

CNA FINANCIAL CORP  
Form 10-Q  
October 30, 2007

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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, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 October 24, 2007</b>
Common Stock, Par value \$2.50	271,656,478

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<b>Period ended September 30</b>	<b>Three months</b>		<b>Nine months</b>	
(In millions, except per share data)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>				
Net earned premiums	\$ 1,882	\$ 1,943	\$ 5,617	\$ 5,704
Net investment income	580	600	1,859	1,722
Realized investment gains (losses), net of participating policyholders and minority interests	(57)	21	(217)	(68)
Other revenues	79	56	211	175
<b>Total revenues</b>	<b>2,484</b>	<b>2,620</b>	<b>7,470</b>	<b>7,533</b>
<b>Claims, Benefits and Expenses</b>				
Insurance claims and policyholders benefits	1,575	1,522	4,496	4,446
Amortization of deferred acquisition costs	384	390	1,137	1,132
Other operating expenses	244	224	722	723
Restructuring and other related charges				(13)
Interest	35	35	104	93
<b>Total claims, benefits and expenses</b>	<b>2,238</b>	<b>2,171</b>	<b>6,459</b>	<b>6,381</b>
<b>Income before income tax and minority interest</b>	<b>246</b>	<b>449</b>	<b>1,011</b>	<b>1,152</b>
Income tax expense	(56)	(131)	(279)	(339)
Minority interest	(16)	(13)	(37)	(32)
<b>Income from continuing operations</b>	<b>174</b>	<b>305</b>	<b>695</b>	<b>781</b>
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$(1), \$9, \$0 and \$9		6	(8)	(2)
<b>Net Income</b>	<b>\$ 174</b>	<b>\$ 311</b>	<b>\$ 687</b>	<b>\$ 779</b>
<b>Basic and Diluted Earnings Per Share</b>				
Income from continuing operations	\$ 0.64	\$ 1.13	\$ 2.56	\$ 2.84
Income (loss) from discontinued operations		0.02	(0.03)	(0.01)

Basic and diluted earnings per share available to common stockholders	\$ 0.64	\$ 1.15	\$ 2.53	\$ 2.83
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**Weighted average outstanding common stock and common stock equivalents**

Basic	271.6	265.0	271.5	259.0
Diluted	271.9	265.2	271.8	259.2

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

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
(In millions, except share data)		
<b>Assets</b>		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$34,107 and \$35,135)	\$ 34,196	\$ 35,851
Equity securities at fair value (cost of \$346 and \$408)	608	657
Limited partnership investments	2,093	1,852
Other invested assets	43	26
Short term investments	6,972	5,710
<b>Total investments</b>	<b>43,912</b>	<b>44,096</b>
Cash	80	84
Reinsurance receivables (less allowance for uncollectible receivables of \$464 and \$469)	8,893	9,478
Insurance receivables (less allowance for doubtful accounts of \$343 and \$368)	2,084	2,108
Accrued investment income	339	313
Receivables for securities sold	668	303
Deferred acquisition costs	1,189	1,190
Prepaid reinsurance premiums	321	342
Deferred income taxes	1,076	855
Property and equipment at cost (less accumulated depreciation of \$595 and \$571)	353	277
Goodwill and other intangible assets	142	142
Other assets	586	592
Separate account business	472	503
<b>Total assets</b>	<b>\$ 60,115</b>	<b>\$ 60,283</b>
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 28,992	\$ 29,636
Unearned premiums	3,753	3,784
Future policy benefits	6,993	6,645
Policyholders funds	1,013	1,015
Collateral on loaned securities and derivatives	83	2,851
Payables for securities purchased	3,062	221
Participating policyholders funds	43	50
Short term debt	150	
Long term debt	2,007	2,156

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Federal income taxes payable (includes \$3 and \$38 due to Loews Corporation)	5	40
Reinsurance balances payable	483	539
Other liabilities	2,575	2,740
Separate account business	472	503
<b>Total liabilities</b>	<b>49,631</b>	<b>50,180</b>
Commitments and contingencies (Notes D, F, G, I and N)		
Minority interest	369	335
Stockholders' equity:		
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; and 271,656,478 and 271,108,480 shares outstanding)	683	683
Additional paid-in capital	2,168	2,166
Retained earnings	7,162	6,486
Accumulated other comprehensive income	192	549
Treasury stock (1,383,765 and 1,931,763 shares), at cost	(39)	(58)
	10,166	9,826
Notes receivable for the issuance of common stock	(51)	(58)
<b>Total stockholders' equity</b>	<b>10,115</b>	<b>9,768</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 60,115</b>	<b>\$ 60,283</b>

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

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**CNA FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

<b>Nine months ended September 30</b> (In millions)	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 687	\$ 779
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Loss from discontinued operations	8	2
Loss on disposal of property and equipment	1	
Minority interest	37	32
Deferred income tax provision	(26)	163
Trading securities activity	(44)	391
Realized investment losses, net of participating policyholders and minority interests	217	68
Undistributed earnings of equity method investees	(74)	(70)
Net amortization of bond (discount) premium	(195)	(211)
Depreciation	46	35
Changes in:		
Receivables, net	609	1,503
Deferred acquisition costs	1	(23)
Accrued investment income	(26)	(14)
Federal income taxes recoverable/payable	(35)	153
Prepaid reinsurance premiums	21	(27)
Reinsurance balances payable	(56)	(750)
Insurance reserves	(272)	(315)
Other assets	31	67
Other liabilities	(117)	37
Other, net	(84)	(37)
 Total adjustments	 42	 1,004
 <b>Net cash flows provided by operating activities-continuing operations</b>	 \$ 729	 \$ 1,783
 <b>Net cash flows used by operating activities-discontinued operations</b>	 \$ (16)	 \$
 <b>Net cash flows provided by operating activities-total</b>	 \$ 713	 \$ 1,783
 <b>Cash Flows from Investing Activities:</b>		
Purchases of fixed maturity securities	\$ (53,496)	\$ (32,425)
Proceeds from fixed maturity securities:		
Sales	53,003	30,942
Maturities, calls and redemptions	3,720	3,114
Purchases of equity securities	(157)	(267)



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Proceeds from sales of equity securities	182	153
Change in short term investments	(963)	(4,381)
Change in collateral on loaned securities	(2,768)	1,618
Change in other investments	(95)	(139)
Purchases of property and equipment	(118)	(87)
Dispositions		7
Other, net	(17)	(49)
<b>Net cash flows used by investing activities-continuing operations</b>	<b>\$ (709)</b>	<b>\$ (1,514)</b>
<b>Net cash flows provided by investing activities-discontinued operations, including proceeds from disposition</b>	<b>\$ 42</b>	<b>\$ 24</b>
<b>Net cash flows used by investing activities-total</b>	<b>\$ (667)</b>	<b>\$ (1,490)</b>

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**Table of Contents****CNA FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)**

<b>Nine months ended September 30</b> (In millions)	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Financing Activities:</b>		
Dividends paid to stockholders	(54)	
Proceeds from the issuance of long-term debt		759
Principal payments on debt		(44)
Return of investment contract account balances	(59)	(510)
Receipts of investment contract account balances	2	2
Payment to repurchase Series H Issue preferred stock		(993)
Proceeds from the issuance of common stock		499
Stock options exercised	17	4
Other, net	11	1
<b>Net cash flows used by financing activities-continuing operations</b>	<b>\$ (83)</b>	<b>\$ (282)</b>
<b>Net cash flows used by financing activities-discontinued operations</b>	<b>\$</b>	<b>\$</b>
<b>Net cash flows used by financing activities-total</b>	<b>\$ (83)</b>	<b>\$ (282)</b>
Net change in cash	(37)	11
Net cash transactions from continuing operations to discontinued operations	59	15
Net cash transactions from discontinued operations to continuing operations	(59)	(15)
<b>Cash, beginning of year</b>	<b>124</b>	<b>125</b>
<b>Cash, end of period</b>	<b>\$ 87</b>	<b>\$ 136</b>
Cash-continuing operations	\$ 80	\$ 98
Cash-discontinued operations	7	38
<b>Cash-total</b>	<b>\$ 87</b>	<b>\$ 136</b>

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**CNA FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**(UNAUDITED)**

<b>Nine months ended September 30</b> (In millions)	<b>2007</b>	<b>2006</b>
<b>Preferred Stock</b>		
Balance, beginning of period	\$	\$ 750
Repurchase of Series H Issue		(750)
Balance, end of period		
<b>Common Stock</b>		
Balance, beginning of period	683	645
Issuance of common stock		38
Balance, end of period	683	683
<b>Additional Paid-in Capital</b>		
Balance, beginning of period	2,166	1,701
Issuance of common stock and other	2	465
Balance, end of period	2,168	2,166
<b>Retained Earnings</b>		
Balance, beginning of period	6,486	5,621
Adjustment to initially apply FSP 85-4-1, net of tax	38	
Adjustment to initially apply FIN 48	5	
Adjusted balance, beginning of period	6,529	5,621
Dividends paid to stockholders	(54)	
Net income	687	779
Liquidation preference in excess of par value on Series H Issue		(243)
Balance, end of period	7,162	6,157
<b>Accumulated Other Comprehensive Income</b>		
Balance, beginning of period	549	359
Other comprehensive income (loss)	(357)	88

Balance, end of period	192	447
<b>Treasury Stock</b>		
Balance, beginning of period	(58)	(67)
Stock options exercised	19	2
Balance, end of period	(39)	(65)
<b>Notes Receivable for the Issuance of Common Stock</b>		
Balance, beginning of period	(58)	(59)
Decrease in notes receivable for the issuance of common stock	7	
Balance, end of period	(51)	(59)
<b>Total Stockholders Equity</b>	<b>\$ 10,115</b>	<b>\$ 9,329</b>

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