

CHUBB CORP  
Form 10-Q  
August 10, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2009

**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 1-8661**  
**THE CHUBB CORPORATION**

(Exact name of registrant as specified in its charter)

NEW JERSEY

13-2595722

(State or other jurisdiction of  
incorporation or organization)

(I. R. S. Employer  
Identification No.)

15 MOUNTAIN VIEW ROAD, WARREN, NEW  
JERSEY

07059

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (908) 903-2000

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. (Check one):

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 o NO p

The number of shares of common stock outstanding as of June 30, 2009 was 349,901,560.

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## Part I. FINANCIAL INFORMATION

## Item 1 Financial Statements

THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
PERIODS ENDED JUNE 30

	Second Quarter		Six Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Revenues				
Premiums Earned	\$ 2,828	\$ 2,986	\$ 5,654	\$ 5,962
Investment Income	408	438	810	877
Other Revenues	3	6	6	12
Realized Gains (Losses), Net				
Total Other-Than-Temporary Impairment Losses on Investments	(34)	(96)	(93)	(121)
Other-Than-Temporary Impairment Losses on Investments Recognized in Other Comprehensive Income	15		15	
Other Realized Gains (Losses), Net	46	20	(161)	113
Total Realized Gains (Losses), Net	27	(76)	(239)	(8)
Total Revenues	3,266	3,354	6,231	6,843
Losses and Expenses				
Losses and Loss Expenses	1,572	1,749	3,187	3,333
Amortization of Deferred Policy Acquisition Costs	757	781	1,485	1,555
Other Insurance Operating Costs and Expenses	102	110	205	226
Investment Expenses	7	8	16	17
Other Expenses	4	5	7	17
Corporate Expenses	71	72	148	137
Total Losses and Expenses	2,513	2,725	5,048	5,285
Income Before Federal and Foreign Income Tax	753	629	1,183	1,558
Federal and Foreign Income Tax	202	160	291	425

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Net Income	\$	551	\$	469	\$	892	\$	1,133
Net Income Per Share								
Basic	\$	1.55	\$	1.29	\$	2.51	\$	3.09
Diluted		1.54		1.27		2.49		3.04
Dividends Declared Per Share		.35		.33		.70		.66

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION  
CONSOLIDATED BALANCE SHEETS

	June 30, 2009	Dec. 31, 2008
	<i>(in millions)</i>	
Assets		
Invested Assets		
Short Term Investments	\$ 2,651	\$ 2,478
Fixed Maturities		
Tax Exempt (cost \$18,697 and \$18,299)	19,110	18,345
Taxable (cost \$15,418 and \$14,592)	15,563	14,410
Equity Securities (cost \$1,235 and \$1,563)	1,189	1,479
Other Invested Assets	1,784	2,026
 TOTAL INVESTED ASSETS	 40,297	 38,738
Cash	65	56
Accrued Investment Income	442	435
Premiums Receivable	2,207	2,201
Reinsurance Recoverable on Unpaid Losses and Loss Expenses	2,138	2,212
Prepaid Reinsurance Premiums	355	373
Deferred Policy Acquisition Costs	1,562	1,532
Deferred Income Tax	887	1,144
Goodwill	467	467
Other Assets	1,283	1,271
 TOTAL ASSETS	 \$ 49,703	 \$ 48,429
Liabilities		
Unpaid Losses and Loss Expenses	\$ 22,576	\$ 22,367
Unearned Premiums	6,306	6,367
Long Term Debt	3,975	3,975
Dividend Payable to Shareholders	124	118
Accrued Expenses and Other Liabilities	2,218	2,170
 TOTAL LIABILITIES	 35,199	 34,997

Contingent Liabilities (Note 6)

Shareholders' Equity

Common Stock \$1 Par Value; 371,980,710 Shares	372	372
Paid-In Surplus	196	253
Retained Earnings	15,183	14,509
Accumulated Other Comprehensive Loss	(202)	(735)
Treasury Stock, at Cost 22,079,150 and 19,726,097 Shares	(1,045)	(967)
 TOTAL SHAREHOLDERS' EQUITY	 14,504	 13,432
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	 \$ 49,703	 \$ 48,429

See Notes to Consolidated Financial Statements.



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THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
PERIODS ENDED JUNE 30

	Second Quarter		Six Months	
	2009	2008	2009	2008
	<i>(in millions)</i>			
Net Income	\$ 551	\$ 469	\$ 892	\$ 1,133
Other Comprehensive Income (Loss), Net of Tax				
Change in Unrealized Appreciation or Depreciation of Investments	188	(316)	515	(464)
Change in Unrealized Other-Than-Temporary Impairment Losses on Investments	(9)		(9)	
Foreign Currency Translation Gains (Losses)	158	(5)	45	56
Amortization of Net Loss and Prior Service Cost Included in Net Postretirement Benefit Costs	3	5	12	10
	340	(316)	563	(398)
Comprehensive Income	\$ 891	\$ 153	\$ 1,455	\$ 735

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30

	2009	2008
	<i>(in millions)</i>	
Cash Flows from Operating Activities		
Net Income	\$ 892	\$ 1,133
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Increase in Unpaid Losses and Loss Expenses, Net	171	420
Increase (Decrease) in Unearned Premiums, Net	(65)	21
Increase in Premiums Receivable	(6)	(122)
Amortization of Premiums and Discounts on Fixed Maturities	94	106
Depreciation	30	33
Realized Investment Losses, Net	239	8
Other, Net	(244)	(354)
 Net Cash Provided by Operating Activities	 1,111	 1,245
 Cash Flows from Investing Activities		
Proceeds from Fixed Maturities		
Sales	1,771	1,254
Maturities, Calls and Redemptions	1,206	1,184
Proceeds from Sales of Equity Securities	344	137
Purchases of Fixed Maturities	(4,000)	(2,952)
Purchases of Equity Securities	(4)	(113)
Investments in Other Invested Assets, Net	(24)	(26)
Increase in Short Term Investments, Net	(182)	(824)
Increase in Net Payable from Security Transactions Not Settled	196	141
Purchases of Property and Equipment, Net	(24)	(25)
Other, Net	4	
 Net Cash Used in Investing Activities	 (713)	 (1,224)
 Cash Flows from Financing Activities		
Proceeds from Issuance of Long Term Debt		1,200
Repayment of Long Term Debt		(225)
Proceeds from Issuance of Common Stock Under Stock-Based Employee Compensation Plans	16	59
Repurchase of Shares	(161)	(811)

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Dividends Paid to Shareholders	(242)	(232)
Other, Net	(2)	(12)
Net Cash Used in Financing Activities	(389)	(21)
Net Increase in Cash	9	
Cash at Beginning of Year	56	49
Cash at End of Period	\$ 65	\$ 49

See Notes to Consolidated Financial Statements.

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THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) General

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include the accounts of The Chubb Corporation (Chubb) and its subsidiaries (collectively, the Corporation). Significant intercompany transactions have been eliminated in consolidation.

Effective April 1, 2009, the Corporation adopted Financial Accounting Standards Board Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 and FAS 124-2 may not be retroactively applied to prior periods' financial statements; accordingly, consolidated financial statements for periods prior to April 1, 2009 have not been restated for this change in accounting policy. This accounting change is further described in Note (2).

The amounts included in this report are unaudited but include those adjustments, consisting of normal recurring items, that management considers necessary for a fair presentation. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in the Notes to Consolidated Financial Statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. The Corporation has performed an evaluation of subsequent events through August 10, 2009, which is the date the financial statements were issued. No significant subsequent events were identified.

2) Adoption of New Accounting Pronouncements

Effective April 1, 2009, the Corporation adopted FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of FSP FAS 157-4 did not have a significant effect on the Corporation's financial position or results of operations.

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THE CHUBB CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective April 1, 2009, the Corporation adopted FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP modifies the guidance on the recognition of other-than-temporary impairments of debt securities. Under the guidance, an entity is required to recognize an other-than-temporary impairment when the entity concludes it has the intent to sell or it is more likely than not the entity will be required to sell an impaired debt security before the security recovers to its amortized cost value or it is likely the entity will not recover the entire amortized cost value of an impaired debt security. The FSP also changes the presentation in the financial statements of other-than-temporary impairments and provides for enhanced disclosures of both debt and equity securities. Under the guidance, if an entity has the intent to sell or it is more likely than not the entity will be required to sell an impaired debt security before the security recovers to its amortized cost value, the security is written down to fair value and the entire amount of the writedown is charged to income as a realized investment loss. For all other impaired debt securities, the impairment loss is separated into the amount representing the credit loss and the amount representing the loss related to all other factors. The portion of the impairment loss that represents the credit loss is charged to income as a realized investment loss and the amount representing the loss that relates to all other factors is included in other comprehensive income. The FSP requires a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption with a corresponding adjustment to accumulated other comprehensive income. The cumulative effect adjustment from adopting the FSP resulted in a \$30 million increase to retained earnings and a corresponding decrease to accumulated other c