

ASSURANT INC
Form 10-Q
August 04, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2008

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Assurant, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-31978
(Commission File Number)

39-1126612
(I.R.S. Employer
Identification No.)

One Chase Manhattan Plaza, 41st Floor

New York, New York 10005

(212) 859-7000

(Address, including zip code, and telephone number, including
area code, of Registrant's Principal Executive Offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The number of shares of the registrant's Common Stock outstanding at August 1, 2008 was 118,594,275.

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ASSURANT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

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	June 30, 2008	December 31, 2007
	(in thousands except per share and share amounts)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost - \$9,870,433 in 2008 and \$10,026,355 in 2007)	\$ 9,689,741	\$ 10,126,415
Equity securities available for sale, at fair value (cost - \$800,984 in 2008 and \$702,698 in 2007)	717,549	636,001
Commercial mortgage loans on real estate, at amortized cost	1,486,138	1,433,626
Policy loans	56,220	57,107
Short-term investments	472,215	410,878
Collateral held under securities lending	510,903	541,650
Other investments	594,571	541,474
Total investments	13,527,337	13,747,151
Cash and cash equivalents	956,603	804,964
Premiums and accounts receivable, net	528,351	580,379
Reinsurance recoverables	3,916,486	3,904,348
Accrued investment income	151,018	149,165
Tax receivable	58,364	26,012
Deferred acquisition costs	2,917,852	2,895,345
Property and equipment, at cost less accumulated depreciation	270,139	275,779
Deferred income taxes, net	10,349	
Goodwill	828,743	832,656
Value of business acquired	116,510	125,612
Other assets	268,105	265,617
Assets held in separate accounts	2,662,175	3,143,288
Total assets	\$ 26,212,032	\$ 26,750,316

See the accompanying notes to the consolidated financial statements

Table of Contents**Assurant, Inc. and Subsidiaries****Consolidated Balance Sheets (unaudited)****At June 30, 2008 and December 31, 2007**

	June 30, 2008	December 31, 2007
	(in thousands except per share and share amounts)	
Liabilities		
Future policy benefits and expenses	\$ 7,205,884	\$ 7,189,496
Unearned premiums	5,531,862	5,410,709
Claims and benefits payable	3,311,611	3,303,084
Commissions payable	201,460	267,886
Reinsurance balances payable	87,181	104,105
Funds held under reinsurance	48,192	50,147
Deferred gain on disposal of businesses	202,066	216,772
Obligation under securities lending	510,903	541,650
Accounts payable and other liabilities	1,220,149	1,332,824
Deferred income taxes, net		108,429
Debt	971,909	971,863
Mandatorily redeemable preferred stock	11,160	21,160
Liabilities related to separate accounts	2,662,175	3,143,288
Total liabilities	21,964,552	22,661,413
Commitments and contingencies (Note 11)		
Stockholders equity		
Common stock, par value \$0.01 per share, 800,000,000 shares authorized, 118,267,434 and 117,808,007 shares outstanding at June 30, 2008 and December 31, 2007, respectively	1,442	1,438
Additional paid-in capital	2,912,038	2,904,970
Retained earnings	2,612,291	2,269,107
Accumulated other comprehensive (loss) income	(137,768)	53,911
Treasury stock, at cost; 25,997,943 shares at June 30, 2008 and December 31, 2007	(1,140,523)	(1,140,523)
Total stockholders equity	4,247,480	4,088,903
Total liabilities and stockholders equity	\$ 26,212,032	\$ 26,750,316

See the accompanying notes to the consolidated financial statements

Table of Contents**Assurant, Inc. and Subsidiaries****Consolidated Statement of Operations (unaudited)****Three and Six Months Ended June 30, 2008 and 2007**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands except number of shares and per share amounts)			
Revenues				
Net earned premiums and other considerations	\$ 1,995,516	\$ 1,798,687	\$ 3,936,933	\$ 3,558,196
Net investment income	201,211	190,302	398,985	407,198
Net realized (losses) gains on investments	(34,574)	(3,086)	(77,717)	2,484
Amortization of deferred gain on disposal of businesses	7,327	8,246	14,706	16,595
Fees and other income	79,280	70,578	153,178	137,517
Total revenues	2,248,760	2,064,727	4,426,085	4,121,990
Benefits, losses and expenses				
Policyholder benefits	998,208	902,053	1,935,667	1,791,575
Amortization of deferred acquisition costs and value of business acquired	425,088	355,045	830,297	674,759
Underwriting, general and administrative expenses	560,763	539,859	1,094,204	1,095,071
Interest expense	15,287	15,296	30,575	30,593
Total benefits, losses and expenses	1,999,346	1,812,253	3,890,743	3,591,998
Income before provision for income taxes	249,414	252,474	535,342	529,992
Provision for income taxes	59,460	86,194	158,558	184,255
Net income	\$ 189,954	\$ 166,280	\$ 376,784	\$ 345,737
Earnings Per Share				
Basic	\$ 1.61	\$ 1.38	\$ 3.19	\$ 2.85
Diluted	\$ 1.59	\$ 1.36	\$ 3.16	\$ 2.80
Dividends per share	\$ 0.14	\$ 0.12	\$ 0.26	\$ 0.22
Share Data:				
Weighted average shares outstanding used in basic per share calculations	118,059,955	120,657,052	117,971,858	121,399,339
Plus: Dilutive securities	1,432,882	1,835,452	1,451,648	1,934,888
Weighted average shares used in diluted per share calculations	119,492,837	122,492,504	119,423,506	123,334,227

See the accompanying notes to the consolidated financial statements

Table of Contents**Assurant, Inc. and Subsidiaries****Consolidated Statement of Changes in Stockholders' Equity (unaudited)****From December 31, 2007 through June 30, 2008**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2007	\$ 1,438	\$ 2,904,970	\$ 2,269,107	\$ 53,911	\$ (1,140,523)	\$ 4,088,903
Stock plan exercises	4	(9,306)				(9,302)
Stock plan compensation expense		11,154				11,154
Tax benefit of exercise of stock options		5,220				5,220
Dividends			(30,740)			(30,740)
Cumulative effect of change in accounting principles (Note 2)			(2,860)			(2,860)
Comprehensive income:						
Net income			376,784			376,784
Other comprehensive loss:						
Net change in unrealized (losses) on securities, net of taxes				(195,407)		(195,407)
Net change in foreign currency translation, net of taxes				283		283
Amortization of pension and postretirement unrecognized net periodic benefit, net of taxes				3,445		3,445
Total other comprehensive loss						(191,679)
Total comprehensive income:						185,105
Balance, June 30, 2008	\$ 1,442	\$ 2,912,038	\$ 2,612,291	\$ (137,768)	\$ (1,140,523)	\$ 4,247,480

See the accompanying notes to the consolidated financial statements

Table of Contents**Assurant, Inc. and Subsidiaries****Consolidated Statement of Cash Flows (unaudited)****Six Months Ended June 30, 2008 and 2007**

	Six Months Ended June 30, 2008 2007 (in thousands)	
Net cash provided by operating activities	\$ 433,660	\$ 516,157
Investing activities		
Sales of:		
Fixed maturity securities available for sale	1,086,904	1,002,756
Equity securities available for sale	169,352	137,069
Property and equipment and other	561	1,256
Subsidiary, net of cash transferred	31,853	
Maturities, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	343,634	372,995
Purchases of:		
Fixed maturity securities available for sale	(1,362,023)	(1,620,973)
Equity securities available for sale	(284,393)	(128,226)
Property and equipment and other	(28,798)	(33,423)
Change in commercial mortgage loans on real estate	(52,490)	(88,938)
Change in short term investments	(87,728)	51,774
Change in other invested assets	(64,471)	16,187
Change in policy loans	822	988
Change in collateral held under securities lending	30,747	(263,305)
Net cash used in investing activities	(216,030)	(551,840)
Financing activities		
Repayment of mandatorily redeemable preferred stock	(10,000)	
Excess tax benefits from stock-based payment arrangements	5,220	7,374
Acquisition of treasury stock		(190,688)
Dividends paid	(30,740)	(26,731)
Change in obligation under securities lending	(30,747)	263,305
Commercial paper issued		39,958
Commercial paper repaid		(40,000)
Net cash (used in) provided by financing activities	(66,267)	53,218
Effect of exchange rate changes on cash and cash equivalents	276	4,864
Change in cash and cash equivalents	151,639	22,399
Cash and cash equivalents at beginning of period	804,964	987,672
Cash and cash equivalents at end of period	\$ 956,603	\$ 1,010,071

See the accompanying notes to the consolidated financial statements

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Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Six Months Ended June 30, 2008 and 2007

(In thousands, except per share and share amounts)

1. Nature of Operations

Assurant, Inc. (the Company) is a holding company whose subsidiaries provide specialized insurance products and related services in North America and selected international markets.

Assurant, Inc. is traded on the New York Stock Exchange under the symbol AIZ.

Through its operating subsidiaries, the Company provides creditor-placed homeowners insurance, manufactured housing homeowners insurance, debt protection administration, credit insurance, warranties and extended service contracts, individual health and small employer group health insurance, group dental insurance, group disability insurance, group life insurance and pre-funded funeral insurance.

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of a normal recurring nature) considered necessary for a fair statement of the consolidated financial statements have been included. The unaudited interim consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2008 presentation.

The Company recorded an after-tax cumulative effect of change in accounting principle of \$(2,860) on January 1, 2008, related to the adoption of Statement of Financial Accounting Standards (FAS) No. 157, *Fair Value Measurements* (FAS 157). The amount is reflected in the statement of changes in stockholders' equity as required. See Notes 3 and 5 for further information regarding the adoption of FAS 157.

As part of our ongoing monitoring process, we regularly review our investment portfolio to ensure that investments that may be other-than-temporarily impaired are identified on a timely basis and that any impairment is charged against earnings in the proper period. We have reviewed these securities and recorded \$27,573 and \$70,982 of other-than-temporary impairments for the three and six months ended June 30, 2008. There were no other-than-temporary impairments for the three and six months ended June 30, 2007.

Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

3. Recent Accounting Pronouncements

Recent Accounting Pronouncements - Adopted

On January 1, 2008, the Company adopted FAS 157 which defines fair value, addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP and expands disclosures about fair value measurements. FAS 157 is applied prospectively for financial assets and liabilities measured on a recurring basis as of January 1, 2008 except for certain

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financial assets that were measured at fair value using a transaction price. For these financial instruments, which the Company has, FAS 157

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requires limited retrospective adoption and thus the difference between the fair values using a transaction price and the fair values using an exit price of the relevant financial instruments will be shown as a cumulative-effect adjustment to the January 1, 2008 retained earnings balance. At adoption, the Company recognized a \$4,400 decrease to other assets, and a corresponding decrease of \$2,860 (after-tax) to retained earnings. See Note 5 for further information regarding FAS 157.

On January 1, 2008, the Company adopted FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 provides a choice to measure many financial instruments and certain other items at fair value on specified election dates and requires disclosures about the election of the fair value option. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company has chosen not to elect the fair value option for any financial or non-financial instruments as of the adoption date, thus the adoption of FAS 159 did not have an impact on the Company's financial position or results of operations.

On January 1, 2008, the Company adopted Emerging Issues Task Force (EITF) Issue No. 06-10, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements* (EITF 06-10). EITF 06-10 provides guidance regarding the employer's recognition of the liability and the related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods. This consensus concludes that for a collateral assignment split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with FAS No. 106, *Employers' Accounting For Postretirement Benefits Other Than Pensions*, (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12, *Deferred Compensation Contracts*, (APB 12) (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. The Company has been recording its liability for future benefits in accordance with APB 12, thus the adoption of EITF 06-10 did not have an impact on the Company's financial position or results of operations.

Recent Accounting Pronouncements Not Yet Adopted

In December 2007, the Financial Accounting Standards Board (FASB) issued FAS No. 141R, *Business Combinations* (FAS 141R). FAS 141R replaces FAS No. 141, *Business Combinations* (FAS 141). FAS 141R retains the fundamental requirements of FAS 141 that the purchase method of accounting be used for all business combinations, that an acquirer be identified for each business combination and for goodwill to be recognized and measured as a residual. FAS 141R expands the definition of transactions and events that qualify as business combinations to all transactions and other events in which one entity obtains control over one or more other businesses. FAS 141R broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. FAS 141R also increases the disclosure requirements for business combinations in the financial statements. FAS 141R is effective for fiscal periods beginning after December 15, 2008. Therefore, the Company is required to adopt FAS 141R on January 1, 2009. The Company is currently evaluating the requirements of FAS 141R and the potential impact on the Company's financial position and results of operations.

In December 2007, the FASB issued FAS No. 160, *Non-Controlling Interest in Consolidated Financial Statements - an amendment of ARB No. 51* (FAS 160). FAS 160 requires that a non-controlling interest in a subsidiary be separately reported within equity and the amount of consolidated net income attributable to the non-controlling interest be presented in the statement of operations. FAS 160 also calls for consistency in reporting changes in the parent's ownership interest in a subsidiary and necessitates fair value measurement of any non-controlling equity investment retained in a deconsolidation. FAS 160 is effective for fiscal periods beginning after December 15, 2008. Therefore, the Company is required to adopt FAS 160 on January 1, 2009. The Company is currently evaluating the requirements of FAS 160 and the potential impact on the Company's financial position and results of operations.

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Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Six Months Ended June 30, 2008 and 2007

(In thousands, except per share and share amounts)

In February 2008, the FASB issued Financial Statement of Position FAS 157-2, *Effective Date of FAS 157* (FSP FAS 157-2). FSP FAS 157-2 defers the effective date of FAS 157 for all non-financial assets and non-financial liabilities measured or disclosed at fair value in the financial statements on a non-recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, which for the Company is January 1, 2009. The Company is currently evaluating the requirements of FAS 157 for its non-financial assets and non-financial liabilities measured on a non-recurring basis and the potential impact on the Company's financial position and results of operations.

In June 2008, the FASB issued FSP EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, (FSP EITF 03-6-1). FSP EITF 03-6-1 requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as participating securities. Therefore, these financial instruments need to be included in calculating basic and diluted earnings per share under the two-class method described in FAS No. 128, *Earnings Per Share*. All prior period EPS data presented will be adjusted retrospectively. FSP EITF 03-6-1 will be effective for fiscal years beginning after December 15, 2008. Therefore, the Company is required to adopt FSP EITF 03-6-1 on January 1, 2009. The Company is currently evaluating the requirements of FSP EITF 03-6-1 and the potential impact on the Company's basic and diluted earnings per share calculations.

4. Dispositions

On May 1, 2008, the Company sold a subsidiary, United Family Life Insurance Company (UFLIC), to a third party for proceeds of \$32,715. The Company recognized a pre-tax gain of \$3,175 from the sale. In connection with the sale of UFLIC, the Company also recognized an associated tax benefit of \$24,566, primarily related to capital loss carry backs.

5. Fair Value Measurements

FAS 157 defines fair value, establishes a framework for measuring fair value, creates a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. FAS 157 defines fair value as the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with FAS 157, the Company has categorized its recurring basis financial assets and liabilities based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The FASB has deferred the effective date of FAS 157 until January 1, 2009 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis in accordance with FSP FAS 157-2.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The levels of the fair value hierarchy and its application to the Company's financial assets and liabilities are described below:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include certain U.S. mutual funds, money market funds, common stock and certain foreign securities.

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Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs other than quoted prices that are observable in the marketplace for the asset. The observable inputs are used in valuation models to calculate the fair value for the asset. Financial assets utilizing Level 2 inputs include corporate, municipal, foreign government and public utilities bonds, private placement bonds, U.S. Government and agency securities, mortgage and asset backed securities, preferred stocks and certain U.S. and foreign mutual funds.

Level 3 inputs are unobservable but are significant to the fair value measurement for the asset, and include situations where there is little, if any, market activity for the asset. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset. Financial assets utilizing Level 3 inputs include certain preferred stocks, corporate bonds and mortgage backed securities that were quoted by brokers and could not be corroborated by Level 2 inputs and derivatives.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those recurring basis assets and liabilities as of June 30, 2008.

Financial Assets	Total	Level 1	Level 2	Level 3
Fixed maturity securities	\$ 9,689,741	\$ 4,996	\$ 9,469,516	\$ 215,229
Equity securities	717,549	5,003 ^a	692,690	19,856
Short-term investments	472,215	356,911	115,304	
Collateral held under securities lending	470,903	65,184	405,719	
Other investments	300,671	95,975 ^b	195,456 ^c	9,240 ^c
Cash equivalents	693,572	693,572		
Other assets	5,003			5,003
Assets held in separate accounts	2,581,005	2,377,711 ^a	203,294	
Total financial assets	\$ 14,930,659	\$ 3,599,352	\$ 11,081,979	\$ 249,328
Financial Liabilities				
Other liabilities	\$ 95,975	\$ 95,975 ^b	\$	\$

^a Mainly includes mutual fund investments

^b Comprised of Assurant Incentive Plan investments and related liability which are invested in mutual funds

^c Consists of invested assets associated with a modified coinsurance arrangement

Table of Contents**Assurant, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****Six Months Ended June 30, 2008 and 2007****(In thousands, except per share and share amounts)**

The following table summarizes the change in balance sheet carrying value associated with Level 3 financial assets carried at fair value during the three months ended June 30, 2008:

	Total Level 3 Assets	Fixed Maturity Securities	Equity Securities	Other Investments	Other Assets
Balance, beginning of quarter	\$ 216,207	\$ 191,280	\$ 11,626	\$ 9,613	\$ 3,688
Total net gains (realized/unrealized) included in earnings	1,552	411		13	1,128
Net unrealized losses included in stockholder's equity	(9,958)	(9,910)	(8)	(40)	
Purchases, issuances, (sales) and (settlements)	22,829	21,048	1,940	(346)	187
Net transfers in	18,698	12,400	6,298		
Balance, end of period	\$ 249,328	\$ 215,229	\$ 19,856	\$ 9,240	\$ 5,003

The following table summarizes the change in balance sheet carrying value associated with Level 3 financial assets carried at fair value during the six months ended June 30, 2008

	Total Level 3 Assets	Fixed Maturity Securities	Equity Securities	Other Investments	Other Assets
Balance, beginning of year	\$ 282,581	\$ 256,937	\$ 12,116	\$ 10,368	\$ 3,160
Total net gains (losses) (realized/unrealized) included in earnings	(91)	(538)		16	431
Net unrealized losses included in stockholder's equity	(15,975)	(14,870)	(654)	(451)	
Purchases, issuances, (sales) and (settlements)	26,560	23,901	1,940	(693)	1,412
Net transfers in (out of)	(43,747)	(50,201)	6,454		
Balance, end of period	\$ 249,328	\$ 215,229	\$ 19,856	\$ 9,240	\$ 5,003

FAS 157 describes three different valuation techniques to be used in determining fair value for financial assets and liabilities: the market, income or cost approaches. The three valuation techniques described within FAS 157 are consistent with generally accepted valuation methodologies. The market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. When possible, quoted prices (unadjusted) in active markets are used as of the period-end date. Otherwise, valuation techniques consistent with the market approach including matrix pricing and comparables are used. Matrix pricing is a mathematical technique employed to value certain securities without relying exclusively on quoted prices for those securities but comparing those securities to benchmark or comparable securities. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable.

Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. These techniques rely on current market expectations of future amounts as of the period-end date. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques, and the multi-period excess earnings method.

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Cost approach valuation techniques are based upon the amount that would be required to replace the service capacity of an asset at the period-end date, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

While all three approaches are not applicable to all financial assets or liabilities, where appropriate, one or more valuation technique may be used. For all the financial assets and liabilities included in the above hierarchy, excluding derivatives and private placement bonds, the market valuation technique is generally used. For private placement bonds and derivatives, the income valuation technique is generally used. For the period ended June 30, 2008, the application of valuation technique applied to similar assets and liabilities has been consistent.

Level 2 valuations include observable market inputs. FAS 157 defines observable market inputs as the assumptions market participants would use in pricing the asset or liability developed on market data obtained from

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Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Six Months Ended June 30, 2008 and 2007

(In thousands, except per share and share amounts)

sources independent of the Company. The extent of the use of each observable market input for a security depends on the type of security and the market conditions at the balance sheet date. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. The following observable market inputs, listed in the approximate order of priority, are utilized in the pricing evaluation of Level 2 securities: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Each security is evaluated based on relevant market information including: relevant credit information, perceived market movements and sector news. Valuation models can change period to period, depending on the appropriate observable inputs that are available at the balance sheet date to price a security.

The Company performs a monthly analysis to assess if the evaluated prices represent a reasonable estimate of their 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 pricing methodologies, review of the evaluated prices, review of pricing statistics and trends, and comparison of prices for certain securities with two different appropriate price sources for reasonableness. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price of a security is adjusted accordingly.

6. Debt

In February 2004, the Company issued two series of senior notes with an aggregate principal amount of \$975,000. The Company received net proceeds of \$971,537 from this transaction, which represents the principal amount less the discount. The discount of \$3,463 is being amortized over the life of the notes and is included as part of interest expense in the statement of operations.

The interest expense incurred related to the senior notes was \$15,047 for the three months ended June 30, 2008 and 2007, respectively, and \$30,094 for the six months ended June 30, 2008 and 2007 respectively. There was \$22,570 of accrued interest at June 30, 2008 and 2007, respectively. The Company made an interest payment of \$30,094 on February 15, 2008.

In March 2004, the Company established a \$500,000 commercial paper program, which is available for working capital and other general corporate purposes. This program is backed up by a \$500,000 senior revolving credit facility. The Company did not use the commercial paper program during the six months ended June 30, 2008. During 2007, the Company used proceeds from the commercial paper program for general corporate purposes, all of which were repaid during 2007. The Company did not use the revolving credit facility during the six months ended June 30, 2008 or the twelve months ended December 31, 2007.

The revolving credit facility contains restrictive covenants and requires that the Company maintain certain specified minimum ratios and thresholds. The Company is in compliance with all covenants, minimum ratios and thresholds.

7. Stock Based Compensation Directors Compensation Plan

The Company's Amended and Restated Directors Compensation Plan, as amended, permitted the issuance of up to 500,000 shares of the Company's common stock to non-employee Directors. The compensation expense recorded related to these shares was \$625 for the three and six months ended June 30, 2007. Effective May 2008, no new grants will be made under this plan and all future grants issued to directors will be issued from the Assurant, Inc Long-Term Equity Incentive Plan, discussed further below.

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Long-Term Incentive Plan

The 2004 Long-Term Incentive Plan authorized the granting of up to 10,000,000 new shares of the Company's common stock to employees and officers under the Assurant Long Term Incentive Plan (ALTIP), Business Value Rights Program (BVR) and CEO Equity Grants Program. Under the ALTIP, the Company was authorized to grant restricted stock and Stock Appreciation Rights (SARs). Effective May 2008, no new grants will be made under this plan and all future grants will be issued from the Assurant, Inc. Long-Term Equity Incentive Plan, discussed further below. Unearned compensation, representing the market value of the shares at the date of issuance, is charged to earnings over the vesting period.

Restricted stock granted under the ALTIP vests pro ratably over a three year period. SARs granted prior to 2007 under the ALTIP, cliff vest as of December 31 of the second calendar year following the calendar year in which the right was granted, and have a five year contractual life. SARs granted in 2007 and through May 2008 cliff vest on the third anniversary from the date the award was granted, and have a five year contractual life. SARs granted under the BVR Program have a three year cliff vesting period. Restricted stock granted under the CEO Equity Grants Program have variable vesting schedules.

Long-Term Equity Incentive Plan

In May 2008, the Company adopted the Assurant, Inc. Long-Term Equity Incentive Plan (ALTEIP), which authorizes the granting of up to 3,400,000 shares of the Company's common stock to employees, officers and non-employee Directors. Under the ALTEIP, the Company is authorized to grant various stock awards including but not limited to SARs, restricted stock and restricted stock units, performance shares and performance units. All future share-based grants will be issued under the ALTEIP.

Restricted stock and SARs granted to non-employee Directors in May 2008 vested immediately. SARs granted to non-employee Directors have a five year contractual life.

The Company's CEO is authorized by the Board of Directors to grant common stock and restricted stock to employees other than the executive officers of the Company (as defined in Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act)) limited to 100,000 new shares per year. Restricted stock granted under this program have different vesting schedules.

Restricted Stock

The restricted shares granted to employees and to non-employee Directors were 35,846 and 16,796 for the three months ended June 30, 2008 and 2007, respectively, and 120,631 and 83,409 for the six months ended June 30, 2008 and 2007, respectively. The compensation expense recorded related to restricted stock was \$2,248 and \$912 for the three months ended June 30, 2008 and 2007, respectively, and \$3,703 and \$2,080 for the six months ended June 30, 2008 and 2007, respectively. The related total income tax benefit recognized was \$589 and \$319 for the three months ended June 30, 2008 and 2007, respectively, and \$1,098 and \$728 for the six months ended June 30, 2008 and 2007, respectively. The weighted average grant date fair value for restricted stock granted during the six months ended June 30, 2008 and 2007 was \$62.59 and \$53.88, respectively.

As of June 30, 2008, there was \$7,784 of unrecognized compensation cost related to outstanding restricted stock. That cost is expected to be recognized over a weighted-average period of 1.4 years. The total fair value of shares vested during the three months ended June 30, 2008 and 2007 was \$3,717 and \$2,826, respectively, and \$5,455 and \$3,003 for the six months ended June 30, 2008 and 2007, respectively.

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Stock Appreciation Rights

There were 8,091 and 9,980 SARs granted during the three months ended June 30, 2008 and 2007, respectively, and 1,497,891 and 1,541,505 granted during the six months ended June 30, 2008 and 2007, respectively. The compensation expense recorded related to SARs was \$3,541 and \$3,840 for the three months ended June 30, 2008 and 2007, respectively, and \$6,600 and \$6,005 for the six months ended June 30, 2008 and 2007, respectively. The related total income tax benefit recognized was \$1,199 and \$1,305 for the three months ended June 30, 2008 and 2007, respectively, and \$2,270 and \$2,063 for the six months ended June 30, 2008 and 2007, respectively. The weighted average grant date fair value for SARs granted during the six months ended June 30, 2008 was \$13.77.

The total intrinsic value of SARs exercised during the six months ended June 30, 2008 and 2007 was \$35,963 and \$52,447, respectively. As of June 30, 2008, there was approximately \$24,245 of unrecognized compensation cost related to outstanding SARs. That cost is expected to be recognized over a weighted-average period of 1.7 years.

The fair value of each SAR outstanding was estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatilities for awards issued during the six months ended June 30, 2008 were based on the median historical stock price volatility of insurance guideline companies and implied volatilities from traded options on the Company's stock. The expected term for grants issued during the six months ended June 30, 2008 was assumed to equal the average of the vesting period of the SARs and the full contractual term of the SARs. The risk-free rate for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on the current expected annual dividend and share price on the grant date.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 5,000,000 new shares to employees who are participants in the ESPP. Eligible employees can purchase stock at a 10% discount applied to the lower of the closing price of the common stock on the first or last day of the offering period. The compensation expense recorded related to the ESPP was \$330 and \$324 for the three months ended June 30, 2008 and 2007, respectively, and \$851 and \$660 for the six months ended June 30, 2008 and 2007, respectively.

In January 2008, the Company issued 70,646 shares to employees at a discounted price of \$53.45 for the offering period of July 1 through December 31, 2007. In January 2007, the Company issued 80,282 shares to employees at a discounted price of \$43.52 for the offering period of July 1 through December 31, 2006.

In July 2008, the Company issued 65,841 shares to employees at a discounted price of \$59.13 for the offering period of January 1 through June 30, 2008, related to the ESPP. In July 2007, the Company issued 75,468 shares to employees at a discounted price of \$50.26 for the offering period of January 1 through June 30, 2007, related to the ESPP.

The fair value of each award under ESPP was estimated at the beginning of each offering period using the Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on the Company's stock and the historical volatility of the Company's stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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8. Earnings Per Common Share

The following table presents the weighted average common shares used in calculating basic earnings per common share and those used in calculating diluted earnings per common share for each income category presented below.

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Numerator				
Net income	\$ 189,954	\$ 166,280	\$ 376,784	\$ 345,737
Denominator				
Weighted average shares outstanding used in basic earnings per share calculations	118,059,955	120,657,052	117,971,858	121,399,339
Incremental common shares from:				
SARs	1,265,602	1,671,766	1,278,959	1,777,823
Restricted stock	101,387	88,127	106,796	81,506
ESPP	65,893	75,559	65,893	75,559
Weighted average shares used in diluted earnings per share calculations	119,492,837	122,492,504	119,423,506	123,334,227
Earnings per share				
Basic	\$ 1.61	\$ 1.38	\$ 3.19	\$ 2.85
Diluted	\$ 1.59	\$ 1.36	\$ 3.16	\$ 2.80

Average restricted shares totaling zero and 220 for the three months ended June 30, 2008 and 2007, respectively, and 1,229 and 43,475, for the six months ended June 30, 2008 and 2007, respectively, were outstanding but were anti-dilutive and thus not included in the computation of diluted EPS under the treasury stock method. Average SARs totaling 1,471,068 and 1,512,666 for the three months ended June 30, 2008 and 2007, respectively, and 891,177 and 975,700 for the six months ended June 30, 2008 and 2007, respectively, were also outstanding but were anti-dilutive and thus not included in the computation of diluted EPS under the treasury stock method.

Table of Contents**Assurant, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****Six Months Ended June 30, 2008 and 2007**

(In thousands, except per share and share amounts)

9. Retirement and Other Employee Benefits

The components of net periodic benefit cost for the Company's qualified pension benefits plan, nonqualified pension benefits plan and retirement health benefits plan for the three and six months ended June 30, 2008 and 2007 were as follows:

	Qualified Pension Benefits For the three months ended June 30,		Nonqualified Pension Benefits (1) For the three months ended June 30,		Retirement Health Benefits For the three months ended June 30,	
	2008	2007	2008	2007	2008	2007
	Service cost	\$ 5,300	\$ 5,184	\$ 475	\$ 509	\$ 775
Interest cost	6,575	6,165	1,475	1,429	950	866
Expected return on plan assets	(9,275)	(8,141)			(300)	(314)
Amortization of prior service cost	725	764	200	275	325	336
Amortization of net loss	1,050	1,868	350	385		
Settlement charge under FAS 88			1,748	115		
Net periodic benefit cost	\$ 4,375	\$ 5,840	\$ 4,248	\$ 2,713	\$ 1,750	\$ 1,622

	Qualified Pension Benefits For the six months ended June 30,		Nonqualified Pension Benefits (1) For the six months ended June 30,		Retirement Health Benefits For the six months ended June 30,	
	2008	2007	2008	2007	2008	2007
	Service cost	\$ 10,600	\$ 10,234	\$ 950	\$ 1,009	\$ 1,550
Interest cost	13,150	12,215	2,950	2,804	1,900	1,766
Expected return on plan assets	(18,550)	(15,941)			(600)	(614)
Amortization of prior service cost	1,450	1,539	400	600	650	661
Amortization of net loss	2,100	3,468	700	1,010		
Settlement charge under FAS 88			1,748	115		
Net periodic benefit cost	\$ 8,750	\$ 11,515	\$ 6,748	\$ 5,538	\$ 3,500	\$ 3,297

(1) The Company's nonqualified plans are unfunded.

During the first six months of 2008, \$10,000 was contributed to the qualified pension benefits plan. An additional \$10,000 is expected to be contributed to the qualified pension benefits plan over the remaining course of 2008.

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10. Segment Information

The Company has five reportable segments, which are defined based on the nature of the products and services offered: Assurant Solutions, Assurant Specialty Property, Assurant Health, Assurant Employee Benefits, and Corporate & Other. Assurant Solutions provides credit insurance, including life, disability and unemployment, debt protection administration services, warranties and extended service contracts, life insurance policies and annuity products that provide benefits to fund pre-arranged funerals. Assurant Specialty Property provides creditor-placed homeowners insurance and manufactured housing homeowners insurance. Assurant Health provides individual, short-term and small group health insurance. Assurant Employee Benefits provides employee and employer paid dental, disability, and life insurance products and related services. Corporate & Other includes activities of the holding company, financing and interest expenses, net realized gains (losses) on investments, interest income earned from short-term investments held and additional costs associated with excess of loss reinsurance programs reinsured and ceded to certain subsidiaries in the London market between 1995 and 1997. Corporate & Other also includes the amortization of deferred gains associated with the sales of Fortis Financial Group and Long-Term Care through reinsurance agreements.

The Company evaluates performance of the operating segments based on after-tax segment income (loss) excluding realized gains (losses) on investments. The Company determines reportable segments in a manner consistent with the way the Company organizes for purposes of making operating decisions and assessing performance.

Table of Contents**Assurant, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (unaudited)****Six Months Ended June 30, 2008 and 2007****(In thousands, except per share and share amounts)**

The following tables summarize selected financial information by segment:

	Three Months Ended June 30, 2008					Consolidated
	Solutions	Specialty Property	Health	Employee Benefits	Corporate & Other	
Revenues						
Net earned premiums and other considerations	\$ 700,629	\$ 533,914	\$ 487,725	\$ 273,248	\$	\$ 1,995,516
Net investment income	108,425	31,997	15,302	38,919	6,568	201,211
Net realized losses on investments					(34,574)	(34,574)
Amortization of deferred gain on disposal of businesses					7,327	7,327
Fees and other income	47,668	11,996	9,637	7,208	2,771	79,280
Total revenues	856,722	577,907	512,664	319,375	(17,908)	2,248,760
Benefits, losses and expenses						
Policyholder benefits	306,173	171,793	325,504	193,642	1,096	998,208
Amortization of deferred acquisition costs and value of business acquired	327,268	83,750	4,721	9,349		425,088
Underwriting, general and administrative expenses	175,805	122,589	139,083	88,005	35,281	560,763
Interest expense					15,287	15,287
Total benefits, losses and expenses	809,246	378,132	469,308	290,996	51,664	1,999,346
Segment income (loss) before provision (benefit) for income tax						
	47,476	199,775	43,356	28,379	(69,572)	249,414
Provision (benefit) for income taxes	15,121	68,733	15,635	9,749	(49,778)	59,460
Segment income (loss) after tax	\$ 32,355	\$ 131,042	\$ 27,721	\$ 18,630	\$ (19,794)	
Net income						\$ 189,954

	Three Months Ended June 30, 2007					Consolidated
	Solutions	Specialty Property	Health	Employee Benefits	Corporate & Other	
Revenues						
Net earned premiums and other considerations	\$ 618,675	\$ 393,614	\$ 513,936	\$ 272,462	\$	\$ 1,798,687
Net investment income	100,784	23,667	16,290	39,408	10,153	190,302
Net realized losses on investments					(3,086)	(3,086)
Amortization of deferred gain on disposal of businesses					8,246	8,246
Fees and other income	40,957	12,654	10,445	6,379	143	70,578
Total revenues	760,416	429,935	540,671	318,249	15,456	2,064,727

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Benefits, losses and expenses

Policyholder benefits	258,527	130,866	329,327	183,333		902,053
Amortization of deferred acquisition costs and value of business acquired	276,882	65,448	4,617	8,098		355,045
Underwriting, general and administrative expenses	178,258	93,844	154,471	93,992	19,294	539,859
Interest expense					15,296	15,296
Total benefits, losses and expenses	713,667	290,158	488,415	285,423	34,590	1,812,253

Segment income (loss) before provision (benefit) for income tax

	46,749	139,777	52,256	32,826	(19,134)	252,474
Provision (benefit) for income taxes	16,539	49,570	18,418	11,351	(9,684)	86,194

Segment income (loss) after tax

	\$ 30,210	\$ 90,207	\$ 33,838	\$ 21,475	\$ (9,450)	
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Net income

						\$ 166,280
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Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

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	Six Months Ended June 30, 2008					Consolidated
	Solutions	Specialty Property	Health	Employee Benefits	Corporate & Other	
Revenues						
Net earned premiums and other considerations	\$ 1,384,122	\$ 1,015,341	\$ 983,785	\$ 553,685	\$	