that in the aggregate they represent a fair and balanced package in light of individual achievements and overall Company results.

In the case of the Chief Executive Officer, overall Company operating and financial performance are primary considerations in determining the incentive compensation recommendations to be made to the Compensation Committee. Among the performance factors considered in this regard for the 2007 performance year were: reported NOI of \$1,060 million, the second-highest in the Company's history; net operating return on equity of 11%; book value per common share of Company stock of \$37.36 at year-end, as compared to \$36.03 at year-end 2006; combined ratios for the Company's property & casualty operations of 94.8%; favorable management of expenses; and an upgrade in the Company's property/casualty ratings by one rating agency and maintenance of its property/casualty ratings with the other rating agencies that assess the Company, all of which assigned to it a stable outlook.

With respect to Mr. Lewis, among the performance factors considered for the 2007 performance year were: property/casualty operations net operating income of \$1,221 million as compared to prior year net operating income of \$1,081 million, notwithstanding difficult market conditions and declining premium levels; property/casualty operations combined ratio of 94.8%, as compared to prior year property/casualty operations combined ratio of 96.4%; and maintenance of a favorable expense ratio.

For Mr. Mense, among the performance factors considered for the 2007 performance year were: elimination of finite reinsurance arrangements; substantial lessening of reinsurance credit risk by a reduction of reinsurance receivables of over 40%; achievement of more competitive debt ratios by establishment of a new credit facility and elimination of prior debt; successful assumption of oversight responsibility for the Company's run-off operations; leadership in the Company's prepar