

HARTFORD FINANCIAL SERVICES GROUP INC/DE

Form 10-Q

April 30, 2009

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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 March 31, 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: 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 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 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 ☐

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 April 28, 2009, there were outstanding 325,430,976 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 MARCH 31, 2009
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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 March 31, 2009, and the related condensed consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the three-month periods ended March 31, 2009 and 2008. 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, 2008, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the year then ended prior to retrospective adjustment for the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, described in Note 1, (not presented herein); and in our report dated February 11, 2009 (which report includes an explanatory paragraph relating to the Company's change in its method of accounting and reporting for the fair value measurement of financial instruments in 2008, and defined benefit pension and other postretirement plans in 2006), we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments described in Note 1 that were applied to retrospectively adjust the December 31, 2008 consolidated balance sheet of the Company (not presented herein). In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted condensed consolidated balance sheet as of December 31, 2008.

DELOITTE & TOUCHE LLP

Hartford, Connecticut

April 29, 2009

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

	Three Months Ended March 31,			
	2009		2008	
	(Unaudited)			
<i>(In millions, except for per share data)</i>				
Revenues				
Earned premiums	\$	3,829	\$	3,843
Fee income		1,167		1,337
Net investment income (loss)				
Securities available-for-sale and other		920		1,193
Equity securities, held for trading		(724)		(3,578)
Total net investment income (loss)		196		(2,385)
Other revenues		118		120
Net realized capital gains (losses)		84		(1,371)
Total revenues		5,394		1,544
Benefits, losses and expenses				
Benefits, losses and loss adjustment expenses		4,637		3,357
Benefits, losses and loss adjustment expenses returns credited on				
International variable annuities		(724)		(3,578)
Amortization of deferred policy acquisition costs and present value of future profits		2,259		468
Insurance operating costs and expenses		898		950
Interest expense		120		67
Goodwill impairment		32		
Other expenses		189		189
Total benefits, losses and expenses		7,411		1,453
Income (loss) before income taxes		(2,017)		91
Income tax benefit		(808)		(54)
Net income (loss)	\$	(1,209)	\$	145
Earnings (Loss) per share				
Basic	\$	(3.77)	\$	0.46
Diluted	\$	(3.77)	\$	0.46
Weighted average common shares outstanding		320.8		313.8
Weighted average common shares outstanding and dilutive potential common shares		320.8		315.7
Cash dividends declared per share	\$	0.05	\$	0.53

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>	March 31, 2009	December 31, 2008
	<i>(Unaudited)</i>	
<i>Assets</i>		
Investments		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$76,259 and \$78,238)	\$ 62,563	\$ 65,112
Equity securities, held for trading, at fair value (cost of \$32,447 and \$35,278)	27,813	30,820
Equity securities, available-for-sale, at fair value (cost of \$1,318 and \$1,554)	1,080	1,458
Policy loans, at outstanding balance	2,197	2,208
Mortgage loans on real estate	6,389	6,469
Limited partnerships and other alternative investments	1,981	2,295
Other investments	3,121	1,723
Short-term investments	11,189	10,022
 Total investments	 116,333	 120,107
Cash	1,851	1,811
Premiums receivable and agents' balances	3,568	3,604
Reinsurance recoverables	6,514	6,357
Deferred policy acquisition costs and present value of future profits	12,077	13,248
Deferred income taxes	6,300	5,239
Goodwill	1,036	1,060
Property and equipment, net	1,062	1,075
Other assets	2,689	4,898
Separate account assets	124,738	130,184
 Total assets	 \$ 276,168	 \$ 287,583
 <i>Liabilities</i>		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses		
Property and casualty	\$ 21,804	\$ 21,933
Life	18,562	16,747
Other policyholder funds and benefits payable	52,952	53,753
Other policyholder funds and benefits payable - International variable annuities	27,793	30,799
Unearned premiums	5,366	5,379
Short-term debt	419	398
Long-term debt	5,757	5,823
Consumer notes	1,202	1,210
Other liabilities	9,688	11,997
Separate account liabilities	124,738	130,184
 Total liabilities	 268,281	 278,223

Commitments and Contingencies (Note 9)

Equity

Preferred stock, \$0.01 par value 50,000,000 shares authorized, 0 and 6,048,387 shares issued		
Common stock, \$0.01 par value 750,000,000 shares authorized, 354,098,996 and 329,920,310 shares issued	4	3
Additional paid-in capital	7,600	7,569
Retained earnings	10,111	11,336
Treasury stock, at cost 28,664,237 and 29,341,378 shares	(2,054)	(2,120)
Accumulated other comprehensive loss, net of tax	(7,801)	(7,520)
Total stockholders' equity	7,860	9,268
Noncontrolling interest	27	92
Total equity	7,887	9,360
Total liabilities and equity	\$ 276,168	\$ 287,583

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2009	2008
	(Unaudited)	
<i>(In millions, except for share data)</i>		
Preferred Stock	\$	\$
Common Stock	4	3
Additional Paid-in Capital		
Balance at beginning of period	7,569	6,627
Issuance of shares under incentive and stock compensation plans	(51)	(50)
Reclassification of warrants from other liabilities to equity	93	
Tax (expense) benefit on employee stock options and awards	(11)	4
Balance at end of period	7,600	6,581
Retained Earnings		
Balance at beginning of period, before cumulative effect of accounting change, net of tax	11,336	14,686
Cumulative effect of accounting change, net of tax		(3)
Balance at beginning of period, as adjusted	11,336	14,683
Net income (loss)	(1,209)	145
Dividends declared on common stock	(16)	(167)
Balance at end of period	10,111	14,661
Treasury Stock, at Cost		
Balance at beginning of period	(2,120)	(1,254)
Issuance of shares under incentive and stock compensation plans from treasury stock	69	87
Return of shares under incentive and stock compensation plans to treasury stock	(3)	(17)
Balance at end of period	(2,054)	(1,184)
Accumulated Other Comprehensive Loss, Net of Tax		
Balance at beginning of period	(7,520)	(858)
Total other comprehensive loss	(281)	(1,367)
Balance at end of period	(7,801)	(2,225)
Total stockholders' equity	7,860	17,836
Noncontrolling interest (Note 13)		
Balance at beginning of period	92	92
Change in noncontrolling interest ownership	(64)	20

Noncontrolling loss	(1)	(23)
Balance at end of period	27	89
Total Equity	\$ 7,887	\$ 17,925

Outstanding Common Shares (in thousands)

Balance at beginning of period	300,579	313,842
Treasury stock acquired	(15)	
Conversion of preferred to common shares	24,194	
Issuance of shares under incentive and stock compensation plans	860	930
Return of shares under incentive and stock compensation plans to treasury stock	(183)	(237)
Balance at end of period	325,435	314,535

Condensed Consolidated Statements of Comprehensive Loss

<i>(In millions)</i>	Three Months Ended	
	March 31,	
	2009	2008
	<i>(Unaudited)</i>	
Comprehensive Income (Loss)		
Net income (loss)	\$ (1,209)	\$ 145
Other comprehensive income (loss)		
Change in net unrealized loss on securities	(33)	(1,606)
Change in net gain/loss on cash-flow hedging instruments	(48)	90
Change in foreign currency translation adjustments	(209)	142
Amortization of prior service cost and actuarial net losses included in net periodic benefit costs	9	7
Total other comprehensive loss	(281)	(1,367)
Total comprehensive loss	\$ (1,490)	\$ (1,222)

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>	Three Months Ended	
	2009	2008
	March 31,	
	(Unaudited)	
Operating Activities		
Net income (loss)	\$ (1,209)	\$ 145
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	2,259	468
Additions to deferred policy acquisition costs and present value of future profits	(734)	(956)
Change in:		
Reserve for future policy benefits and unpaid losses and loss adjustment expenses and unearned premiums	1,700	189
Reinsurance recoverables	(334)	54
Receivables and other assets	(21)	(60)
Payables and accruals	(396)	(525)
Accrued and deferred income taxes	(276)	(154)
Net realized capital (gains) losses	(84)	1,371
Net receipts to investment contracts related to policyholder funds		
International variable annuities	(387)	(3,175)
Net decrease in equity securities, held for trading	449	3,036
Depreciation and amortization	137	190
Goodwill impairment	32	
Other, net	(126)	(16)
Net cash provided by operating activities	1,010	567
Investing Activities		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	22,195	8,020
Equity securities, available-for-sale	311	48
Mortgage loans	27	118
Partnerships	153	28
Derivatives	610	144
Payments for the purchase of:		
Fixed maturities, available-for-sale	(22,655)	(9,038)
Equity securities, available-for-sale	(207)	(180)
Mortgage loans	(20)	(210)
Partnerships	(81)	(162)
Proceeds from business sold	8	
Purchase price of businesses acquired	(8)	(94)
Change in policy loans, net	11	(57)
Change in payables for collateral under securities lending, net	(1,450)	93
Change in all other securities, net	144	(463)
Additions to property and equipment, net	(49)	(67)

Net cash used for investing activities	(1,011)	(1,820)
<i>Financing Activities</i>		
Deposits and other additions to investment and universal life-type contracts	2,872	5,707
Withdrawals and other deductions from investment and universal life-type contracts	(4,715)	(6,499)
Net transfers from separate accounts related to investment and universal life-type contracts	2,136	1,677
Issuance of long-term debt		496
Payments on capital lease obligations	(24)	(26)
Change in short-term debt	(21)	
Proceeds from issuance of consumer notes		162
Repayments at maturity of consumer notes	(8)	
Proceeds from issuance of shares under incentive and stock compensation plans	7	19
Excess tax expense on stock-based compensation	(11)	
Return of shares under incentive and stock compensation plans to treasury stock	(3)	(17)
Dividends paid on preferred stock	(8)	
Dividends paid on common stock	(99)	(169)
Net cash provided by financing activities	126	1,350
Foreign exchange rate effect on cash	(85)	140
Net increase in cash	40	237
Cash beginning of period	1,811	2,011
Cash end of period	\$ 1,851	\$ 2,248
<i>Supplemental Disclosure of Cash Flow Information</i>		
<i>Net Cash Paid (Received) During the Period For:</i>		
Income taxes	\$ (598)	\$
Interest	\$ 70	\$ 45

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 March 31, 2009, and for the three months ended March 31, 2009 and 2008 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 2008 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; contingencies relating to corporate litigation and regulatory matters; and goodwill impairment. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the condensed consolidated financial statements.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements included in The Hartford s 2008 Form 10-K Annual Report.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Basis of Presentation and Accounting Policies (continued)

Adoption of New Accounting Standards

Fair Value Measurements

In February 2008, the Financial Accounting Standards Board (FASB) issued Financial Statement of Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2) which delays the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157) to fiscal year beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities. Examples of applicable nonfinancial assets and nonfinancial liabilities to which FSP FAS 157-2 applies include, but are not limited to:

Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination that are not subsequently remeasured at fair value;

Reporting units measured at fair value in the goodwill impairment test as described in SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), and nonfinancial assets and nonfinancial liabilities measured at fair value in the SFAS 142 goodwill impairment test, if applicable; and

Nonfinancial long-lived assets measured at fair value for impairment assessment under SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets.

The Company applied the provisions of SFAS 157 to the nonfinancial assets, nonfinancial liabilities and reporting units within the scope of FSP FAS 157-2 on January 1, 2009. The Company's adoption of FAS 157 did not materially impact the fair values of nonfinancial assets, nonfin