

CNA FINANCIAL CORP
Form 10-Q
November 02, 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 September 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
(Do not check if a smaller
reporting company)

Smaller reporting
company

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.

Class	Outstanding at October 29, 2010
Common Stock, Par value \$2.50	269,218,836

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Periods ended September 30 (In millions, except per share data)	Three Months		Nine Months	
	2010	2009	2010	2009
Revenues				
Net earned premiums	\$ 1,645	\$ 1,707	\$ 4,868	\$ 5,035
Net investment income	581	660	1,692	1,755
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(41)	(232)	(189)	(1,330)
Portion of other-than-temporary impairments recognized in Other comprehensive income	(3)	84	28	173
Net other-than-temporary impairment losses recognized in earnings	(44)	(148)	(161)	(1,157)
Other net realized investment gains	106	48	286	228
Net realized investment gains (losses), net of participating policyholders' interests	62	(100)	125	(929)
Other revenues	75	73	226	213
Total revenues	2,363	2,340	6,911	6,074
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,344	1,283	3,799	3,919
Amortization of deferred acquisition costs	351	365	1,038	1,063
Other operating expenses (Note G)	795	272	1,325	814
Interest	40	34	113	95
Total claims, benefits and expenses	2,530	1,954	6,275	5,891
Income (loss) from continuing operations before income tax	(167)	386	636	183
Income tax (expense) benefit	64	(108)	(183)	30
Income (loss) from continuing operations	(103)	278	453	213
Loss from discontinued operations, net of income tax (expense) benefit of \$0, \$0, \$0 and \$0 (Note G)	(22)	(1)	(21)	(2)

Net income (loss)	(125)	277	432	211
Net (income) loss attributable to noncontrolling interests	(15)	(14)	(44)	(38)

Net income (loss) attributable to CNA	\$ (140)	\$ 263	\$ 388	\$ 173
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Income (Loss) Attributable to CNA Common Stockholders

Income (loss) from continuing operations attributable to CNA	\$ (118)	\$ 264	\$ 409	\$ 175
Dividends on 2008 Senior Preferred	(18)	(31)	(68)	(94)

Income (loss) from continuing operations attributable to CNA common stockholders	(136)	233	341	81
Loss from discontinued operations attributable to CNA common stockholders	(22)	(1)	(21)	(2)

Income (loss) attributable to CNA common stockholders	\$ (158)	\$ 232	\$ 320	\$ 79
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The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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Periods ended September 30 (In millions, except per share data)	Three Months		Nine Months	
	2010	2009	2010	2009
Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders				
Income (loss) from continuing operations attributable to CNA common stockholders	\$ (0.51)	\$ 0.86	\$ 1.27	\$ 0.30
Loss from discontinued operations attributable to CNA common stockholders	(0.08)		(0.08)	(0.01)
Basic and diluted earnings (loss) per share attributable to CNA common stockholders	\$ (0.59)	\$ 0.86	\$ 1.19	\$ 0.29
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.2	269.0	269.1	269.0
Diluted	269.2	269.2	269.4	269.1

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 September 30 (In millions)	Three Months		Nine Months	
	2010	2009	2010	2009
Other Comprehensive Income (Loss), Net of Tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	\$ 39	\$ (36)	\$ 81	\$ (70)
Net unrealized gains on other investments	726	1,906	1,426	3,815
Net unrealized gains on investments	765	1,870	1,507	3,745
Net unrealized gains on discontinued operations and other	3	5	11	5
Foreign currency translation adjustment	37	39	44	110
Pension and postretirement benefits	2	1	5	4
Allocation to participating policyholders	(9)	(17)	(37)	(36)
Other comprehensive income, net of tax	798	1,898	1,530	3,828
Net income (loss)	(125)	277	432	211
Comprehensive income	673	2,175	1,962	4,039
Changes in:				
Net unrealized (gains) losses on investments attributable to noncontrolling interests	(13)	(18)	(27)	(29)
Pension and postretirement benefits attributable to noncontrolling interests			(3)	
Other comprehensive (income) loss attributable to noncontrolling interests	(13)	(18)	(30)	(29)
Net (income) loss attributable to noncontrolling interests	(15)	(14)	(44)	(38)
Comprehensive (income) loss attributable to noncontrolling interests	(28)	(32)	(74)	(67)
Total comprehensive income attributable to CNA	\$ 645	\$ 2,143	\$ 1,888	\$ 3,972

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(Unaudited).

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Condensed Consolidated Balance Sheets (Unaudited)**

(In millions, except share data)	September 30, 2010	December 31, 2009
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,381 and \$35,602)	\$ 38,646	\$ 35,612
Equity securities at fair value (cost of \$465 and \$633)	531	644
Limited partnership investments	2,166	1,787
Other invested assets	29	4
Mortgage loans	70	
Short term investments	2,084	3,949
 Total investments	 43,526	 41,996
Cash	82	140
Reinsurance receivables (less allowance for uncollectible receivables of \$144 and \$351)	7,333	6,581
Insurance receivables (less allowance for doubtful accounts of \$172 and \$202)	1,606	1,656
Accrued investment income	461	416
Deferred acquisition costs	1,096	1,108
Deferred income taxes	367	1,333
Property and equipment at cost (less accumulated depreciation of \$531 and \$498)	337	360
Goodwill and other intangible assets	141	141
Other assets	1,470	1,144
Separate account business	462	423
 Total assets	 \$ 56,881	 \$ 55,298
 Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 25,783	\$ 26,816
Unearned premiums	3,265	3,274
Future policy benefits	8,372	7,981
Policyholders funds	164	192
Participating policyholders funds	72	56
Short term debt	400	
Long term debt	2,251	2,303
Other liabilities	3,547	3,087
Separate account business	462	423
 Total liabilities	 44,316	 44,132

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

Equity:

Preferred stock (12,500,000 shares authorized) 2008 Senior Preferred (no par value; \$100,000 stated value; 5,000 and 10,000 shares issued and outstanding held by Loews Corporation)	500	1,000
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,203,836 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,201	2,177
Retained earnings	7,582	7,264
Accumulated other comprehensive income (loss)	1,177	(325)
Treasury stock (3,836,407 and 4,013,484 shares), at cost	(103)	(109)
Notes receivable for the issuance of common stock	(30)	(30)
Total CNA stockholders equity	12,010	10,660
Noncontrolling interests	555	506
Total equity	12,565	11,166
Total liabilities and equity	\$ 56,881	\$ 55,298

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

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Condensed Consolidated Statements of Cash Flows (Unaudited)****Nine months ended September 30**

(In millions)

	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 432	\$ 211
Adjustments to reconcile net income to net cash flows provided (used) by operating activities:		
Loss from discontinued operations	21	2
(Gain) loss on disposal of property and equipment		13
Deferred income tax expense	163	81
Trading portfolio activity	125	(621)
Net realized investment (gains) losses, net of participating policyholders' interests	(125)	929
Equity method investees	(25)	(151)
Amortization of investments	(84)	(169)
Depreciation	60	63
Changes in:		
Receivables, net	(709)	849
Accrued investment income	(51)	(73)
Deferred acquisition costs	12	(13)
Insurance reserves	(563)	(488)
Other assets	168	(192)
Other liabilities	(11)	(154)
Other, net	3	4
 Total adjustments	 (1,016)	 80
 Net cash flows provided (used) by operating activities-continuing operations	 \$ (584)	 \$ 291
Net cash flows used by operating activities-discontinued operations	\$ (89)	\$ (16)
 Net cash flows provided (used) by operating activities-total	 \$ (673)	 \$ 275
 Cash Flows from Investing Activities		
Purchases of fixed maturity securities	\$ (12,981)	\$ (18,099)
Proceeds from fixed maturity securities:		
Sales	9,263	15,507
Maturities, calls and redemptions	2,891	2,568
Purchases of equity securities	(92)	(262)
Proceeds from sales of equity securities	215	510
Origination of mortgage loans	(70)	
Change in short term investments	1,752	(460)
Change in other investments	(227)	101
Purchases of property and equipment	(38)	(46)
Dispositions	65	
Other, net	7	(3)

Net cash flows provided (used) by investing activities-continuing operations	\$ 785	\$ (184)
Net cash flows provided by investing activities-discontinued operations	\$ 75	\$ 16
Net cash flows provided (used) by investing activities-total	\$ 860	\$ (168)

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

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(In millions)

	2010	2009
Cash Flows from Financing Activities		
Dividends paid to Loews Corporation for 2008 Senior Preferred	\$ (68)	\$ (94)
Payment to redeem 2008 Senior Preferred	(500)	
Proceeds from the issuance of debt	495	
Principal payments on debt	(150)	
Policyholders' investment contract net deposits (withdrawals)	(8)	(7)
Stock options exercised	4	1
Other, net	(18)	28
Net cash flows used by financing activities-continuing operations	\$ (245)	\$ (72)
Net cash flows provided (used) by financing activities-discontinued operations	\$	\$
Net cash flows used by financing activities-total	\$ (245)	\$ (72)
Effect of foreign exchange rate changes on cash-continuing operations		8