EQUITABLE RESOURCES INC /PA/
Form 11-K
June 29, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 11-K

(Mark One)

x	**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 29, 2005

or

o	**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-3551

EQUITABLE RESOURCES, INC. EMPLOYEE SAVINGS PLAN

(Full title of the Plan and address of the Plan,

if different from that of the issuer named below)

EQUITABLE RESOURCES, INC.

225 North Shore Drive,

Pittsburgh, Pennsylvania 15212

(Name of issuer of the securities held pursuant to the

Plan and the address of principal executive office)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Benefits Administration Committee
Equitable Resources, Inc. Employee Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Equitable Resources, Inc. Employee Savings Plan as of December 29, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 29, 2005 and 2004, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 29, 2005 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
June 9, 2006

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EQUITABLE RESOURCES, INC.
EMPLOYEE SAVINGS PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 29	
	2005	**2004**
Investments, at fair value:		
Mutual funds	**$ 72,882,084**	$ 47,247,053
Common/collective trusts	**15,562,805**	10,919,146
Employer stock funds	**26,989,991**	21,345,722
Participant loans	**932,292**	580,862
Net assets available for benefits	**$ 116,367,172**	$ 80,092,783

See accompanying notes.

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EQUITABLE RESOURCES, INC.
EMPLOYEE SAVINGS PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year ended December 29	
	2005	**2004**
Additions:		
Investment income:		
Interest and dividends	**$ 3,452,676**	$ 1,548,488
Interest on participant loans	**40,780**	31,201
Total investment income	**3,493,456**	1,579,689
Net appreciation in fair value of investments	**9,443,247**	9,850,048
Contributions:		
Employer	**4,991,409**	4,535,328
Employee	**5,747,025**	4,976,892
Total contributions	**10,738,434**	9,512,220
Transfers from affiliated plans	**17,519,058**	27,075
Total additions	**41,194,195**	20,969,032
Deductions:		
Withdrawals by participants	**4,931,792**	6,856,671
Total deductions	**4,931,792**	6,856,671
Other	**11,986**	5,253
Net increase in net assets available for benefits	**36,274,389**	14,117,614
Net assets available for benefits:		
At beginning of year	**80,092,783**	65,975,169
At end of year	**$ 116,367,172**	$ 80,092,783

See accompanying notes.

EQUITABLE RESOURCES, INC.
EMPLOYEE SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 29, 2005

1. Description of Plan

The following description of the Equitable Resources, Inc. Employee Savings Plan (Plan) provides only general information. Participants should refer to the summary plan description for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution profit sharing and savings plan, with a 401(k) salary reduction feature, implemented on September 1, 1985, by Equitable Resources, Inc. and certain subsidiaries (the Company or Companies).

All regular, full-time, certain part-time, non union employees of the Companies are eligible to participate in the Plan on their first day of employment. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

In January 2005, the Plan transferred existing account balances to Fidelity Management Trust Company (Fidelity) under the terms of a custodial agreement executed with the Company. As a result of the transfer to Fidelity, certain investment options are no longer available to participants and certain other investment options have been added.

Contributions

Participants can elect to contribute between 1% and 15% of eligible earnings to the Plan, subject to Internal Revenue Code (IRC) limitations. These contributions are referred to as contract contributions.

The Company will match a percentage of the first 6% of the participants contract contributions based on years of service for participants in the NORESCO division as follows:

Years of Continuous Service	**Matching Contribution Percentage**
Less than one year	50%
At least one year and less than two years	75%
Two or more years	100%

All other participants will receive a match of 50% of the first 6% of their contract contributions.

In addition, participants may receive a performance contribution, which is determined on an annual basis at the discretion of the Company. During 2005 and 2004, the amount of the performance contribution was 6% of eligible compensation.

In addition, the matching contribution shall be invested in the Employer Stock Fund until the participant is 100% vested. After the participant is 100% vested, the matching contribution will follow the participant s contract investment election(s). The Employer Stock Fund consists of the Equitable Resources Stock Fund and effective May 1, 2002, the Equitable Resources Stock Fund- ESOP account (ESOP). The ESOP feature operates as an account within the Plan that will hold shares invested in the Equitable Resources Stock Fund. All participant and Company contributions made before May 1, 2002 that were invested in the Equitable Resources Stock Fund were allocated to the ESOP portion of the Plan. After May 1, 2002, new contributions invested in the Equitable Resources Stock Fund will transfer to the ESOP on a quarterly basis. Participants can elect to receive dividends from the ESOP in cash or to be paid to their account and reinvested in the Equitable Resources Stock Fund.

Rollover Contributions

Participants are allowed to make rollover contributions (contributions transferred to the Plan from other qualified retirement plans), subject to certain requirements.

Transfers from Affiliated Plans

Transfers from affiliated plans include transfers made between the Plan and the Equitable Resources, Inc. Savings and Protection Plan. Additionally, during 2005, in connection with the Company s settlement of its pension obligation with certain non represented employees, affected employees were given the option to transfer the lump-sum value of their pension benefit into the Plan. Total transfers into the Plan relative to the settlement were $17,482,644 for the year ended December 29, 2005 and are included as transfers from affiliated plans.

Vesting

Participants are 100% vested in the value of contract contributions made, and any rollover contributions.

If employment is terminated by the Companies for any reason other than retirement, death or total and permanent disability, a participant is entitled to receive the vested value of any employer contributions.

Matching contributions vest in accordance with the following schedule:

Years of Continuous Service	**Vested Interest**
One year	33%
Two years	66%
Three years	100%

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Amounts forfeited by participants upon termination are used to reduce the amount of the Company s future employer contributions to the Plan. In 2005 and 2004, forfeitures of approximately $32,833 and $76,685, respectively, were used to offset contributions.

Upon retirement, death or total and permanent disability of the participant or termination of the Plan, a participant is entitled to receive the full value of any employer contributions, regardless of years of continuous service.

Withdrawals by Participants

Payments to participants can be made as follows: a lump-sum distribution, a direct rollover, if applicable, or, in the case of a distribution on account of retirement or total and permanent disability, equal periodic payments over the lesser of: a) the life expectancy of the participant and beneficiary or b) twenty (20) years.

Loans to Participants

A participant may borrow money from the Plan in amounts up to the lesser of $50,000 or 50% of the vested balance of a participant s account.

Administrative Expenses

The Plan pays administrative expenses associated with the Plan.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

Investments

Short-term investments are valued at cost, which approximates market. The Employer Stock Fund consisting of Equitable Resources, Inc. common stock (Company common stock) is valued at market price as quoted on the New York Stock Exchange. There were 737,633 and 352,065 shares of Company common stock as of December 29, 2005 and 2004, respectively. Investments in common/collective trusts are valued at face value, which approximates market. Other investments are valued at market, as determined by quoted market prices.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Related-Party Transactions

Certain plan investments are shares of mutual funds and common/collective trusts managed by Fidelity or an affiliate. Fidelity is trustee of the Plan and, therefore, these transactions qualify as party-in-interest transactions.

4. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, the interests of all affected participants will become fully vested.

5. Investments

The Plan s investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as determined by quoted market prices as follows:

	Net Changes in Fair Value December 29 2005	**2004**
Investments at fair value as determined by quoted market prices:		
Mutual funds	**$ 5,108,418**	$ 3,846,424
Common/collective trusts	**(30,829)**	124,169
Company stock	**4,365,658**	5,879,455
	$ 9,443,247	$ 9,850,048

Investments that represent 5% or more of fair value of the Plan s net assets are as follows:

	December 29 2005	**2004**
Equitable Resources Common Stock Fund*	On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which was issued by the Financial Accounting Standards Board (FASB) in September 2006. The Company also adopted on	

January 1, 2008 the SFAS 157 related FASB Staff Positions (FSPs) described below. For financial statement elements currently required to be measured at fair value, SFAS 157 redefines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

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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)

The Company applied the provisions of SFAS 157 prospectively to financial assets and financial liabilities that are required to be measured at fair value under existing U.S. GAAP. The Company also recorded in opening retained earnings the cumulative effect of applying SFAS 157 to certain customized derivatives measured at fair value in accordance with Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Involved in Energy Trading and Risk Management Activities (EITF 02-3). See Note 4 for additional information regarding SFAS 157. Specifically, see the SFAS 157 Transition discussion within Note 4 for information regarding the effects of applying SFAS 157 on the Company s condensed consolidated financial statements in the first quarter of 2008.

In February 2008, the FASB issued FSP No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP FAS 157-1). FSP FAS 157-1 provides a scope exception from SFAS 157 for the evaluation criteria on lease classification and capital lease measurement under SFAS No. 13, Accounting for Leases and other related accounting pronouncements. Accordingly, the Company did not apply the provisions of SFAS 157 in determining the classification of and accounting for leases and the adoption of FSP FAS 157-1 did not have an impact on the Company s condensed consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2) which delays the effective date of SFAS 157 to fiscal years 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.

As a result of the issuance of FSP FAS 157-2, the Company did not apply the provisions of SFAS 157 to the nonfinancial assets and nonfinancial liabilities within the scope of FSP FAS 157-2.

Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active

In October 2008, the FASB issued FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). This FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in the determination of the fair value of a financial asset when the market for that asset is not active. The key considerations illustrated in the FSP FAS 157-3 example include the use of an entity s own assumptions about future cash flows and appropriately risk-adjusted discount rates, appropriate risk adjustments for nonperformance and liquidity risks, and the reliance that an entity should place on quotes that do not reflect the result of market transactions. FSP FAS 157-3 was preceded by a press release that was jointly issued by the Office of the Chief Accountant of the SEC and the FASB staff on September 30, 2008 which provides immediate clarification on fair value accounting based on the measurement guidance of SFAS 157. FSP FAS 157-3 was effective upon issuance. FSP FAS 157-3 did not have an impact on the Company s consolidated financial statements.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115 (SFAS 159). The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported net income

caused by measuring related assets and liabilities differently. This statement permits entities to choose, at specified election dates, to measure eligible items at fair value (i.e., the fair value option). Items eligible for the fair value option include certain recognized financial assets and liabilities, rights and obligations under certain insurance contracts that are not financial instruments, host financial instruments resulting from the separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument, and certain commitments. Business entities shall report unrealized gains and losses on items for which the fair value option has been elected in net income. The fair value option: (a) may be applied instrument by instrument, with certain exceptions; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Companies shall report the effect of the first remeasurement to fair value as a cumulative-effect adjustment to the opening balance of retained earnings. On January 1, 2008, the Company did not elect to apply the provisions of SFAS 159 to financial assets and liabilities.

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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)

Future Adoption of New Accounting Standards

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in SFAS No. 128, Earnings per Share (SFAS 128). The FSP requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. Early application is not permitted. The Company expects to adopt FSP EITF 03-6-1 on January 1, 2009, and does not expect the adoption to have a material effect on the Company s earnings per share.

Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock

In June 2008, the FASB issued EITF No. 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). EITF 07-5 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity s own stock for the purposes of determining whether an instrument is a derivative. To the extent a derivative instrument or embedded derivative feature is deemed indexed to an entity s own stock, it may be exempt from the requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). EITF 07-5 concluded that an entity should determine whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock first by evaluating the instrument s contingent exercise provisions, if any, and then by evaluating the instrument s settlement provisions. EITF 07-5 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. EITF 07-5 shall be applied to outstanding instruments as of the beginning of the fiscal year in which the EITF is adopted. The Company expects to adopt EITF 07-5 on January 1, 2009, and the adoption is not expected to have a material effect on the Company s consolidated financial condition and results of operations.

Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 (SFAS 163). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts issued by enterprises that are included within the scope of SFAS No. 60, Accounting and Reporting by Insurance Enterprises (SFAS 60) and that are not accounted for as derivative instruments. SFAS 163 excludes from its scope insurance contracts that are similar to financial guarantee insurance such as mortgage guaranty insurance and credit insurance on trade receivables. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for certain disclosures about the insurance enterprise s risk-management activities, which are effective for the first period (including interim periods) beginning after May 2008. Except for certain disclosures, earlier application is not permitted. The Company does not have financial guarantee insurance products, and, accordingly does not expect the issuance of SFAS 163 to have an effect on the Company s consolidated financial condition and results of operations.

Accounting for Convertible Debt Instruments That May Be Settled In Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will

reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP APB 14-1 shall be applied retrospectively to all periods presented unless instruments were not outstanding during any period included in the financial statements. The Company expects to adopt FSP APB 14-1 on January 1, 2009. The Company does not have any instruments outstanding that are within the scope of FSP APB 14-1, and, accordingly, does not expect the issuance of FSP APB 14-1 to have any effect on the Company s consolidated financial condition and results of operations.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Basis of Presentation and Accounting Policies (continued)

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. FSP FAS 142-3 amends paragraph 11(d) of SFAS 142 to require an entity to use its own assumptions about renewal or extension of an arrangement, adjusted for the entity-specific factors in paragraph 11 of SFAS 142, even when there is likely to be substantial cost or material modifications. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. The provisions of FSP FAS 142-3 are to be applied prospectively to intangible assets acquired after January 1, 2009 for the Company, although the disclosure provisions are required for all intangible assets recognized as of or subsequent to January 1, 2009. The Company expects to adopt FSP FAS 142-3 on January 1, 2009, and does not expect the adoption to have a material effect on the Company s consolidated financial condition and results of operations.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands disclosures about an entity s derivative and hedging activities with the intent of providing users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures. The Company expects to adopt SFAS 161 on January 1, 2009.

Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4 Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP FAS 133-1 and FIN 45-4). This FSP amends SFAS 133 to require disclosures by entities that assume credit risk through the sale of credit derivatives including credit derivatives embedded in a hybrid instrument. The intent of these enhanced disclosures is to enable users of financial statements to assess the potential effect on its financial position, financial performance, and cash flows from these credit derivatives. This FSP also amends FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , to require an additional disclosure about the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008, with early application encouraged. FSP FAS 133-1 and FIN 45-4 encourages, but does not require, comparative disclosures. The Company expects to adopt FSP FAS 133-1 and FIN 45-4 on December 31, 2008.

Income Taxes

The effective tax rate for the three months ended September 30, 2008 and 2007 was 37% and 28%, respectively. The effective tax rate for the nine months ended September 30, 2008 and 2007 was 44% and 27%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). This caused an increase in the tax benefit on the 2008 pretax loss and a decrease in the tax expense on the 2007 pretax income.

The separate account DRD is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance. The actual current year DRD can vary from estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distribution from these mutual funds, amounts of short-term capital gains at the mutual fund level and the Company s taxable income before the

DRD. The Company recorded benefits related to the separate account DRD of $50 and $27 in the three months ended September 30, 2008 and 2007, and $158 and $115 in the nine months ended September 30, 2008 and 2007, respectively. The benefit recorded in the nine months ended September 30, 2008 included prior period adjustments of $9 related to the 2007 tax return.

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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)

In Revenue Ruling 2007-61, issued on September 25, 2007, the Internal Revenue Service (IRS) announced its intention to issue regulations with respect to certain computational aspects of DRD on separate account assets held in connection with variable annuity contracts. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54, issued in August 2007, that had purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. Any regulations that the IRS ultimately proposes for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown, but they could result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. Management believes that it is highly likely that any such regulations would apply prospectively only.

The Company receives a foreign tax credit (FTC) against its U.S. tax liability for foreign taxes paid by the Company including payments from its separate account assets. The separate account FTC is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year FTC can vary from the estimates due to actual FTCs passed through by the mutual funds. During the second quarter of 2008, the Company booked a tax benefit of $4 related to the 2007 provision to filed return adjustment. The Company recorded benefits related to separate account FTC of $3 and $3 in the three months ended September 30, 2008 and 2007, and $14 and $7 in the nine months ended September 30, 2008 and 2007, respectively.

In total, there was no net change in the Company s unrecognized tax benefits during the nine months ended September 30, 2008. Unrecognized tax benefits increased by $12 as a result of tax positions expected to be taken on the Company s 2008 tax return and decreased by $12 with respect to tax positions taken on the 2007 tax return. Total unrecognized tax benefits as of September 30, 2008 were $76. This entire amount, if it were recognized, would lower the effective tax rate for the applicable periods.

The Company s federal income tax returns are routinely audited by the IRS. The examination of the Company s tax returns for 2002 through 2003 is anticipated to be completed during 2008. The 2004 through 2006 examination began during the second quarter of 2008, and is expected to close by the end of 2010. In addition, the Company is working with the IRS on a possible settlement of a DRD issue related to prior periods which, if settled, may result in the booking of tax benefits in early 2009. Such benefits are not expected to be material to the statement of operations.

2. Earnings (Loss) Per Share

The following tables present a reconciliation of net income (loss) and shares used in calculating basic earnings (loss) per share to those used in calculating diluted earnings (loss) per share.

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Net Income (Loss)	**Shares**	**Per Share Amount**	**Net Income (Loss)**	**Shares**	**Per Share Amount**
Basic Earnings (Loss) per Share						
Net income available to common shareholders	$ (2,631)	301.1	$ (8.74)	$ (1,943)	308.8	$ (6.29)
Diluted Earnings (Loss) per Share [1]						
Stock compensation plans						

Net income available to common shareholders plus assumed conversions	$	(2,631)	301.1	$	(8.74)	$	(1,943)	308.8	$	(6.29)

	Three Months Ended September 30, 2007					Nine Months Ended September 30, 2007				
	Net Income		Shares	Per Share Amount		Net Income		Shares	Per Share Amount	
Basic Earnings per Share										
Net income available to common shareholders	$	851	315.4	$	2.70	$	2,354	317.3	$	7.42
Diluted Earnings per Share										
Stock compensation plans			2.6					2.8		
Net income available to common shareholders plus assumed conversions	$	851	318.0	$	2.68	$	2,354	320.1	$	7.35

[1] As a result of the net loss in the three and nine months ended September 30, 2008, SFAS 128 requires the Company to use basic weighted average common shares outstanding in the calculation of the three and nine months ended September 30, 2008 diluted earnings (loss) per share, since the inclusion of shares for stock compensation plans of 1.0 and 1.5, respectively, would have been antidilutive

to the earnings per share calculation. In the absence of the net loss, weighted average common shares outstanding and dilutive potential common shares would have totaled 302.1 and 310.3, respectively.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information

The Hartford is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in eleven reporting segments. Corporate primarily includes the Company s debt financing and related interest expense, as well as other capital raising activities and purchase accounting adjustments.

Life

Life is organized into four groups which are comprised of six reporting segments: The Retail Products Group (Retail) and Individual Life segments make up the Individual Markets Group. The Retirement Plans and Group Benefits segments make up the Employer Markets Group. The Institutional Solutions Group (Institutional) and International segments each make up their own group.

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies in Note 1. Life primarily evaluates performance of its segments based on revenues, net income and the segment s return on allocated capital. Each reporting segment is allocated corporate surplus as needed to support its business. The Company charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Inter-segment revenues primarily occur between Life s Other category and the reporting segments. These amounts primarily include interest income on allocated surplus and interest charges on excess separate account surplus. Consolidated Life net investment income is unaffected by such transactions.

Property & Casualty

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively, Ongoing Operations); and the Other Operations segment. For the three months ended September 30, 2008 and 2007, AARP accounted for earned premiums of $695 and $680, respectively, in Personal Lines. For the nine months ended September 30, 2008 and 2007, AARP accounted for earned premiums of $2.1 billion and $2.0 billion, respectively, in Personal Lines.

Through inter-segment arrangements, Specialty Commercial reimburses Personal Lines, Small Commercial and Middle Market for losses incurred from uncollectible reinsurance and losses incurred under certain liability claims. Earned premiums assumed (ceded) under the inter-segment arrangements were as follows:

Net assumed (ceded) earned premiums under inter-segment arrangements	**Three Months Ended September 30, 2008**	**Three Months Ended September 30, 2007**	**Nine Months Ended September 30, 2008**	**Nine Months Ended September 30, 2007**
Personal Lines	$ (1)	$ (2)	$ (4)	$ (5)
Small Commercial	(8)	(7)	(23)	(22)
Middle Market	(8)	(8)	(24)	(25)
Specialty Commercial	17	17	51	52
Total	**$**	**$**	**$**	**$**

Financial Measures and Other Segment Information

For further discussion of the types of products offered by each segment, see Note 3 of Notes to Consolidated Financial Statements included in The Hartford s 2007 Form 10-K Annual Report.

One of the measures of profit or loss used by The Hartford s management in evaluating the performance of its Life segments is net income. Within Property & Casualty, net income is a measure of profit or loss used in evaluating the performance of Ongoing Operations and the Other Operations segment. Within Ongoing Operations, the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred losses, loss adjustment expenses and underwriting expenses. The sum of underwriting results, net

investment income, net realized capital gains and losses, net servicing and other income, other expenses, and related income taxes is net income.

Certain transactions between segments occur during the year that primarily relate to tax settlements, insurance coverage, expense reimbursements, services provided, security transfers and capital contributions. In addition, certain reinsurance stop loss arrangements exist between the segments which specify that one segment will reimburse another for losses incurred in excess of a predetermined limit. Also, one segment may purchase group annuity contracts from another to fund pension costs and annuities to settle casualty claims.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

The following tables present revenues and net income (loss) by segment. Underwriting results are presented for the Personal Lines, Small Commercial, Middle Market and Specialty Commercial segments, while net income (loss) is presented for each of Life s reporting segments, total Property & Casualty, Ongoing Operations, Other Operations, and Corporate.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenues	**2008**	**2007**	**2008**	**2007**
Life [1]				
Retail [2]	$ 435	$ 806	$ 1,483	$ 2,550
Individual Life	119	267	660	853
Total Individual Markets Group	554	1,073	2,143	3,403
Retirement Plans	1	130	293	426
Group Benefits	779	1,166	3,099	3,573
Total Employer Markets Group	780	1,296	3,392	3,999
International [2]	190	247	603	643
Institutional	(84)	782	692	1,831
Other	(29)	25	28	157
Total Life segment revenues [1] [2]	1,411	3,423	6,858	10,033
Net investment income (loss) on equity securities, held for trading [3]	(3,415)	(698)	(5,840)	746
Total Life [1] [2]	**(2,004)**	**2,725**	**1,018**	**10,779**
Property & Casualty				
Ongoing Operations				
Earned premiums				
Personal Lines	978	984	2,941	2,904
Small Commercial	678	683	2,048	2,048
Middle Market	553	582	1,688	1,779
Specialty Commercial	358	377	1,087	1,139
Ongoing Operations earned premiums	2,567	2,626	7,764	7,870
Net investment income	285	346	929	1,082
Other revenues [4]	132	126	377	368
Net realized capital losses	(1,268)	(72)	(1,455)	(73)
Total Ongoing Operations	1,716	3,026	7,615	9,247
Other Operations	(109)	60	(10)	184
Total Property & Casualty	**1,607**	**3,086**	**7,605**	**9,431**
Corporate	4	12	31	32
Total revenues [1] [2]	**$ (393)**	**$ 5,823**	**$ 8,654**	**$ 20,242**

[1] *For the three and nine months ended September 30, 2008, Life segment revenues includes other-than-temporary impairments of $1.8 billion and $2.1 billion, respectively.*

[2] *For the nine months ended September 30, 2008, the transition impact related to the SFAS 157 adoption was a reduction in revenues of $616 and $34 for Retail and International, respectively. For further discussion of the SFAS 157 adoption impact, refer to Note 4.*

[3] *Management does not include net investment income (loss) and the mark-to-market effects of equity securities held for trading supporting the international variable annuity business in its segment revenues since corresponding amounts are credited to policyholders.*

[4] *Represents servicing revenue.*

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
3. Segment Information (continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Income (Loss)	**2008**	**2007**	**2008**	**2007**
Life [1]				
Retail [2]	$ (822)	$ 294	$ (729)	$ 616
Individual Life	(102)	55	(52)	151
Total Individual Markets Group	(924)	349	(781)	767
Retirement Plans	(160)	4	(134)	54
Group Benefits	(186)	83	(78)	235
Total Employer Markets Group	(346)	87	(212)	289
International [2]	(107)	90	(27)	185
Institutional	(393)	8	(543)	60
Other	(45)	(9)	(73)	(20)
Total Life [1] [2]	**(1,815)**	**525**	**(1,636)**	**1,281**
Property & Casualty				
Ongoing Operations				
Underwriting results				
Personal Lines	(45)	78	78	292
Small Commercial	82	119	270	304
Middle Market	(38)	22	14	89
Specialty Commercial	(43)	6	20	50
Total Ongoing Operations underwriting results	(44)	225	382	735
Net servicing income [3]	14	16	21	41
Net investment income	285	346	929	1,082
Net realized capital losses	(1,268)	(72)	(1,455)	(73)
Other expenses	(58)	(63)	(180)	(179)
Income tax (expense) benefit	405	(111)	195	(452)
Ongoing Operations	(666)	341	(108)	1,154
Other Operations	(108)	12	(91)	4
Total Property & Casualty	**(774)**	**353**	**(199)**	**1,158**
Corporate	(42)	(27)	(108)	(85)
Net income (loss) [1] [2]	**$ (2,631)**	**$ 851**	**$ (1,943)**	**$ 2,354**

[1] For the three and nine months ended September 30, 2008, Life segment net

income includes other-than-temporary impairments, after-tax and DAC, of $1.1 billion and $1.3 billion, respectively.

[2] *For the nine months ended September 30, 2008, the transition impact related to the SFAS 157 adoption was a reduction in net income of $209 and $11 for Retail and International, respectively. For further discussion of the SFAS 157 adoption impact, refer to Note 4.*

[3] *Net of expenses related to service business.*

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Segment Information (continued)

Total assets of The Hartford decreased primarily due to market declines impacting Life separate account assets and reductions in the fair value of investments. Total assets of The Hartford by reporting segments are as follows:

Assets	September 30, 2008	December 31, 2007
Life		
Retail	$ 112,145	$ 136,023
Individual Life	14,516	15,590
Total Individual Markets Group	126,661	151,613
Retirement Plans	25,743	27,986
Group Benefits	9,203	9,295
Total Employer Markets Group	34,946	37,281
International	40,298	41,625
Institutional	62,598	78,766
Other	4,364	6,891
Total Life	268,867	316,176
Property & Casualty		
Ongoing Operations	34,582	35,899
Other Operations	5,377	5,942
Total Property & Casualty	39,959	41,841
Corporate	2,659	2,344
Total Assets	**$ 311,485**	**$ 360,361**

4. Fair Value Measurements

The following financial instruments are carried at fair value in the Company s condensed consolidated financial statements: fixed maturities, equity securities, short-term investments, freestanding and embedded derivatives, and separate account assets. These fair value disclosures include information regarding the valuation of the Company s guaranteed benefits products and the impact of the adoption of SFAS 157, followed by the fair value measurement and disclosure requirements of SFAS 157.

Accounting for Guaranteed Benefits Offered With Variable Annuities

Many of the variable annuity contracts issued by the Company offer various guaranteed minimum death, withdrawal, income and accumulation benefits. Those benefits are accounted for under SFAS 133 or AICPA Statement of Position No. 03-1 Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1). Guaranteed minimum benefits often meet the definition of an embedded derivative under SFAS 133 as they have notional amounts (the guaranteed balance) and underlyings (the investment fund options), they require no initial net investment and they have terms that require or permit net settlement. However, certain guaranteed minimum benefits settle only upon a single insurable event, such as death (guaranteed minimum death benefits or GMDB) or living (life contingent portion of guaranteed minimum withdrawal benefits or GMWB), and as such are outside of the scope of SFAS 133 under the insurance contract exception . Other guaranteed minimum benefits require settlement in the form of a long-term financing transaction, such as is typical with guaranteed minimum income benefits (GMIB), and as such do not meet the net settlement requirement in SFAS 133. Guaranteed

minimum benefits that are outside of the scope of SFAS 133 or do not meet the net settlement requirements of SFAS 133 are accounted for as insurance benefits under SOP 03-1.

Guaranteed Benefits Accounted for at Fair Value Prior to SFAS 157

The non-life-contingent portion of the Company s GMWBs and guaranteed minimum accumulation benefits (GMAB) meet the definition of an embedded derivative under SFAS 133, and as such are recorded at fair value with changes in fair value recorded in net realized capital gains (losses) in net income. In bifurcating the embedded derivative, the Company attributes to the derivative a portion of total fees, in basis points, to be collected from the contract holder (the Attributed Fees). Attributed Fees are set equal to the present value of future claims, in basis points, (excluding margins for risk) expected to be paid for the guaranteed living benefit embedded derivative at the inception of the contract. The excess of total fees collected from the contract holder over the Attributed Fees are associated with the host variable annuity contract and are recorded in fee income. In subsequent valuations, both the present value of future claims expected to be paid and the present value of Attributed Fees expected to be collected are revalued based on current market conditions and policyholder behavior assumptions. The difference between each of the two components represents the fair value of the embedded derivative.

GMWBs provide the policyholder with a guaranteed remaining balance (GRB) if the account value is reduced to a contractually specified minimum level, through a combination of market declines and withdrawals. The GRB is generally equal to premiums less withdrawals. If the GRB exceeds the account value for any policy, the contract is in-the-money by the difference between the GRB and the account value.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

During the first quarter of 2007, the Company launched its 3Win product with a GMAB rider attached to certain Japanese variable annuity contracts. The GMAB provides the policyholder with the GRB if the account value is less than premiums after an accumulation period, generally 10 years, and if the account value has not dropped below 80% of the initial deposit, at which point a GMIB must either be exercised or the policyholder can elect to surrender the contract and receive 80% of the initial deposit without a surrender charge. The GRB is generally equal to premiums less surrenders.

A GMWB and/or GMAB contract is in the money if the contract holder s guaranteed remaining benefit becomes greater than the account value. As of September 30, 2008 and December 31, 2007, 57.9% and 19.4%, respectively, of all unreinsured U.S. GMWB in-force contracts were in the money . For U.S. and U.K. GMWB contracts that were in the money the Company s exposure to the guaranteed remaining benefit, after reinsurance, as of September 30, 2008 and December 31, 2007, was $3.4 billion and $146, respectively. For GMAB contracts that were in the money the Company s exposure, as of September 30, 2008 and December 31, 2007, was $500 and $38, respectively. Significant declines in equity markets since September 30, 2008 have significantly increased our exposure to these guarantees. However, the only ways the GMWB contract holder can monetize the excess of the GRB over the account value of the contract is upon death or if their account value is reduced to a contractually specified minimum level, through a combination of a series of withdrawals that do not exceed a specific percentage of the premiums paid per year and market declines. If the account value is reduced to the contractually specified minimum level, the contract holder will receive an annuity equal to the remaining GRB and for the Company s lifetime GMWB products, payments can continue beyond the GRB. As the amount of the excess of the GRB over the account value can fluctuate with equity market returns on a daily basis and the ultimate lifetime GMWB payments can exceed the GRB, the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than $3.4 billion.

For GMAB contracts, the only ways the contract holder can monetize the excess of the GRB over the account value of the contract is upon death or by waiting until the end of the contractual deferral period of 10 years. As the amount of the excess of the GRB over the account value can fluctuate with equity market returns on a daily basis, the ultimate amount to be paid by the Company, if any, is uncertain and could be significantly more or less than $500.

Derivatives That Hedge Capital Markets Risk for Guaranteed Minimum Benefits Accounted for as Derivatives

Changes in capital markets or policyholder behavior may increase or decrease the Company s exposure to benefits under the guarantees. The Company uses derivative transactions, including GMWB reinsurance (described below) which meets the definition of a derivative under SFAS 133 and customized derivative transactions, to mitigate some of that exposure. Derivatives are recorded at fair value with changes in fair value recorded in net realized capital gains (losses) in net income.

GMWB Reinsurance

The Company has entered into reinsurance arrangements to offset a portion of its exposure to the GMWB for the remaining lives of covered contracts. Reinsurance contracts covering GMWB are considered freestanding derivatives that are recorded at fair value, with changes in fair value recorded in net realized gains/losses in net income.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Customized Derivatives

The Company has entered into customized swap contracts to hedge certain risk components for the remaining term of certain blocks of non-reinsured U.S. GMWB riders. These customized derivative contracts provide protection from capital markets risks based on policyholder behavior assumptions specified by the Company at the inception of the derivative transactions. Due to the significance of the non-observable inputs associated with pricing swap contracts entered into in 2007, the initial difference between the transaction price and modeled value of $51 was deferred in accordance with EITF 02-3 and included in other assets in the condensed consolidated balance sheets. The swap contract entered into in 2008 resulted in a loss at inception of approximately $20 before the effects of DAC amortization and income taxes, as market values on similar instruments were lower than the transaction price.

Other Derivative Instruments

The Company uses other hedging instruments to hedge its unreinsured GMWB exposure. These instruments include interest rate futures and swaps, variance swaps, S&P 500 and NASDAQ index put options and futures contracts. The Company also uses EAFE Index swaps to hedge GMWB exposure to international equity markets.

Adoption of SFAS 157 for Guaranteed Benefits Offered With Variable Annuities That are Required to be Fair Valued

Fair values for GMWB and GMAB contracts and the related reinsurance and customized derivatives that hedge certain equity markets exposure for GMWB contracts are calculated based upon internally developed models because active, observable markets do not exist for those items. Below is a description of the Company s fair value methodologies for guaranteed benefit liabilities, the related reinsurance and customized derivatives, all accounted for under SFAS 133, prior to the adoption of SFAS 157 and subsequent to adoption of SFAS 157.

Pre-SFAS 157 Fair Value

Prior to January 1, 2008, the Company used the guidance prescribed in SFAS 133 and other related accounting literature on fair value which represented the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties. However, under that accounting literature, when an estimate of fair value was made for liabilities where no market observable transactions existed for that liability or similar liabilities, market risk margins were only included in the valuation if the margin was identifiable, measurable and significant. If a reliable estimate of market risk margins was not obtainable, the present value of expected future cash flows under a risk neutral framework, discounted at the risk free rate of interest, was the best available estimate of fair value in the circumstances (Pre-SFAS 157 Fair Value).

The Pre-SFAS 157 Fair Value was calculated based on actuarial and capital market assumptions related to projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization (for the customized derivatives, policyholder behavior is prescribed in the derivative contract). Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a Monte Carlo stochastic process involving the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels were used. Estimating these cash flows involved numerous estimates and subjective judgments including those regarding expected markets rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. At each valuation date, the Company assumed expected returns based on:

- risk-free rates as represented by the current LIBOR forward curve rates;
- forward market volatility assumptions for each underlying index based primarily on a blend of observed market implied volatility data;
- correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date;

- three years of history for fund regression; and
- current risk-free spot rates as represented by the current LIBOR spot curve to determine the present value of expected future cash flows produced in the stochastic projection process.

As many guaranteed benefit obligations are relatively new in the marketplace, actual policyholder behavior experience is limited. As a result, estimates of future policyholder behavior are subjective and based on analogous internal and external data. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions for this component of the fair value model.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Fair Value Under SFAS 157

The Company s SFAS 157 fair value is calculated as an aggregation of the following components: Pre-SFAS 157 Fair Value; Actively-Managed Volatility Adjustment; Credit Standing Adjustment; Market Illiquidity Premium; and Behavior Risk Margin. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of each of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer, for a liability or receive for an asset, to market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives required to be fair valued. The SFAS 157 fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods net income. Each of the components described below are unobservable in the marketplace and require subjectivity by the Company in determining their value.

Actively-Managed Volatility Adjustment. This component incorporates the basis differential between the observable index implied volatilities used to calculate the Pre-SFAS 157 component and the actively-managed funds underlying the variable annuity product. The Actively-Managed Volatility Adjustment is calculated using historical fund and weighted index volatilities.

Credit Standing Adjustment. This component makes an adjustment that market participants would make to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled (nonperformance risk). SFAS 157 explicitly requires nonperformance risk to be reflected in fair value. The Company calculates the Credit Standing Adjustment by using default rates provided by rating agencies, adjusted for market recoverability, reflecting the long-term nature of living benefit obligations and the priority of payment on these obligations versus long-term debt.

Market Illiquidity Premium. This component makes an adjustment that market participants would require to reflect that guaranteed benefit obligations are illiquid and have no market observable exit prices in the capital markets.

Behavior Risk Margin. This component adds a margin that market participants would require for the risk that the Company s assumptions about policyholder behavior used in the Pre-SFAS 157 model could differ from actual experience. The Behavior Risk Margin is calculated by taking the difference between adverse policyholder behavior assumptions and the best estimate assumptions used in the Pre-SFAS 157 model using interest rate and volatility assumptions that the Company believes market participants would use in developing risk margins.

SFAS 157 Transition

The Company applied the provisions of SFAS 157 prospectively to financial instruments that are recorded at fair value including guaranteed living benefits that are required to be fair valued. The Company also applied the provisions of SFAS 157 using limited retrospective application (i.e., cumulative effect adjustment through opening retained earnings) to certain customized derivatives historically measured at fair value in accordance with EITF 02-3. The impact on January 1, 2008 of adopting SFAS 157 for guaranteed benefits accounted for under SFAS 133 and the related reinsurance was a reduction to net income of $220, after the effects of DAC amortization and income taxes. In addition, net realized capital gains and losses that will be recorded in 2008 and future years are also likely to be more volatile than amounts recorded in prior years.

Moreover, the adoption of SFAS 157 has resulted in lower variable annuity fee income for new business issued in 2008 as Attributed Fees have increased consistent with incorporating additional risk margins and other indicia of exit value in the valuation of the embedded derivative. The level of Attributed Fees for new business each quarter also depends on the level of equity index volatility, as well as other factors, including interest rates. As equity index volatility has risen, interest rates have declined, and the Company adopted SFAS 157, the fees ascribed to the new business cohorts issued in 2008 have risen to levels above the rider fee for most products. The extent of any excess of Attributed Fee over rider fee will vary by product. The Company does not believe it is likely that today s level of Attributed Fees will persist over the long-term.

The Company also recognized a decrease in opening retained earnings of $51 in relation to the loss deferred in accordance with EITF 02-3 on customized derivatives purchased in 2007, and used to hedge a portion of the U.S. GMWB risk. In addition, the change in value of the customized derivatives due to the initial adoption of SFAS 157 of $41 was recorded as an increase in opening retained earnings with subsequent changes in fair value recorded in net realized capital gains (losses) in net income. After amortization of DAC and the effect of income taxes, the impact on opening retained earnings is a decrease of $3.

The Company s adoption of SFAS 157 did not materially impact the fair values of other financial instruments, including, but not limited to, other derivative instruments used to hedge guaranteed minimum benefits.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

The SFAS 157 transition amounts, before the effects of DAC amortization and income taxes, as of January 1, 2008 are shown below by type of guaranteed benefit liability and derivative asset.

SFAS 157 Transition Adjustment for Guaranteed Benefit Liabilities and Derivative Assets
As of January 1, 2008

	SFAS 157 Fair Value Asset (Liability)	Pre-SFAS 157 Fair Value Asset (Liability)	Transition Adjustment Gain (Loss) [Before tax and DAC amortization]
Guaranteed Benefits			
U.S. Guaranteed Minimum Withdrawal Benefits	**$ (1,114)**	**$ (553)**	**$ (561)**
Non-Life Contingent Portion of for Life Guaranteed Minimum Withdrawal Benefits			
U.S. Riders	(319)	(154)	(165)
International Riders	(17)	(7)	(10)
Total	**(336)**	**(161)**	**(175)**
International Guaranteed Minimum Accumulation Benefits	**(22)**	**2**	**(24)**
Total Guaranteed Benefits	(1,472)	(712)	(760)
GMWB Reinsurance	238	128	110
Total	**$ (1,234)**	**$ (584)**	**$ (650)**

The transition adjustment as of January 1, 2008 was comprised of the following amounts by transition component:

	Transition Adjustment Gain (Loss) [Before tax and DAC amortization]
Actively-Managed Volatility Adjustment	$ (100)
Credit Standing Adjustment	4
Market Illiquidity Premium	(194)
Behavior Risk Margin	(360)
Total SFAS 157 Transition Adjustment before tax and DAC amortization	**$ (650)**

Fair Value Disclosures

The following section applies the SFAS 157 fair value hierarchy and disclosure requirements to the Company s financial instruments that are carried at fair value. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad Levels (Level 1, 2 or 3).

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 1 securities include highly liquid U.S. Treasury securities, certain mortgage backed securities, and exchange traded equity and derivative securities.

Level 2 Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most debt securities and some preferred stocks are model priced by vendors using observable inputs and are classified within Level 2. Also included in the Level 2 category are derivative instruments that are priced using models with observable market inputs, including interest rate, foreign currency and certain credit swap contracts.

Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities such as highly structured and/or lower quality asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS), including ABS backed by sub-prime loans, and private placement debt and equity securities. Embedded derivatives and complex derivatives securities, including equity derivatives, longer dated interest rate swaps and certain complex credit derivatives are also included in Level 3. Because Level 3 fair values, by their nature, contain unobservable market inputs as there is no observable market for these assets and liabilities, considerable judgment is used to determine the SFAS 157 Level 3 fair values. Level 3 fair values represent the Company s best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

The following table presents the Company s assets and liabilities that are carried at fair value, by SFAS 157 hierarchy level, as of September 30, 2008:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturities, available-for-sale	$ 70,091	$ 648	$ 53,206	$ 16,237
Equity securities, held for trading	33,655	1,717	31,938	
Equity securities, available-for-sale	1,730	269	348	1,113
Other investments				
Customized derivatives used to hedge US GMWB	201			201
Other derivatives used to hedge US GMWB	872		11	861
Other investments [1]	190		116	74
Total Other Investments	1,263		127	1,136
Short-term investments	5,353	837	4,516	
Reinsurance recoverables for US GMWB	438			438
Separate account assets [2] [5]	149,679	117,897	30,769	1,013
Total assets accounted for at fair value on a recurring basis	**$ 262,209**	**$ 121,368**	**$ 120,904**	**$ 19,937**
Liabilities accounted for at fair value on a recurring basis				
Other policyholder funds and benefits payable				
US GMWB	$ (2,397)	$	$	$ (2,397)
UK GMWB [6]	(30)			(30)
Japan GMAB	(20)			(20)
Japan GMWB	(4)			(4)
Institutional Notes	(9)			(9)
Equity Linked Notes	(12)			(12)
Total other policyholder funds and benefits payable	(2,472)			(2,472)
Other liabilities [3]				
Other derivatives used to hedge US GMWB	80		(10)	90
Other liabilities	(741)		(205)	(536)
Total Other Liabilities	(661)		(215)	(446)
Consumer notes [4]	(6)			(6)
	$ (3,139)	**$**	**$ (215)**	**$ (2,924)**

Total liabilities accounted for at fair value on a recurring basis

[1] Includes over-the-counter derivative instruments in a net asset value position which may require the counterparty to pledge collateral to the Company. At September 30, 2008, $725 was the amount of cash collateral liability that was netted against the derivative asset value on the condensed consolidated balance sheet and is excluded from the table above. See footnote 3 below for derivative liabilities.

[2] Pursuant to the conditions set forth in SOP 03-1, the value of separate account liabilities is set to equal the fair value for separate account assets.

[3] Includes over-the-counter derivative instruments in a net negative market value position (derivative liability). In the

SFAS 157 Level 3 roll forward table included below in this Note, the derivative asset and liability are referred to as freestanding derivatives and are presented on a net basis.

[4] *Represents embedded derivatives associated with non-funding agreement-backed consumer equity linked notes.*

[5] *Excludes approximately $4 billion of investment sales receivable net of investment purchases payable that are not subject to SFAS 157.*

[6] *Includes a foreign currency translation adjustment of $2.*

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Determination of fair values

The valuation methodologies used to determine the fair values of assets and liabilities under the exit price notion of SFAS 157 reflect market-participant objectives and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company s credit standing, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments listed in the above table.

Fixed Maturity, Short-Term, and Equity Securities, Available- for-Sale

The fair value of fixed maturity, short term, and equity securities, available for sale, is determined by management after considering one of three primary sources of information: third party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and prepayments speeds. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of ABS, collateralized mortgage obligations (CMOs), and mortgage-backed securities (MBS) are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates.

Prices from third party pricing services are often unavailable for securities that are rarely traded or traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding. A pricing matrix is used to price securities for which the Company is unable to obtain either a price from a third party pricing service or an independent broker quotation. The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, as assigned by a knowledgeable private placement broker, incorporate the issuer s credit rating and a risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The issuer-specific yield adjustments, which can be positive or negative, are updated twice per year, as of June 30 and December 31, by the private placement broker and are intended to adjust security prices for issuer-specific factors. The Company assigns a credit rating to these securities based upon an internal analysis of the issuer s financial strength.

The Company performs a monthly analysis on the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. Examples of procedures performed include, but are not limited to, initial and on-going review of third party pricing services methodologies, review of pricing statistics and trends, back testing recent trades, and monitoring of trading volumes. In addition, the Company ensures whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads and, when available, market indices. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. During the third quarter, the Company made fair value

determinations which lowered prices received from third party pricing services and brokers by a total of $487. The securities adjusted had an amortized cost and fair value after adjustment, of $4.3 and 2.8 billion, respectively, and were primarily CMBS securities.

In accordance with SFAS 157, the Company has analyzed the third party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate SFAS 157 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2 or 3. Most prices provided by third party pricing services are classified into Level 2 because the inputs used in pricing the securities are market observable.

Due to a general lack of transparency in the process that the brokers use to develop prices, most valuations that are based on brokers prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated. Internal matrix-priced securities, primarily consisting of certain private placement debt, are also classified as Level 3. The matrix pricing of certain private placement debt includes significant non-observable inputs, the internally determined credit rating of the security and an externally provided credit spread.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

The following table presents the fair value of the significant asset sectors within the SFAS 157 Level 3 securities classification as of September 30, 2008.

	Fair Value	% of Total Fair Value
ABS		
Below Prime	$ 1,983	11.4%
Collateralized Loan Obligations (CLOs)	2,472	14.3%
Other	908	5.2%
Corporate		
Matrix priced private placements	5,035	29.0%
Other	2,830	16.3%
Commercial mortgage-backed securities (CMBS)	2,688	15.5%
Preferred stock	887	5.1%
Other	547	3.2%
Total Level 3 securities	**$ 17,350**	**100.0%**

ABS below prime primarily represents sub-prime and Alt-A securities which are classified as Level 3 due to the lack of liquidity in the market.

ABS CLOs represent senior secured bank loan CLOs which are primarily priced by independent brokers.

ABS Other primarily represents broker priced securities.

Corporate-matrix priced represents private placement securities that are thinly traded and priced using a pricing matrix which includes significant non-observable inputs.

Corporate-other primarily represents broker-priced securities which are thinly traded and privately negotiated transactions.

CMBS primarily represents CMBS bonds and commercial real estate collateralized debt obligations (CRE CDOs) which were either fair valued by the Company or by independent brokers due to the illiquidity of this sector.

Preferred stock primarily represents perpetual preferred securities that are currently illiquid due to market conditions.

Derivative Instruments, including embedded derivatives within investments

Derivative instruments are reported on the condensed consolidated balance sheets at fair value and are reported in Other Investments and Other Liabilities. Embedded derivatives are reported with the host instruments on the condensed consolidated balance sheet. Derivative instruments are fair valued using pricing valuation models, which utilize market data inputs or independent broker quotations. Excluding embedded derivatives, as of September 30, 2008, 97% of derivatives based upon notional values were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market inputs that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. The Company performs a monthly analysis on derivative valuations which

includes both quantitative and qualitative analysis. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, back testing recent trades, analyzing the impacts of changes in the market environment, and review of changes in market value for each derivative including those derivatives priced by brokers.
Derivative instruments classified as Level 1 include futures and certain option contracts which are traded on active exchange markets.
Derivative instruments classified as Level 2 primarily include interest rate, currency and certain credit default swaps. The derivative valuations are determined using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
Derivative instruments classified as Level 3 include complex derivatives, such as equity options and swaps, interest rate derivatives which have interest rate optionality, certain credit default swaps, and long-dated interest rate swaps. Also included in Level 3 classification for derivatives are customized equity swaps that hedge the U.S. GMWB liabilities. Additional information on the customized transactions is provided under the Accounting for Guaranteed Benefits Offered With Variable Annuities section of this Note 4. These derivative instruments are valued using pricing models which utilize both observable and unobservable inputs and, to a lesser extent, broker quotations. A derivative instrument containing Level 1 or Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has as least one significant Level 3 input.
The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instrument may not be classified with the same fair value hierarchy level as the associated assets and liabilities. Therefore the realized and unrealized gains and losses on derivatives reported in Level 3 may not reflect the offsetting impact of the realized and unrealized gains and losses of the associated assets and liabilities.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

U.S. GMWB Reinsurance Derivative

The fair value of the U.S. GMWB reinsurance derivative is calculated as an aggregation of the components described in the SFAS 157 Transition section of this Note. The fair value of the U.S. GMWB reinsurance derivative is modeled using significant unobservable policyholder behavior inputs, identical to those used in calculating the underlying liability, such as lapses, fund selection, resets and withdrawal utilization, and risk margins. As a result, the U.S. GMWB reinsurance derivative is categorized as Level 3.

Separate Account Assets

Separate account assets are primarily invested in mutual funds but also have investments in fixed maturity and equity securities. The separate account investments are valued in the same manner, and using the same pricing sources and inputs, as the fixed maturity, equity security, and short-term investments of the Company. Open-ended mutual funds are included in Level 1. Most debt securities and short-term investments are included in Level 2. Level 3 assets include less liquid securities, such as highly structured and/or lower quality ABS and CMBS, ABS backed by sub-prime loans, and any investment priced solely by broker quotes.

GMWB and GMAB Embedded Derivatives (in Other Policyholder Funds and Benefits Payable)

The fair value of GMWB and GMAB embedded derivatives, reported in Other Policyholder Funds and Benefits Payable on the Company s condensed consolidated balance sheet, are calculated as an aggregation of the components described in the SFAS 157 Transition section of this Note. The fair value of GMWB and GMAB embedded derivatives are modeled using significant unobservable policyholder behavior inputs, such as lapses, fund selection, resets and withdrawal utilization, and risk margins. As a result, the GMWB and GMAB embedded derivatives are categorized as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

The tables below provide a fair value roll forward for the three and nine months ending September 30, 2008 for the financial instruments for which significant unobservable inputs (Level 3) are used in the fair value measurement on a recurring basis. The Company classifies the fair values of financial instruments within Level 3 if there are no observable markets for the instruments or, in the absence of active markets, the majority of the inputs used to determine fair value are based on the Company s own assumptions about market participant assumptions. However, the Company prioritizes the use of market-based inputs over entity-based assumptions in determining Level 3 fair values in accordance with SFAS 157. Therefore, the gains and losses in the tables below include changes in fair value due partly to observable and unobservable factors.

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. Fair Value Measurements (continued)
Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the three months from July 1, 2008 to September 30, 2008

	SFAS 157 Fair value as of July 1, 2008	Total realized/unrealized gains (losses) included in: Net income [2], [3]	AOCI [5]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [7]	SFAS 157 Fair value as of September 30, 2008	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2008 [3]
Assets							
Fixed maturities	$ 16,512	$ (683)	$ (596)	$ 77	$ 927	$ 16,237	$ (680)
Equity securities, available-for-sale	1,367	(229)	122	(232)	85	1,113	(217)
Freestanding derivatives [4]							
Customized derivatives used to hedge US GMWB	85	116				201	116
Other freestanding derivatives used to hedge US GMWB	686	293		(28)		951	269
Other freestanding derivatives	(382)	(146)	(4)	68	2	(462)	(165)
Total Freestanding Derivatives	389	263	(4)	40	2	690	220
Reinsurance recoverable for US GMWB [2][9]	250	106		82		438	106
Separate accounts [6]	665	(53)		(25)	426	1,013	(34)
Supplemental Asset Information:							
Total freestanding derivatives used to	784	475		(106)		1,153	475

hedge US GMWB including those in Levels 1, 2 and 3							
Liabilities							
Other policyholder funds and benefits payable accounted for at fair value [2]							
US GMWB	$ (1,664)	$ (697)	$	$ (36)	$	$ (2,397)	$ (697)
UK GMWB	(17)	(13)	2	(2)		(30)	(13)
Japan GMWB	1	(4)		(1)		(4)	(4)
Japan GMAB	(23)	4		(1)		(20)	4
Institutional Notes	(21)	12				(9)	12
Equity Linked Notes	(15)	3				(12)	3
Total other policyholder funds and benefits payable accounted for at fair value[2]	(1,739)	(695)	2	(40)		(2,472)	(695)
Consumer notes	(3)	2		(5)		(6)	2
Supplemental Information:							
Net US GMWB (Embedded derivatives, freestanding derivatives including those in Levels 1, 2 and 3 and reinsurance recoverable)[8]	(630)	(116)		(60)		(806)	(116)

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THE HARTFORD FINANCIAL SERVICES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Fair Value Measurements (continued)

Roll-forward of Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) for the nine months from January 1, 2008 to September 30, 2008

	SFAS 157 Fair value as of January 1, 2008	Total realized/unrealized gains (losses) included in: Net income [2], [3]	Total realized/unrealized gains (losses) included in: AOCI [5]	Purchases, issuances, and settlements	Transfers in and/or (out) of Level 3 [7]	SFAS 157 Fair value as of September 30, 2008	Changes in unrealized gains (losses) included in net income related to financial instruments still held at September 30, 2008 [3]
Assets							
Fixed maturities	$ 17,996	$ (860)	$ (1,992)	$ 1,355	$ (262)	$ 16,237	$ (824)
Equity securities, available-for-sale	1,339	(230)					