SAIA INC
Form 8-K
June 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): June 26, 2009

Saia, Inc.

(Exact name of registrant as specified in its charter)

Delaware	0-49983	48-1229851
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
11465 Johns Creek Parkway, Suite 400, Johns Creek, Georgia		30097
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code: 770-232-5067

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 1.01 Entry into a Material Definitive Agreement.

On June 26, 2009, Saia, Inc. (the "Company") entered into a Third Amended and Restated Credit Agreement with its banking group (the "Restated Credit Agreement") and an Amended and Restated Master Shelf Agreement with its long-term note holders (the "Restated Master Shelf Agreement" and together with the Restated Credit Agreement, the "Restated Agreements"). A copy of the press release announcing the new agreements is attached hereto as Exhibit 99.1.

Restated Credit Agreement

The Restated Credit Agreement continues to provide for a revolving credit facility of $160 million, subject to a borrowing base described below. Payments on borrowings under the Restated Credit Agreement are interest only until January 28, 2013, when the entire amount borrowed is due.

Under the Restated Credit Agreement, interest rate margins on revolving credit loans, fees on letters of credit and the unused portion fee increased from the interest rate margins and fees in place under the prior agreement, but continue to be based on the Company’s leverage ratio. Prior to the Restated Credit Agreement, the LIBOR rate margin and letter of credit fee ranged from 62.5 basis points to 162.5 basis points, the base rate margin ranged from minus 100 basis points to zero basis points and the unused portion fee ranged from 15 basis points to 25 basis points. Under the Restated Credit Agreement, the LIBOR rate margin and letter of credit fee range from 275 basis points to 400 basis points, the base rate margin ranges from 50 basis points to 175 basis points and the unused portion fee ranges from 40 basis points to 50 basis points, effective as of June 26, 2009. The Restated Credit Agreement provides for a 3.0% interest rate floor.

The Restated Credit Agreement provides relief from certain financial covenants through December 31, 2010. Under the Restated Credit Agreement, the Company is required to maintain (i) as of the last day of each fiscal quarter, (a) a minimum fixed charge coverage ratio of 1.05 to 1.00 until December 31, 2010 and 1.10 to 1.00 thereafter, (b) a maximum leverage ratio of 4.25 to 1.00 until March 31, 2010, 4.00 to 1.00 for the calculation dates of June 30, 2010 and September 30, 2010, 3.75 to 1.00 for the calculation date of December 31, 2010, and 3.25 to 1.00 thereafter, (c) an adjusted leverage ratio of 4.75 to 1.00 until March 31, 2010, 4.50 to 1.00 for the calculation dates of June 30, 2010 and September 30, 2010, 4.25 to 1.00 for the calculation date of December 31, 2010, and 3.75 to 1.00 thereafter and (ii) until implementation of the borrowing base, a minimum asset coverage ratio of 2.00 to 1.00.

Additionally, the Restated Credit Agreement requires the Company to maintain a tangible net worth of $145 million, plus 75% of positive net income from continuing operations, plus 75% of net proceeds from the issuance and sale of any equity interests of the Company, less any loss from discontinued operations, in each case commencing with the quarter ended June 30, 2009.

The Restated Credit Agreement also provides for a pledge by the Company and its subsidiaries of at least 12 freight terminals, rolling stock in an amount equal to at least 85% of the orderly liquidation value of the Company’s rolling stock, the Company’s accounts receivable and certain other personal property.

Total bank commitments under the Restated Credit Agreement remain at $160 million but are now subject to a borrowing base calculated as follows: 80% of eligible accounts receivable; plus 75% of the orderly liquidation value of rolling stock perfected by title liens; plus 75% of the depreciated book value of rolling stock acquired after June 26, 2009 and perfected by title lien; plus 75% of the fair market value of pledged real estate. The accordion provision in the prior credit agreement that gave the Company the ability to request a $100 million increase in the amount of the revolving credit commitments was removed in the Restated Credit Agreement.

The Restated Credit Agreement provides that if the Company prepays any portion of principal of the term notes under the Restated Master Shelf Agreement prior to December 31, 2010 (other than any regularly scheduled payments of principal), the revolving credit commitments in the Restated Credit Agreement will be reduced by the amount of the prepayment.

Restated Master Shelf Agreement

The Restated Master Shelf Agreement amends and restates the Company’s existing master shelf agreement pursuant to which the Company issued 7.38% Senior Notes, Series A, due December 31, 2013 in the aggregate principal amount of $100 million, 6.14% Senior Notes, Series B, due December 31, 2017 in the aggregate principal amount of $25 million and 6.17% Senior Notes, Series C, due December 31, 2017 in the aggregate principal amount of $25 million (collectively, the "Notes"). The Note maturities were not changed by the Restated Master Shelf Agreement.

The interest rates on the Notes remain unchanged. However, if the holders of a majority of the principal amount of any series of Notes are required by applicable insurance regulations for U.S. life and health insurance companies to increase the amount of reserves with respect to such Notes above the amount of reserves required as of June 26, 2009, then the per annum interest rate on such Notes shall increase by 150 basis points until such time as the amount of reserves required with respect to such Notes decreases to the amount required initially.

The amendments included in the Restated Master Shelf Agreement modify the financial covenants to match the covenants now included in the Restated Credit Agreement as set forth above. The Restated Master Shelf Agreement further provides that note holders share equally in the collateral granted by the Company to the lenders under the Revolving Credit Facility. In the event the revolving credit commitments under the Restated Credit Agreement are permanently reduced prior to December 31, 2010, the Company will be required to prepay the principal amount of the Notes in an amount equal to such permanent reduction.

The Company paid an aggregate of $1.4 million, or 50 basis points, in fees to the lenders and note holders and incurred other customary fees and expenses in connection with the Restated Agreements.

Both the Restated Credit Agreement and the Restated Master Shelf Agreement contain restrictive covenants that may limit the Company's ability to, among other things, incur additional indebtedness, sell assets, make loans to others, make investments, enter into mergers or make acquisitions, incur liens and engage in certain other transactions without the prior consent of the lenders and note holders. Except for limited exceptions, the Restated Agreements restrict the ability of the Company to pay dividends or distributions on its common stock or repurchase common stock. The Restated Agreements also contain customary events of default and remedies upon default.

The foregoing descriptions of the Restated Credit Agreement and the Restated Master Shelf Agreement do not purport to be complete and are qualified in their entirety by reference to the full text of each Agreement, copies of which are filed herewith as Exhibits 10.1 and 10.2, respectively, and are incorporated herein by reference.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

See disclosure contained in Item 1.01 above, which is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

10.1 Third Amended and Restated Credit Agreement dated as of June 26, 2009, by and among Saia, Inc., Bank of Oklahoma, N.A., as Lead Arranger, Administrative Agent and Collateral Agent, Bank of America, N.A., as Syndication Agent, U.S. Bank National Association, as Documentation Agent and the Banks named therein.

10.2 Amended and Restated Master Shelf Agreement dated as of June 26, 2009, between Saia, Inc., Prudential Investment Management, Inc., The Prudential Insurance Company of America, Pruco Life Insurance Company and the Purchasers named therein.

99.1 Press release dated June 29, 2009

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	Saia, Inc.
June 30, 2009	*By: Stephanie R. Maschmeier*
	Name: Stephanie R. Maschmeier *Title: Controller*

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Exhibit Index

Exhibit No.	Description
10.1	Third Amended and Restated Credit Agreement dated as of June 26, 2009, by and among Saia, Inc., Bank of Oklahoma, N.A., as Lead Arranger, Administrative Agent and Collateral Agent, Bank of America, N.A., as Syndication Agent, U.S. Bank National Association, as Documentation Agent and the Banks named therein
10.2	Amended and Restated Master Shelf Agreement dated as of June 26, 2009, between Saia, Inc., Prudential Investment Management, Inc., The Prudential Insurance Company of America, Pruco Life Insurance Company and the Purchasers named therein
99.1	Press release dated June 29, 2009

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Total
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771

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526

$
448

$
429

$
666

$
575

$
4,535

$
4,668

Credit
protection
29.7%

23.4%

23.3%

16.8%

9.2%

23.7%

[1] The vintage year represents the year the pool of loans was originated.

The Company also has exposure to CRE CDOs with an amortized cost and fair value of $338 and $397, respectively, as of September 30, 2013 and $420 and $384 respectively, as of December 31, 2012. These securities are comprised of diversified pools of commercial mortgage loans or equity positions of other CMBS securitizations. Although the Company does not plan to invest in this asset class going forward, we continue to monitor these investments as economic and market uncertainties regarding future performance impact market liquidity and security premiums.

In addition to CMBS bonds and CRE CDOs, the Company has exposure to commercial mortgage loans as presented in the following table. These loans are collateralized by a variety of commercial properties and are diversified both geographically throughout the United States and by property type. These loans may be either in the form of a whole loan, where the Company is the sole lender, or a loan participation. Loan participations are loans where the Company has purchased or retained a portion of an outstanding loan or package of loans and participates on a pro-rata basis in collecting interest and principal pursuant to the terms of the participation agreement. In general, A-Note participations have senior payment priority, followed by B-Note participations and then mezzanine loan participations. As of September 30, 2013, loans within the Company's mortgage loan portfolio that have had extensions or restructurings, other than what is allowable under the original terms of the contract, are immaterial.

Commercial Mortgage Loans

	September 30, 2013			December 31, 2012		
	Amortized Cost [1]	Valuation Allowance	Carrying Value	Amortized Cost [1]	Valuation Allowance	Carrying Value
Agricultural	$138	$(8)	$130	$150	$(8)	$142
Whole loans	5,176	(9)	5,167	6,023	(10)	6,013
A-Note participations	192	—	192	255	—	255

B-Note participations	117	(50)	67	263	(50)	213
Mezzanine loans	19	—	19	88	—	88
Total	$5,642	$(67)	$5,575	$6,779	$(68)	$6,711

[1] Amortized cost represents carrying value prior to valuation allowances, if any.

The overall decrease in mortgage loans is attributed to the sales of the Retirement Plans and Individual Life businesses in January 2013. Refer to Note 2 - Business Dispositions of the Notes to Condensed Consolidated Financial Statements for further discussion of this transaction. Since December 31, 2012, the Company funded $955 of commercial whole loans with a weighted average loan-to-value (“LTV”) ratio of 63% and a weighted average yield of 3.59%. The Company continues to originate commercial whole loans within primary markets, office, industrial and multi-family, focusing on loans with strong LTV ratios and high quality property collateral. As of September 30, 2013, the Company had mortgage loans held-for-sale with a carrying value and valuation allowance of $47 and $3, respectively, and $47 and $3, respectively, as of December 31, 2012.

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Municipal Bonds

The following table summarizes the amortized cost, fair value, and weighted average credit quality of the Company's investments in securities backed by states, municipalities and political subdivisions (“municipal bonds”).

	September 30, 2013			December 31, 2012		
	Amortized Cost	Market Value	Weighted Average Credit Quality	Amortized Cost	Market Value	Weighted Average Credit Quality
General Obligation	$2,398	$2,500	AA	$2,947	$3,293	AA
Pre-Refunded [1]	615	655	AAA	629	678	AAA
Revenue						
Transportation	1,903	1,909	A	1,652	1,799	A+
Water & Sewer	1,430	1,463	AA-	1,380	1,531	AA
Health Care	1,321	1,358	AA	1,302	1,443	AA-
Education	1,127	1,159	AA	1,288	1,446	AA
Leasing [2]	903	933	AA-	1,028	1,133	A+
Sales Tax	811	824	AA	862	966	AA
Power	750	768	A+	892	976	A+
Housing	236	231	AA-	333	344	AA-
Other	741	743	A+	688	752	AA-
Total Revenue	9,222	9,388	AA-	9,425	10,390	AA-
Total Municipal	$12,235	$12,543	AA-	$13,001	$14,361	AA-

[1] Pre-refunded bonds are bonds for which an irrevocable trust containing sufficient U.S. treasury, agency, or other securities has been established to fund the remaining payment of principal and interest.

[2] Leasing revenue bonds are generally the obligations of a financing authority established by the municipality that leases municipal facilities to a municipality. The notes are typically secured by lease payments made by the municipality that is leasing the facilities financed by the issue. Lease payments may be subject to annual appropriation by the municipality or the municipality may be obligated to appropriate general tax revenues to make lease payments.

As of September 30, 2013 and December 31, 2012, the largest issuer concentrations were the states of California, Illinois and Massachusetts, which each comprised less than 3% of the municipal bond portfolio.

Limited Partnerships and Other Alternative Investments

The following table presents the Company’s investments in limited partnerships and other alternative investments which include hedge funds, mortgage and real estate funds, mezzanine debt funds, and private equity and other funds. Hedge funds include investments in funds of funds and direct funds. These hedge funds invest in a variety of strategies including global macro and long/short credit and equity. Mortgage and real estate funds consist of investments in funds whose assets consist of mortgage loans, mortgage loan participations, mezzanine loans or other notes which may be below investment grade, as well as equity real estate and real estate joint ventures. Mezzanine debt funds include investments in funds whose assets consist of subordinated debt that often incorporates equity-based options such as warrants and a limited amount of direct equity investments. Private equity and other funds primarily consist of investments in funds whose assets typically consist of a diversified pool of investments in small to mid-sized non-public businesses with high growth potential.

	September 30, 2013		December 31, 2012	
	Amount	Percent	Amount	Percent
Hedge funds	$1,375	45.0 %	$1,309	43.4 %
Mortgage and real estate funds	525	17.2 %	501	16.6 %
Mezzanine debt funds	93	3.0 %	108	3.6 %
Private equity and other funds	1,066	34.8 %	1,097	36.4 %
Total	$3,059	100 %	$3,015	100 %

Since December 31, 2012, the increase in hedge funds largely relates to the reinvestment of proceeds due to sales of underlying funds.

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Available-for-Sale Securities — Unrealized Loss Aging

The total gross unrealized losses were $1.3 billion as of September 30, 2013, and have increased $271, or 26%, from December 31, 2012 primarily due to an increase in interest rates.

As of September 30, 2013, $1.0 billion of the gross unrealized losses were associated with securities depressed less than 20% of cost or amortized cost.

The remaining $332 of gross unrealized losses were associated with securities depressed greater than 20%, which includes $11 associated with securities depressed over 50% for twelve months or more. The securities depressed more than 20% are primarily foreign government securities, floating rate corporate financial securities, securities with exposure to commercial and residential real estate, U.S. treasuries, as well as ABS backed by small business and student loans that have market spreads that continue to be wider than the spreads at the securities' respective purchase dates. The unrealized losses remain largely due to the continued market and economic uncertainties surrounding financial services, residential and certain commercial real estate and ABS student loans. Based upon the Company's cash flow modeling and current market and collateral performance assumptions, these securities have sufficient credit protection levels to receive contractually obligated principal and interest payments. Also included in the gross unrealized losses depressed greater than 20% are financial services securities that have a floating-rate coupon and/or long-dated maturities.

As part of the Company's ongoing security monitoring process, the Company has reviewed its AFS securities in an unrealized loss position and concluded that there were no additional impairments as of September 30, 2013 and that these securities are temporarily depressed and are expected to recover in value as the securities approach maturity or as market spreads continue to improve. For these securities in an unrealized loss position where a credit impairment has not been recorded, the Company's best estimate of expected future cash flows are sufficient to recover the amortized cost basis of the security. Furthermore, the Company neither has an intention to sell nor does it expect to be required to sell these securities. For further information regarding the Company's impairment analysis, see Other-Than-Temporary Impairments in the Investment Portfolio Risks and Risk Management section of this MD&A.

The following table presents the Company's unrealized loss aging for AFS securities by length of time the security was in a continuous unrealized loss position.

	September 30, 2013				December 31, 2012			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	1,086	$3,696	$3,631	$(65)	771	$3,964	$3,893	$(71)
Greater than three to six months	1,283	10,770	10,253	(517)	306	764	730	(34)
Greater than six to nine months	202	537	489	(48)	183	157	142	(15)
Greater than nine to eleven months	132	951	838	(113)	64	96	90	(6)
Twelve months or more	587	6,093	5,497	(590)	687	7,850	6,894	(936)
Total	3,290	$22,047	$20,708	$(1,333)	2,011	$12,831	$11,749	$(1,062)

[1] Unrealized losses exclude the fair value of bifurcated embedded derivative features of certain securities as changes in value are recorded in net realized capital gains (losses).

The following tables present the Company's unrealized loss aging for AFS securities continuously depressed over 20% by length of time (included in the table above).

	September 30, 2013				December 31, 2012			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [2]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	59	$321	$242	$(79)	68	$54	$36	$(18)
	37	617	478	(139)	27	22	16	(6)

Greater than three to six months								
Greater than six to nine months	12	10	7	(3)	20	72	55	(17)
Greater than nine to eleven months	5	—	—	—	12	33	25	(8)
Twelve months or more	81	332	221	(111)	157	1,329	877	(452)
Total	194	$ 1,280	$ 948	$ (332)	284	$ 1,510	$ 1,009	$ (501)

[1] Unrealized losses exclude the fair value of bifurcated embedded derivative features of certain securities as changes in value are recorded in net realized capital gains (losses).

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The following tables present the Company's unrealized loss aging for AFS securities continuously depressed over 50% by length of time (included in the tables above).

	September 30, 2013				December 31, 2012			
Consecutive Months	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]	Items	Cost or Amortized Cost	Fair Value	Unrealized Loss [1]
Three months or less	5	$ 2	$ 1	$ (1)	20	$ 48	$ 22	$ (26)
Greater than three to six months	6	6	3	(3)	4	1	—	(1)
Greater than six to nine months	1	—	—	—	4	2	—	(2)
Greater than nine to eleven months	5	1	—	(1)	7	1	—	(1)
Twelve months or more	15	19	8	(11)	27	147	57	(90)
Total	32	$ 28	$ 12	$ (16)	62	$ 199	$ 79	$ (120)

[1] Unrealized losses exclude the fair value of bifurcated embedded derivative features of certain securities as changes in value are recorded in net realized capital gains (losses).

Other-Than-Temporary Impairments

The following table presents the Company's impairments recognized in earnings by security type.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
ABS	$—	$—	$ 4	$ 25
CRE CDOs	—	7	2	10
CMBS				
Bonds	8	19	17	24
IOs	1	1	2	1
Corporate	5	4	15	28
Equity	7	4	13	65
RMBS sub-prime	5	2	6	10
Other	—	—	—	1
Total	$ 26	$ 37	$ 59	$ 164

Three and nine months ended September 30, 2013

For the three and nine months ended September 30, 2013, impairments recognized in earnings were comprised of securities the Company intends to sell of $16 and $21, respectively, impairments on equity securities of $7 and $13, respectively, and credit impairments of $3 and $25, respectively.

For the three months ended September 30, 2013, credit impairments were primarily concentrated in private placement and CMBS interest only securities. For the nine months ended September 30, 2013, credit impairments were primarily concentrated in corporate and fixed-rate CMBS bonds and equity securities. The corporate bonds were impaired due to two issuers that have experienced financial difficulty and either defaulted on a payment of interest or it is more-likely-than-not that the issuer will not be able to repay a portion of the principal and interest that are owed to the Company. The structured securities were impaired primarily due to actual performance or property-specific deterioration of the underlying collateral. The Company calculated these impairments utilizing both a top down modeling approach and a security-specific collateral review. The top down modeling approach used discounted cash flow models that considered losses under current and expected future economic conditions. Assumptions used over the current period included macroeconomic factors, such as an elevated unemployment rate, as well as sector specific factors such as property values, delinquency levels, servicer behavior and severity rates. The macroeconomic assumptions considered by the Company did not materially change for the three and nine months ended September 30, 2013, and, as such, the credit impairments recognized were primarily driven by actual collateral deterioration, largely

as a result of the Company’s security-specific collateral review.
The security-specific collateral review is performed to estimate potential future losses. This review incorporates assumptions about expected future collateral cash flows, including projected default rates and severities. The results of the security-specific collateral review allowed the Company to estimate the expected timing of a security's first loss, if any, and the probability and severity of potential ultimate losses. The Company then discounted these anticipated future cash flows at the security's book yield prior to impairment.
For the nine months ended September 30, 2013, impairments on equity securities were comprised of three securities that have been in an unrealized loss position and the Company no longer believes that the securities will recover within the foreseeable future. Intent-to-sell impairments were primarily related to structured securities with exposure to commercial and residential real estate and corporate securities, as a result of the Company's desire to reduce exposure to certain higher risk securities that are currently trading at relatively attractive valuations.

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In addition to the credit impairments recognized in earnings, the Company recognized non-credit impairments in other comprehensive income of $(2) and $(19), for the three and nine months ended September 30, 2013, respectively, predominantly concentrated in corporate financial services and RMBS. These non-credit impairments represent the difference between fair value and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to impairment, rather than at current market implied credit spreads. These non-credit impairments primarily represent increases in market liquidity premiums and credit spread widening that occurred after the securities were purchased, as well as a discount for variable-rate coupons which are paying less than at purchase date. In general, larger liquidity premiums and wider credit spreads are the result of deterioration of the underlying collateral performance of the securities.

Future impairments may develop as the result of changes in intent to sell of specific securities or if actual results underperform current modeling assumptions, which may be the result of, but are not limited to, macroeconomic factors and security-specific performance below current expectations. Ultimate loss formation will be a function of macroeconomic factors and idiosyncratic security-specific performance.

Three and nine months ended September 30, 2012

Impairments recognized in earnings were comprised of credit impairments of $14 and $40, respectively, impairments on equity securities of $4 and $63, respectively, and securities that the Company intends to sell of $19 and $61. Credit impairments primarily related to structured securities associated with residential and commercial real estate, as well as ABS small business. Impairments on equity securities comprised of below investment grade preferred stock that were depressed greater than 20% for more than six months. Impairments on securities for which the Company has the intent-to-sell primarily related to European corporate debt where the Company would like the ability to reduce certain exposures, as well as high risk CMBS bonds and ABS collateralized by student loans.

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CAPITAL RESOURCES AND LIQUIDITY

The following section discusses the overall financial strength of The Hartford and its insurance operations including their ability to generate cash flows from each of their business segments, borrow funds at competitive rates and raise new capital to meet operating and growth needs over the next twelve months.

Liquidity Requirements and Sources of Capital

The Hartford Financial Services Group, Inc. (Holding Company)

The liquidity requirements of the holding company of The Hartford Financial Services Group, Inc. (“HFSG Holding Company”) have been and will continue to be met by HFSG Holding Company’s fixed maturities, short-term investments and cash, dividends from its insurance operations, as well as the issuance of common stock, debt or other capital securities and borrowings from its credit facilities, as needed.

As of September 30, 2013, HFSG Holding Company held fixed maturities, short-term investments and cash of $1.8 billion. On February 22, 2013, following extraordinary dividend approval from the State of Connecticut Insurance Department, $1.2 billion was distributed to the HFSG Holding Company from its Connecticut domiciled life insurance subsidiaries. In addition, the Company's Vermont life reinsurance captive returned approximately $340 of capital to the HFSG Holding Company.

The Hartford has an intercompany liquidity agreement that allows for short-term advances of funds among the HFSG Holding Company and certain affiliates of up to $2.0 billion for liquidity and other general corporate purposes. The Connecticut Insurance Department granted approval for certain affiliated insurance companies that are parties to the agreement to treat receivables from a parent, including the HFSG Holding Company, as admitted assets for statutory accounting purposes. On April 29, 2013 Hartford Life Insurance Company, a subsidiary of the Company, issued a Revolving Note (the "Note") in the principal amount of $100 to Hartford Life and Accident Insurance Company, a subsidiary of the Company, under the intercompany liquidity agreement. The Note bears interest at 0.92% and matures on April 29, 2014. On May 29, 2013 Hartford Life and Annuity Insurance Company, a subsidiary of the Company, issued a Note in the principal amount of $225 to Hartford Life and Accident Insurance Company, under the intercompany liquidity agreement. The Note bears interest at 1.00% and matures on May 29, 2014.

Hartford Life and Annuity Insurance Company ("HLAI"), an indirect wholly-owned subsidiary of the Company, cedes certain variable annuity contracts and their associated riders as well as certain payout annuities issued by HLAI or assumed by it to White River Life Reinsurance Company ("WRR"), an affiliate captive reinsurer. This arrangement provides the Company with a vehicle to provide more efficient financing of the risk associated with this business with internal funds. The reinsurance arrangement between HLAI and WRR does not impact the Company's reserving methodology or the amount of required regulatory capital associated with the reinsured business. The effects of this intercompany arrangement are eliminated in consolidation.

Pursuant to an intercompany note agreement between WRR and HFSG Holding Company, WRR may borrow up to $1 billion from the HFSG Holding Company in order to maintain certain statutory capital levels required by its plan of operations and which can be used by WRR to settle outstanding intercompany payables with HLAI. WRR has borrowed $655 under the intercompany note agreement as of September 30, 2013 and December 30, 2012. The effects of this intercompany arrangement are eliminated in consolidation.

On January 31, 2013, the Board of Directors authorized a capital management plan which provides for a $500 equity repurchase program to be completed by December 31, 2014 and for the reduction of approximately $1.0 billion of debt including repayment of $320 of 4.625% senior notes due in July 2013 and $200 of 4.75% senior notes due in March 2014. In June 2013, the Board of Directors approved a $750 increase in the Company's 2013-2014 equity repurchase program, bringing the total authorization to $1.25 billion. On July 15, 2013, the Company repaid the 4.625% senior notes upon maturity. For additional information regarding debt, see Note 16 - Debt of Notes to Condensed Consolidated Financial Statements.

Expected liquidity requirements of the HFSG Holding Company for the next twelve months include interest on debt of approximately $380 and common stockholder dividends, subject to the discretion of the Board of Directors, of approximately $260.

Equity

During the nine months ended September 30, 2013, the Company repurchased 12.7 million common shares for $375, and 1.6 million warrants for $33 under the equity repurchase program. In addition, the Company repurchased 1.8 million common shares, for $60, from October 1, 2013 to October 24, 2013.

Debt

On April 15, 2013, the Company issued $300 aggregate principal amount of 4.3% Senior Notes (the "4.3% Notes") due April 15, 2043. For additional information regarding debt, see Note 16 - Debt of Notes to Condensed Consolidated Financial Statements.

Dividends

On May 16, 2013, The Hartford's Board of Directors declared a quarterly dividend of $0.10 per common share payable on July 1, 2013 to common shareholders of record as of June 3, 2013.

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On July 24, 2013, The Hartford's Board of Directors declared a quarterly dividend of $0.15 per common share payable on October 1, 2013 to common shareholders of record as of September 3, 2013.

On October 24, 2013, The Hartford's Board of Directors declared a quarterly dividend of $0.15 per common share payable on January 2, 2014 to common shareholders of record as of December 2, 2013.

There are no current restrictions on the HFSG Holding Company's ability to pay dividends to its shareholders. For a discussion of restrictions on dividends to the HFSG Holding Company from its insurance subsidiaries, see "Dividends from Insurance Subsidiaries" below. For a discussion of potential restrictions on the HFSG Holding Company's ability to pay dividends, see the risk factor "Our ability to declare and pay dividends is subject to limitations" in Item 1A of Part I of the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Pension Plans and Other Postretirement Benefits

While the Company has significant discretion in making voluntary contributions to the Plan, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006, the Worker, Retiree, and Employer Recovery Act of 2008, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010, the Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21), and Internal Revenue Code regulations mandate minimum contributions in certain circumstances. The Company does not have a required minimum funding contribution for the U.S. qualified defined benefit pension plan for 2013 and the funding requirements for all of the pension plans is expected to be immaterial. The Company presently anticipates contributing approximately $100 in 2013 to its pension plans, based upon certain economic and business assumptions. These assumptions include, but are not limited to, equity market performance, changes in interest rates and the Company’s other capital requirements.

Dividends from Insurance Subsidiaries

Dividends to the HFSG Holding Company from its insurance subsidiaries are limited by state regulation. The payment of dividends by Connecticut-domiciled insurers, including dividends associated with the proceeds from a sale of any of our life businesses, is limited under the insurance holding company laws of Connecticut. These laws require notice to and approval by the state insurance commissioner for the declaration or payment of any dividend, which, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the insurer’s policyholder surplus as of December 31 of the preceding year or (ii) net income (or net gain from operations, if such company is a life insurance company) for the twelve-month period ending on the thirty-first day of December last preceding, in each case determined under statutory insurance accounting principles. In addition, if any dividend of a Connecticut-domiciled insurer exceeds the insurer’s earned surplus, it requires the prior approval of the Connecticut Insurance Commissioner. The insurance holding company laws of the other jurisdictions in which The Hartford’s insurance subsidiaries are incorporated (or deemed commercially domiciled) generally contain similar (although in certain instances somewhat more restrictive) limitations on the payment of dividends. Dividends paid to HFSG Holding Company by its life insurance subsidiaries are further dependent on cash requirements of HLI and other factors. The Company’s property-casualty insurance subsidiaries are permitted to pay up to a maximum of approximately $1.4 billion in dividends to HFSG Holding Company in 2013 without prior approval from the applicable insurance commissioner. The life insurance subsidiaries' dividend limitation under the holding company laws of Connecticut is $577 in 2013. However, because the life insurance subsidiaries' earned surplus is negative as of December 31, 2012, the life insurance subsidiaries will not be permitted to pay any dividends in 2013 without prior approval from the Connecticut Insurance Commissioner. In addition to statutory limitations on paying dividends, the Company also takes other items into consideration when determining dividends from subsidiaries. These considerations include, but are not limited to expected earnings and capitalization of the subsidiary, regulatory capital requirements and liquidity requirements of the individual operating company. On February 5, 2013 the Company received approval from the State of Connecticut Insurance Department for a $1.2 billion extraordinary dividend from its Connecticut domiciled life insurance subsidiaries. This dividend was paid on February 22, 2013. For the nine months ended September 30, 2013, HFSG Holding Company received $711 in dividends from its property-casualty insurance subsidiaries, including dividends of $112 to fund interest payments on an intercompany note between Hartford Holdings, Inc. and Hartford Fire Insurance Company.

Other Sources of Capital for the HFSG Holding Company

The Hartford endeavors to maintain a capital structure that provides financial and operational flexibility to its insurance subsidiaries, ratings that support its competitive position in the financial services marketplace (see the "Ratings" section below for further discussion), and shareholder returns. As a result, the Company may from time to time raise capital from the issuance of equity, equity-related debt or other capital securities and is continuously evaluating strategic opportunities. The issuance of common equity, equity-related debt or other capital securities could result in the dilution of shareholder interests or reduced net income due to additional interest expense.

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Shelf Registrations

On August 9, 2013, The Hartford filed with the Securities and Exchange Commission (the “SEC”) an automatic shelf registration statement (Registration No. 333-190506) for the potential offering and sale of debt and equity securities. The registration statement allows for the following types of securities to be offered: debt securities, junior subordinated debt securities, preferred stock, common stock, depositary shares, warrants, stock purchase contracts, and stock purchase units. In that The Hartford is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act of 1933, the registration statement went effective immediately upon filing and The Hartford may offer and sell an unlimited amount of securities under the registration statement during the three-year life of the registration statement.

Contingent Capital Facility

The Hartford is party to a put option agreement that provides The Hartford with the right to require the Glen Meadow ABC Trust, a Delaware statutory trust, at any time and from time to time, to purchase The Hartford’s junior subordinated notes in a maximum aggregate principal amount not to exceed $500. Under the Put Option Agreement, The Hartford will pay the Glen Meadow ABC Trust premiums on a periodic basis, calculated with respect to the aggregate principal amount of Notes that The Hartford had the right to put to the Glen Meadow ABC Trust for such period. The Hartford has agreed to reimburse the Glen Meadow ABC Trust for certain fees and ordinary expenses. The Company holds a variable interest in the Glen Meadow ABC Trust where the Company is not the primary beneficiary. As a result, the Company did not consolidate the Glen Meadow ABC Trust. As of September 30, 2013, The Hartford has not exercised its right to require Glen Meadow ABC Trust to purchase the Notes. As a result, the Notes remain a source of capital for the HFSG Holding Company.

Commercial Paper and Revolving Credit Facility

Commercial Paper

While The Hartford’s maximum borrowings available under its commercial paper program are $2.0 billion, the Company is dependent upon market conditions to access short-term financing through the issuance of commercial paper to investors. As of September 30, 2013 there is no commercial paper outstanding.

Revolving Credit Facilities

The Company has a senior unsecured revolving credit facility (the “Credit Facility”) that provides for borrowing capacity up to $1.75 billion (which is available in U.S. dollars, and in Euro, Sterling, Canadian dollars and Japanese Yen) through January 6, 2016. As of September 30, 2013 there are no borrowings outstanding under the Credit Facility. Of the total availability under the Credit Facility, up to $250 is available to support letters of credit issued on behalf of the Company or subsidiaries of the Company. Under the Credit Facility, the Company must maintain a minimum level of consolidated net worth of $14.9 billion. The definition of consolidated net worth under the terms of the Credit Facility, excludes AOCI and includes the Company’s outstanding junior subordinated debentures and perpetual preferred securities, net of discount. In addition, the Company’s maximum ratio of consolidated total debt to consolidated total capitalization is 35%, and the ratio of consolidated total debt of subsidiaries to consolidated total capitalization is limited to 10%. As of September 30, 2013, the Company was in compliance with all financial covenants under the Credit Facility.

The Hartford’s Japan operations also maintain two lines of credit in support of operations. Both lines of credit are in the amount of approximately $50, or ¥5 billion, and individually have expiration dates of January 4, 2014 and September 30, 2014.

Derivative Commitments

Certain of the Company’s derivative agreements contain provisions that are tied to the financial strength ratings of the individual legal entity that entered into the derivative agreement as set by nationally recognized statistical rating agencies. If the legal entity’s financial strength were to fall below certain ratings, the counterparties to the derivative agreements could demand immediate and ongoing full collateralization and in certain instances demand immediate settlement of all outstanding derivative positions traded under each impacted bilateral agreement. The settlement amount is determined by netting the derivative positions transacted under each agreement. If the termination rights were to be exercised by the counterparties, it could impact the legal entity’s ability to conduct hedging activities by increasing the associated costs and decreasing the willingness of counterparties to transact with the legal entity. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position as of September 30, 2013 is $1.1 billion. Of this $1.1 billion, the legal entities have posted collateral of $1.3 billion in the normal course of business. In addition, the Company has posted collateral of $44 associated with a customized GMWB derivative. Based on derivative market values as of September 30, 2013 a downgrade of one level below the current financial strength ratings by either Moody's or S&P could require approximately an additional $6 to be posted as collateral. Based on derivative market values as of September 30, 2013 a downgrade by either Moody's or S&P of two levels below the legal entities' current financial strength ratings could require approximately an additional $27 of assets to be posted as collateral. These collateral amounts could change as derivative market values change, as a result of changes in our hedging activities or to the extent changes in contractual terms are negotiated. The nature of the collateral that we would post, if required, would be primarily in the form of U.S. Treasury bills, U.S. Treasury notes and government agencies.

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As of September 30, 2013 the aggregate notional amount and fair value of derivative relationships that could be subject to immediate termination in the event of rating agency downgrades to either BBB+ or Baa1 was $656 and $(15), respectively. In addition, the Company holds notional and fair value amounts of $3.8 billion, and $69, respectively, of a customized GMWB derivative which contains an early termination trigger.

On June 17, 2013 S&P lowered its counterparty credit and insurer financial strength ratings on Hartford Life Insurance Company to BBB+. Given this downgrade action, termination rating triggers of one derivative counterparty relationship were impacted. This counterparty has the right to terminate this relationship and would have to settle the outstanding derivatives prior to exercising its termination right. The Company is in the process of re-negotiating the rating trigger which it expects to successfully complete. Accordingly, the Company's hedging programs have not been adversely impacted by the announcement of the downgrade of Hartford Life Insurance Company. As of September 30, 2013 the notional amount and fair value related to this counterparty is $1.3 billion and $(6), respectively.

Insurance Operations

Current and expected patterns of claim frequency and severity or surrenders may change from period to period but continue to be within historical norms and, therefore, the Company’s insurance operations’ current liquidity position is considered to be sufficient to meet anticipated demands over the next twelve months, including any obligations related to the Company’s restructuring activities. For a discussion and tabular presentation of the Company’s current contractual obligations by period, refer to Off-Balance Sheet Arrangements and Aggregate Contractual Obligations within the Capital Resources and Liquidity section of the MD&A included in The Hartford’s 2012 Form 10-K Annual Report.

The principal sources of operating funds are premiums, fees earned from assets under management and investment income, while investing cash flows originate from maturities and sales of invested assets. The primary uses of funds are to pay claims, claim adjustment expenses, commissions and other underwriting expenses, to purchase new investments and to make dividend payments to the HFSG Holding Company.

The Company’s insurance operations consist of property and casualty insurance products (collectively referred to as “Property & Casualty Operations”) and life insurance and legacy annuity products (collectively referred to as “Life Operations”).

Property & Casualty Operations

Property & Casualty Operations holds fixed maturity securities including a significant short-term investment position (securities with maturities of one year or less at the time of purchase) to meet liquidity needs.

As of September 30, 2013 Property & Casualty Operations’ fixed maturities, short-term investments, and cash are summarized as follows:

Fixed maturities	$24,905
Short-term investments	801
Cash	175
Less: Derivative collateral	230
Total	$25,651

Liquidity requirements that are unable to be funded by Property & Casualty Operation’s short-term investments would be satisfied with current operating funds, including premiums received or through the sale of invested assets. A sale of invested assets could result in significant realized losses.

Life Operations

Life Operations’ total general account contractholder obligations are supported by $52 billion of cash and total general account invested assets, excluding equity securities, trading, which includes a significant short-term investment position to meet liquidity needs.

As of September 30, 2013 Life Operations’ fixed maturities, short-term investments, and cash are summarized as follows:

Fixed maturities	$39,013
Short-term investments	2,624
Cash	1,270
Less: Derivative collateral	1,325

Less: Cash associated with Japan variable annuities	431
Total	$41,151

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Capital resources available to fund liquidity, upon contractholder surrender, are a function of the legal entity in which the liquidity requirement resides. Generally, obligations of Group Benefits will be funded by Hartford Life and Accident Insurance Company. Obligations of Talcott Resolution will generally be funded by Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company, while obligations of the Company's international annuity subsidiaries will generally be funded by the legal entity in the country in which the obligation was generated. Contractholder obligations of the former Retirement Plans business were funded by Hartford Life Insurance Company and of the former Individual Life business were funded by both Hartford Life Insurance Company and Hartford Life and Annuity Insurance Company. See Note 2 - Business Dispositions of Notes to the Condensed Consolidated Financial Statements as to the sale of the Retirement Plans and Individual Life businesses and related transfer of invested assets in January 2013.

Hartford Life Insurance Company ("HLIC"), an indirect wholly-owned subsidiary, is a member of the Federal Home Loan Bank of Boston ("FHLBB"). Membership allows HLIC access to collateralized advances, which may be used to support various spread-based businesses or to enhance liquidity management. The Connecticut Department of Insurance ("CTDOI") will permit HLIC to pledge up to $1.25 billion in qualifying assets to secure FHLBB advances for 2013. The amount of advances that can be taken are dependent on the asset types pledged to secure the advances. The pledge limit is recalculated annually based on statutory admitted assets and capital and surplus. HLIC would need to seek the prior approval of the CTDOI if there were a desire to exceed these limits. As of September 30, 2013, HLIC had no advances outstanding under the FHLBB facility.

Contractholder Obligations	September 30, 2013
Total Life contractholder obligations	$223,993
Less: Separate account assets [1]	139,876
International statutory separate accounts [1]	24,064
General account contractholder obligations	$60,052
Composition of General Account Contractholder Obligations	
Contracts without a surrender provision and/or fixed payout dates [2]	$27,891
U.S. Fixed MVA annuities and Other [3]	10,455
International Fixed MVA annuities	1,654
Guaranteed investment contracts ("GIC") [4]	76
Other [5]	19,975
General account contractholder obligations	$60,052

[1] In the event customers elect to surrender separate account assets or international statutory separate accounts, Life Operations will use the proceeds from the sale of the assets to fund the surrender, and Life Operations' liquidity position will not be impacted. In many instances Life Operations will receive a percentage of the surrender amount as compensation for early surrender (surrender charge), increasing Life Operations' liquidity position. In addition, a surrender of variable annuity separate account or general account assets (see below) will decrease Life Operations' obligation for payments on guaranteed living and death benefits.

[2] Relates to contracts such as payout annuities or institutional notes, other than guaranteed investment products with an MVA feature (discussed below) or surrenders of term life, group benefit contracts or death and living benefit reserves for which surrenders will have no current effect on Life Operations' liquidity requirements.

[3] Relates to annuities that are recorded in the general account (under U.S. GAAP), although these annuities are held in a statutory separate account, as the contractholders are subject to the Company's credit risk. In the statutory separate account, Life Operations is required to maintain invested assets with a fair value equal to the MVA surrender value of the Fixed MVA contract. In the event assets decline in value at a greater rate than the MVA surrender value of the Fixed MVA contract, Life Operations is required to contribute additional capital to the statutory separate account. Life Operations will fund these required contributions with operating cash flows or short-term investments. In the event that operating cash flows or short-term investments are not sufficient to fund required contributions, the Company may have to sell other invested assets at a loss, potentially resulting in a decrease in statutory surplus. As the fair value of invested assets in the statutory separate account are generally

equal to the MVA surrender value of the Fixed MVA contract, surrender of Fixed MVA annuities will have an insignificant impact on the liquidity requirements of Life Operations.

[4] GICs are subject to discontinuance provisions which allow the policyholders to terminate their contracts prior to scheduled maturity at the lesser of the book value or market value. Generally, the market value adjustment reflects changes in interest rates and credit spreads. As a result, the market value adjustment feature in the GIC serves to protect the Company from interest rate risks and limit Life Operations' liquidity requirements in the event of a surrender.

[5] Surrenders of, or policy loans taken from, as applicable, these general account liabilities, which include the general account option for Talcott Resolution's individual variable annuities and the variable life contracts of the former Individual Life business, the general account option for annuities of the former Retirement Plans business and universal life contracts sold by the former Individual Life business, may be funded through operating cash flows of Life Operations, available short-term investments, or Life Operations may be required to sell fixed maturity investments to fund the surrender payment. Sales of fixed maturity investments could result in the recognition of realized losses and insufficient proceeds to fully fund the surrender amount. In this circumstance, Life Operations may need to take other actions, including enforcing certain contract provisions which could restrict surrenders and/or slow or defer payouts. See Note 2 - Business Dispositions of Notes to Consolidated Financial Statements as to the sale of the Retirement Plans and Individual Life businesses and related transfer of invested assets in January 2013.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements

There have been no material changes to the Company's off-balance sheet arrangements since the filing of the Company's 2012 Form 10-K Annual Report.

Aggregate Contractual Obligations

Since December 31, 2012, the Company issued $300 aggregate principal amount of 4.3% Senior Notes (the "4.3% Notes") due April 15, 2043. For additional information, see MD&A – Liquidity Requirements and Sources of Capital – Debt and Note 16 - Debt of Notes to Condensed Consolidated Financial Statements.

Capitalization

The capital structure of The Hartford as of September 30, 2013 and December 31, 2012 consisted of debt and stockholders' equity, summarized as follows:

	September 30, 2013	December 31, 2012	Change
Short-term debt (includes current maturities of long-term debt)	$200	$320	(38)%
Long-term debt	6,106	6,806	(10)%
Total debt [1]	6,306	7,126	(12)%
Stockholders' equity excluding accumulated other comprehensive income (loss), net of tax ("AOCI")	18,945	19,604	(3)%
AOCI, net of tax	(17)	2,843	(101)%
Total stockholders' equity	$18,928	$22,447	(16)%
Total capitalization including AOCI	$25,234	$29,573	(15)%
Debt to stockholders' equity	33%	32%	
Debt to capitalization	25%	24%	

[1] Total debt of the Company excludes $83 and $161 of consumer notes as of September 30, 2013 and December 31, 2012, respectively.

The Hartford's total capitalization decreased $4.3 billion, or 15%, from December 31, 2012 to September 30, 2013 primarily due to decreases in total debt, as well as the impact of the sales of the Retirement Plans and Individual Life businesses ("business dispositions").

Total debt decreased as a result of the Company's repurchase of principal amounts of approximately $800, plus a payment for unpaid interest on senior notes due through the settlement date, issuance of $300 of senior notes offset by repayment of $320 of senior notes.

AOCI, net of tax, declined from December 31, 2012 to September 30, 2013 primarily due to reclassification of realized capital gains associated with the business dispositions to retained earnings within stockholders' equity, excluding AOCI. The realized capital gains are offset within retained earnings by the reinsurance loss on the business dispositions.

For additional information on debt, see MD&A – Liquidity Requirements and Sources of Capital and Note 16 - Debt of Notes to Condensed Consolidated Financial Statements. For additional information on the business dispositions and AOCI, net of tax, see Note 2 - Business Dispositions and Note 19 - Changes In and Reclassifications From Accumulated Other Comprehensive Income of Notes to Condensed Consolidated Financial Statements, respectively.

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Cash Flows

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	$903	$2,212
Net cash provided by (used for) investing activities	$1,688	$(1,862)
Net cash used for financing activities	$(3,454)	$(217)
Cash – end of period	$1,422	$2,705

Cash provided by operating activities decreased primarily due to income taxes paid of $140 in 2013, compared to income taxes received of $448 in 2012, as well as lower fee income and lower net investment income on available-for-sale securities, excluding limited partnerships and other investments.

Cash provided by investing activities in 2013 primarily relates to net proceeds from available for sale securities of $3.1 billion, proceeds from businesses sold of $485, partially offset by net purchases of derivatives of $1.7 billion and net payments of mortgage loans of $226. Cash used for investing activities in 2012 primarily relates to net purchases of derivatives of $1.6 billion, net purchases of mortgage loans of $1.1 billion, and net purchases of partnerships of $604, primarily offset by net proceeds of available for sale securities of $1.5 billion.

Cash used for financing activities in 2013 consists primarily of $751 related to net activity for investments and universal life products, net decreases in securities loaned or sold of $1 billion, repayment of debt of $1.3 billion and acquisition of treasury stock of $375 offset by proceeds from issuance of debt of $295, Cash used for financing activities in 2012 consists primarily of net outflows on investment and universal life-type contracts of $1.0 billion, repurchase of warrants of $300, as well as share repurchases and dividends paid on common and preferred stock. These were partially offset by net increases in securities loaned or sold of $1.6 billion.

Operating cash flows for the nine months ended September 30, 2013 and 2012 have been adequate to meet liquidity requirements.

Equity Markets

For a discussion of the potential impact of the equity markets on capital and liquidity, see the Enterprise Risk Management section of the MD&A.

Ratings

Ratings impact the Company's cost of borrowing and its ability to access financing and are an important factor in establishing competitive position in the insurance and financial services marketplace. There can be no assurance that the Company's ratings will continue for any given period of time or that they will not be changed. In the event the Company's ratings are downgraded, the Company's cost of borrowing and ability to access financing, as well as the level of revenues or the persistency of its business may be adversely impacted.

On June 17, 2013, Standard & Poor's ("S&P") affirmed the issuer credit ratings of BBB for The Hartford Financial Services Group, Inc. and the financial strength ratings of A- for Hartford Life and Accident Insurance Company, BBB+ for Hartford Life and Annuity Insurance Company, and A for Hartford Fire Insurance Company. S&P downgraded the financial strength rating for Hartford Life Insurance Company to BBB+ from A-. The outlook is stable for Hartford Life Insurance Company and Hartford Life and Annuity. The ratings are on positive outlook for The Hartford Financial Services Group, Inc., Hartford Fire Insurance Company and Hartford Life and Accident.

The following table summarizes The Hartford's significant member companies' financial strength ratings from the major independent rating organizations as of October 23, 2013.

Insurance Financial Strength Ratings:	A.M. Best	Fitch	Standard & Poor's	Moody's
Hartford Fire Insurance Company	A	A+	A	A2
Hartford Life Insurance Company	A-	A-	BBB+	A3
Hartford Life and Accident Insurance Company	A-	A-	A-	A3
Hartford Life and Annuity Insurance Company	A-	A-	BBB+	Baa2
Other Ratings:				

The Hartford Financial Services Group, Inc.:				
Senior debt	bbb+	BBB	BBB	Baa3
Commercial paper	AMB-2	F2	A-2	P-3

These ratings are not a recommendation to buy or hold any of The Hartford's securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

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The agencies consider many factors in determining the final rating of an insurance company. One consideration is the relative level of statutory surplus necessary to support the business written. Statutory surplus represents the capital of the insurance company reported in accordance with accounting practices prescribed by the applicable state insurance department.

Statutory Capital and Surplus

The table below sets forth statutory capital and surplus for the Company's insurance companies.

	September 30, 2013	December 31, 2012
U.S. life insurance subsidiaries, includes domestic captive insurance subsidiaries	$6,885	$6,410
Property and casualty insurance subsidiaries	7,782	7,645
Total	$14,667	$14,055

Total statutory capital and surplus for the U.S. life insurance subsidiaries, including domestic captive insurance subsidiaries, increased by $475, primarily due to net income from non-variable annuity business of $1.8 billion including statutory gains from the sales of the Retirement Plans and Individual Life businesses, change in affiliated subsidiaries carrying values of $402, net deferred gain on inforce reinsurance of $194, other surplus changes of $116, partially offset by letter of credit decreases of $269, variable annuity surplus impacts of approximately $268, and net returns of capital of $1.5 billion.

Total statutory capital and surplus for property and casualty increased by $137, primarily due to net income of $750, capital contributions of $72, and unrealized gains of $8, partially offset by an increase of statutory nonadmitted assets of $2, a reduction of deferred tax assets of $92, and dividends to HFSG Holding Company of $599. Both net income and dividends are net of interest payments and dividends, respectively, on an intercompany note between Hartford Holdings, Inc. and Hartford Fire Insurance Company.

The Company also holds regulatory capital and surplus for its operations in Japan. Under the accounting practices and procedures governed by Japanese regulatory authorities, the Company's statutory capital and surplus was $1.2 billion as of September 30, 2013 and December 31, 2012.

Contingencies

Legal Proceedings – For a discussion regarding contingencies related to The Hartford's legal proceedings, please see the information contained under "Litigation" in Note 11 of the Notes to Condensed Consolidated Financial Statements and Part II, Item 1 Legal Proceedings, which are incorporated herein by reference.

Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was enacted on July 21, 2010, mandating changes to the regulation of the financial services industry. Implementation of the Dodd-Frank Act is ongoing and may affect our operations and governance in ways that could adversely affect our financial condition and results of operations.

Certain provisions of the Dodd-Frank Act that took effect in June 2013 require central clearing of, and/or impose new margin and capital requirements on, derivatives transactions, resulting in increased costs to our hedging program. Other provisions of the Dodd-Frank Act could subject us to post-event assessments imposed by the Federal Deposit Insurance Corporation ("FDIC") to recoup the costs associated with the orderly liquidation of other systemically important institutions in the event one or more such institutions fails. Further, in certain circumstances, the FDIC is authorized to petition a state court to commence an insolvency proceeding to liquidate an insurance company that fails in the event the insurer's state regulator fails to act.

Other provisions in the Dodd-Frank Act that may impact us include: a new "Federal Insurance Office" within Treasury; discretionary authority for the SEC to impose a harmonized standard of care for investment advisers and broker-dealers who provide personalized advice about securities to retail customers; possible adverse impact on the pricing and liquidity of the securities in which we invest resulting from the proprietary trading and market making limitation of the Volcker Rule; possible prohibition of certain asset-backed securities transactions that could adversely impact our ability to offer insurance-linked securities; and enhancements to corporate governance, especially regarding risk management.

The Dodd-Frank Act vests a newly created Financial Stability Oversight Council ("FSOC") with the power to designate “systemically important” financial institutions, which will be subject to special regulatory supervision and other provisions intended to prevent, or mitigate the impact of, future disruptions in the U.S. financial system. Systemically important institutions are limited to large bank holding companies and nonbank financial companies that are so important that their potential failure could “pose a threat to the financial stability of the United States.” The FSOC finalized its rule for designating systemically important nonbank financial institutions in April 2012 and made its first designation in July 2013. Based on its most current financial data, The Hartford is below the initial quantitative thresholds that will be used to determine which nonbank companies merit consideration. The FSOC has indicated it will review on a quarterly basis whether non-bank financial institutions meet the metrics for further review.

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If we are designated as a systemically important institution, The Hartford could be subject to higher capital requirements and additional regulatory oversight imposed by The Federal Reserve. In addition, the Dodd-Frank Act may restrict us from sponsoring and investing in private equity and hedge funds, which would limit our discretion in managing our general account.

Fiscal Year 2014, Budget of the United States Government

On April 10, 2013, the Obama Administration released its “Fiscal Year 2014, Budget of the U.S. Government” (the “Budget”). Although the Administration has not released proposed statutory language, the Budget includes proposals that if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, which are eligible for the dividends received deduction (“DRD”). The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between the Company's actual tax expense and expected amount determined using the federal statutory tax rate of 35%. If this proposal were enacted, the Company's actual tax expense could increase, reducing earnings.

IMPACT OF NEW ACCOUNTING STANDARDS

For a discussion of accounting standards, see Note 1 - Basis of Presentation and Accounting Policies of Notes to Consolidated Financial Statements included in The Hartford’s 2012 Form 10-K Annual Report and Note 1 - Basis of Presentation and Accounting Policies of Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the Financial Risk Management section of Management’s Discussion and Analysis of Financial Condition and Results of Operations is incorporated herein by reference.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company’s principal executive officer and its principal financial officer, based on their evaluation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) have concluded that the Company’s disclosure controls and procedures are effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e) as of September 30, 2013.

Changes in internal control over financial reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's current fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II. OTHER INFORMATION
Item 1. LEGAL PROCEEDINGS
Litigation
The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption “Asbestos and Environmental Claims,” management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.
The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, and in addition to the matters described below, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, disability, life and inland marine. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims or other allegedly unfair or improper business practices. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, the outcome in certain matters could, from time to time, have a material adverse effect on the Company’s results of operations or cash flows in particular quarterly or annual periods.
Apart from the inherent difficulty of predicting litigation outcomes, the Mutual Funds Litigation identified below purports to seek substantial damages for unsubstantiated conduct spanning a multi-year period based on novel applications of complex legal theories. The alleged damages are not quantified or factually supported in the complaint, and, in any event, the Company’s experience shows that demands for damages often bear little relation to a reasonable estimate of potential loss. The matter is in the earliest stages of litigation, with no substantive legal decisions by the court defining the scope of the claims or the potentially available damages; fact discovery is also in its early stages. Accordingly, management cannot reasonably estimate the possible loss or range of loss, if any, or predict the timing of the eventual resolution of this matter.
Mutual Funds Litigation — In February 2011, a derivative action was brought on behalf of six Hartford retail mutual funds in the United States District Court for the District of New Jersey, alleging that Hartford Investment Financial Services, LLC (“HIFSCO”), an indirect subsidiary of the Company, received excessive advisory and distribution fees in violation of its statutory fiduciary duty under Section 36(b) of the Investment Company Act of 1940. HIFSCO moved to dismiss and, in September 2011, the motion was granted in part and denied in part, with leave to amend the complaint. In November 2011, plaintiffs filed an amended complaint on behalf of The Hartford Global Health Fund, The Hartford Conservative Allocation Fund, The Hartford Growth Opportunities Fund, The Hartford Inflation Plus Fund, The Hartford Advisors Fund, and The Hartford Capital Appreciation Fund. Plaintiffs seek to rescind the investment management agreements and distribution plans between HIFSCO and these funds and to recover the total fees charged thereunder or, in the alternative, to recover any improper compensation HIFSCO received, in addition to lost earnings. HIFSCO filed a partial motion to dismiss the amended complaint and, in December 2012, the court dismissed without prejudice the claims regarding distribution fees and denied the motion with respect to the advisory fees claims. HIFSCO disputes the allegations and intends to defend vigorously.
Asbestos and Environmental Claims – As discussed in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates - Property and Casualty Insurance Product Reserves, Net of Reinsurance - Property & Casualty Other Operations Claims, The Hartford continues to receive

asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford’s consolidated operating results and liquidity.

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Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the risk factors disclosed in Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 and in Item 1A of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, any of which could have a significant or material adverse effect on the business, financial condition, operating results or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the SEC.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

The following table summarizes the Company's repurchases of its common stock for the three months ended September 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1] (in millions)
July 1, 2013 - July 31, 2013	—	$—	—	$ 1,084
August 1, 2013 - August 31, 2013	6,559,131	$30.69	6,296,396	$ 879
September 1, 2013 - September 30, 2013	1,178,840	$30.85	1,178,896	$ 842
Total	7,737,971	$30.71	7,475,292	N/A

[1] On January 31, 2013 the Company's Board of Directors authorized a $500 equity repurchase program. In June 2013, the Board of Directors approved a $750 increase in the Company's authorized equity repurchase program, bringing the total authorization to $1.25 billion. The Company's repurchase authorization, which expires on December 31, 2014, permits purchases of common stock, as well as warrants or other derivative securities. Repurchases may be made in the open market, through derivative, accelerated share repurchase and other privately negotiated transactions, and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company's securities, the Company's capital position, consideration of the effect of any repurchases on the Company's financial strength or credit ratings, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Item 6. EXHIBITS

See Exhibits Index on page 141.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	The Hartford Financial Services Group, Inc. (Registrant)
Date: October 28, 2013	/s/ Scott R. Lewis Scott R. Lewis Senior Vice President and Controller (Chief accounting officer and duly authorized signatory)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
FOR THE QUARTER ENDED SEPTEMBER 30, 2013
FORM 10-Q
EXHIBITS INDEX

Exhibit No.	Description
15.01	Deloitte & Touche LLP Letter of Awareness.**
31.01	Certification of Liam E. McGee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.02	Certification of Christopher J. Swift pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.01	Certification of Liam E. McGee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.02	Certification of Christopher J. Swift pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase.**
101.LAB	XBRL Taxonomy Extension Label Linkbase.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.**
*	Management contract, compensatory plan or arrangement.
**	Filed with the Securities and Exchange Commission as an exhibit to this report.