

HARTFORD FINANCIAL SERVICES GROUP INC/DE

Form 10-Q

October 29, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

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: 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3317783

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

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 22, 2008, there were outstanding 300,570,776 shares of Common Stock, \$0.01 par value per share, of the registrant.

**THE HARTFORD FINANCIAL SERVICES GROUP, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Hartford Financial Services Group, Inc.
Hartford, Connecticut

We have reviewed the accompanying condensed consolidated balance sheet of The Hartford Financial Services Group, Inc. and subsidiaries (the Company) as of September 30, 2008, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2008 and 2007, and changes in stockholders' equity, and cash flows for the nine-month periods ended September 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated February 20, 2008 (which report includes an explanatory paragraph relating to the Company's change in its method of accounting and reporting for defined benefit pension and other postretirement plans in 2006), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Hartford, Connecticut
October 28, 2008

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Operations

<i>(In millions, except for per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Revenues				
Earned premiums	\$ 3,903	\$ 4,062	\$ 11,637	\$ 11,760
Fee income	1,333	1,398	4,056	4,026
Net investment income (loss)				
Securities available-for-sale and other	1,103	1,298	3,526	3,907
Equity securities held for trading	(3,415)	(698)	(5,840)	746
Total net investment income (loss)	(2,312)	600	(2,314)	4,653
Other revenues	132	126	377	368
Net realized capital losses	(3,449)	(363)	(5,102)	(565)
Total revenues	(393)	5,823	8,654	20,242
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses	3,994	3,666	10,937	10,543
Benefits, losses and loss adjustment expenses				
returns credited on International variable annuities	(3,415)	(698)	(5,840)	746
Amortization of deferred policy acquisition costs				
and present value of future profits	1,927	476	3,201	2,185
Insurance operating costs and expenses	1,029	973	3,026	2,826
Interest expense	84	67	228	196
Other expenses	171	164	542	522
Total benefits, losses and expenses	3,790	4,648	12,094	17,018
Income (loss) before income taxes	(4,183)	1,175	(3,440)	3,224
Income tax expense (benefit)	(1,552)	324	(1,497)	870
Net income (loss)	\$ (2,631)	\$ 851	\$ (1,943)	\$ 2,354
Earnings (Loss) per share				
Basic	\$ (8.74)	\$ 2.70	\$ (6.29)	\$ 7.42
Diluted	\$ (8.74)	\$ 2.68	\$ (6.29)	\$ 7.35
Weighted average common shares outstanding	301.1	315.4	308.8	317.3
Weighted average common shares outstanding and				
dilutive potential common shares	301.1	318.0	308.8	320.1
Cash dividends declared per share	\$ 0.53	\$ 0.50	\$ 1.59	\$ 1.50

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Balance Sheets

<i>(In millions, except for share and per share data)</i>	September 30, 2008	December 31, 2007 (Unaudited)
Assets		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$77,007 and \$80,724)	\$ 70,091	\$ 80,055
Equity securities, held for trading, at fair value (cost of \$33,974 and \$30,489)	33,655	36,182
Equity securities, available-for-sale, at fair value (cost of \$1,645 and \$2,611)	1,730	2,595
Policy loans, at outstanding balance	2,159	2,061
Mortgage loans on real estate	6,222	5,410
Limited partnerships and other alternative investments	2,817	2,566
Other investments	1,410	615
Short-term investments	5,353	1,602
Total investments	123,437	131,086
Cash	1,963	2,011
Premiums receivable and agents' balances	3,627	3,681
Reinsurance recoverables	5,675	5,150
Deferred policy acquisition costs and present value of future profits	12,272	11,742
Deferred income taxes	3,560	308
Goodwill	1,801	1,726
Property and equipment, net	1,038	972
Other assets	4,083	3,739
Separate account assets	154,029	199,946
Total assets	\$ 311,485	\$ 360,361
Liabilities		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses		
Property and casualty	\$ 22,605	\$ 22,153
Life	16,602	15,331
Other policyholder funds and benefits payable	47,208	44,190
Other policyholder funds and benefits payable - International variable annuities	33,629	36,152
Unearned premiums	5,523	5,545
Short-term debt	927	1,365
Long-term debt	4,620	3,142
Consumer notes	1,225	809
Other liabilities	12,560	12,524
Separate account liabilities	154,029	199,946
Total liabilities	298,928	341,157

Commitments and Contingencies (Note 8)

Stockholders Equity

Common stock, \$0.01 par value 750,000,000 shares authorized, 329,923,910 and 329,951,138 shares issued	3	3
Additional paid-in capital	6,598	6,627
Retained earnings	12,249	14,686
Treasury stock, at cost 29,569,622 and 16,108,895 shares	(2,138)	(1,254)
Accumulated other comprehensive loss, net of tax	(4,155)	(858)
Total stockholders equity	12,557	19,204
Total liabilities and stockholders equity	\$ 311,485	\$ 360,361

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity

<i>(In millions, except for share data)</i>	Nine Months Ended September 30,	
	2008	2007
	<i>(Unaudited)</i>	
Common Stock and Additional Paid-in Capital		
Balance at beginning of period	\$ 6,630	\$ 6,324
Issuance of shares under incentive and stock compensation plans	(39)	219
Tax benefit on employee stock options and awards	10	45
Balance at end of period	6,601	6,588
Retained Earnings		
Balance at beginning of period, before cumulative effect of accounting changes, net of tax	14,686	12,421
Cumulative effect of accounting changes, net of tax	(3)	(41)
Balance at beginning of period, as adjusted	14,683	12,380
Net income (loss)	(1,943)	2,354
Dividends declared on common stock	(491)	(474)
Balance at end of period	12,249	14,260
Treasury Stock, at Cost		
Balance at beginning of period	(1,254)	(47)
Treasury stock acquired	(1,000)	(1,172)
Issuance of shares under incentive and stock compensation plans from treasury stock	133	
Return of shares under incentive and stock compensation plans to treasury stock	(17)	(13)
Balance at end of period	(2,138)	(1,232)
Accumulated Other Comprehensive Loss, Net of Tax		
Balance at beginning of period	(858)	178
Total other comprehensive loss	(3,297)	(844)
Balance at end of period	(4,155)	(666)
Total stockholders' equity	\$ 12,557	\$ 18,950
Outstanding Shares (in thousands)		
Balance at beginning of period	313,842	323,315
Treasury stock acquired	(14,682)	(12,643)
Issuance of shares under incentive and stock compensation plans	1,442	3,185
Return of shares under incentive and stock compensation plans to treasury stock	(248)	(135)

Balance at end of period **300,354** **313,722**

Condensed Consolidated Statements of Comprehensive Income (Loss)

<i>(In millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Comprehensive Income (Loss)				
Net income (loss)	\$ (2,631)	\$ 851	\$ (1,943)	\$ 2,354
Other comprehensive income (loss)				
Change in net unrealized gain/loss on securities	(1,483)	(224)	(3,509)	(970)
Change in net gain/loss on cash-flow hedging instruments	163	48	177	(20)
Change in foreign currency translation adjustments	(63)	100	11	111
Amortization of prior service cost and actuarial net losses included in net periodic benefit costs	8	11	24	35
Total other comprehensive loss	(1,375)	(65)	(3,297)	(844)
Total comprehensive income (loss)	\$ (4,006)	\$ 786	\$ (5,240)	\$ 1,510

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
Condensed Consolidated Statements of Cash Flows

<i>(In millions)</i>	Nine Months Ended September 30,	
	2008	2007
	<i>(Unaudited)</i>	
Operating Activities		
Net income (loss)	\$ (1,943)	\$ 2,354
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of deferred policy acquisition costs and present value of future profits	3,201	2,185
Additions to deferred policy acquisition costs and present value of future profits	(2,837)	(3,177)
Change in:		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	1,689	1,216
Reinsurance recoverables	(19)	417
Receivables and other assets	646	(234)
Payables and accruals	(673)	437
Accrued and deferred income taxes	(1,604)	538
Net realized capital losses	5,102	565
Net receipts (to) from investment contracts related to policyholder funds - International variable annuities	1,740	4,446
Net (increase) decrease in equity securities, held for trading	(1,799)	(4,288)
Depreciation and amortization	263	484
Other, net	(828)	(376)
Net cash provided by operating activities	2,938	4,567
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	17,523	26,816
Equity securities, available-for-sale	995	450
Mortgage loans	351	1,245
Partnerships	130	250
Payments for the purchase of:		
Fixed maturities, available-for-sale	(19,392)	(30,127)
Equity securities, available-for-sale	(689)	(865)
Mortgage loans	(1,161)	(3,161)
Partnerships	(556)	(929)
Purchase price of businesses acquired	(94)	
Change in policy loans, net	(98)	1
Change in payables for collateral under securities lending, net	(339)	2,046
Change in all other securities, net	(524)	(379)
Additions to property and equipment, net	(195)	(251)
Net cash used for investing activities	(4,049)	(4,904)
Financing Activities		

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Deposits and other additions to investment and universal life-type contracts	15,752	26,315
Withdrawals and other deductions from investment and universal life-type contracts	(20,276)	(22,678)
Net transfers from (to) separate accounts related to investment and universal life-type contracts	5,584	(2,226)
Issuance of long-term debt	1,487	495
Repayments at maturity of long-term debt	(425)	(300)
Payments on capital lease obligations	(37)	
Change in short-term debt		75
Proceeds from issuance of consumer notes	445	465
Repayments at maturity of consumer notes	(29)	
Proceeds from issuance of shares under incentive and stock compensation plans	47	166
Excess tax benefits on stock-based compensation	4	29
Treasury stock acquired	(1,000)	(1,172)
Return of shares under incentive and stock compensation plans to treasury stock	(17)	(13)
Dividends paid	(501)	(481)
Net cash provided by financing activities	1,034	675
Foreign exchange rate effect on cash	29	190
Net increase (decrease) in cash	(48)	528
Cash beginning of period	2,011	1,424
Cash end of period	\$ 1,963	\$ 1,952

Supplemental Disclosure of Cash Flow Information

Net Cash Paid During the Period For:

Income taxes	\$ 232	\$ 366
Interest	\$ 186	\$ 172

See Notes to Condensed Consolidated Financial Statements.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in millions, except for per share data, unless otherwise stated)
(Unaudited)

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The Hartford Financial Services Group, Inc. is a financial holding company for a group of subsidiaries that provide investment products and life and property and casualty insurance to both individual and business customers in the United States and internationally (collectively, The Hartford or the Company).

The condensed consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (U.S. GAAP), which differ materially from the accounting practices prescribed by various insurance regulatory authorities.

The accompanying condensed consolidated financial statements and notes as of September 30, 2008, and for the three and nine months ended September 30, 2008 and 2007 are unaudited. These financial statements reflect all adjustments (consisting only of normal accruals) which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods. These condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in The Hartford s 2007 Form 10-K Annual Report. The results of operations for the interim periods should not be considered indicative of the results to be expected for the full year.

Consolidation

The condensed consolidated financial statements include the accounts of The Hartford Financial Services Group, Inc., companies in which the Company directly or indirectly has a controlling financial interest and those variable interest entities in which the Company is the primary beneficiary. The Company determines if it is the primary beneficiary using both qualitative and quantitative analyses. Entities in which The Hartford does not have a controlling financial interest but in which the Company has significant influence over the operating and financing decisions are reported using the equity method. All material intercompany transactions and balances between The Hartford and its subsidiaries and affiliates have been eliminated.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining property and casualty reserves, net of reinsurance; life estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; living benefits required to be fair valued; valuation of investments and derivative instruments; evaluation of other-than-temporary impairments on available-for-sale securities; pension and other postretirement benefit obligations; and contingencies relating to corporate litigation and regulatory matters.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in The Hartford s 2007 Form 10-K Annual Report.

Adoption of New Accounting Standards