ASSURANT INC
Form 10-Q
May 12, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 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	**001-31978**	**39-1126612**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(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. YES x 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 x 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 x

The number of shares of the registrant s Common Stock outstanding at May 1, 2008 was 118,226,814.

Table of Contents

ASSURANT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

TABLE OF CONTENTS

Table of Contents

Assurant, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

At March 31, 2008 and December 31, 2007

	March 31, 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 - $9,687,311 in 2008 and $ 10,026,355 in 2007)	$ 9,692,529	$ 10,126,415
Equity securities available for sale, at fair value (cost - $784,511 in 2008 and $ 702,698 in 2007)	728,473	636,001
Commercial mortgage loans on real estate, at amortized cost	1,470,477	1,433,626
Policy loans	56,978	57,107
Short-term investments	652,305	410,878
Collateral held under securities lending	521,347	541,650
Other investments	535,862	541,474
Total investments	13,657,971	13,747,151
Cash and cash equivalents	1,020,594	804,964
Premiums and accounts receivable, net	621,150	580,379
Reinsurance recoverables	3,895,539	3,904,348
Accrued investment income	155,465	149,165
Tax receivable		26,012
Deferred acquisition costs	2,895,498	2,895,345
Property and equipment, at cost less accumulated depreciation	272,333	275,779
Goodwill	829,039	832,656
Value of business acquired	120,897	125,612
Other assets	257,632	265,617
Assets held in separate accounts	2,720,297	3,143,288
Total assets	$ 26,446,415	$ 26,750,316

See the accompanying notes to the consolidated financial statements

Table of Contents

Assurant, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

At March 31, 2008 and December 31, 2007

	March 31, 2008	December 31, 2007
	(in thousands except per share and share amounts)	
Liabilities		
Future policy benefits and expenses	$ 7,177,899	$ 7,189,496
Unearned premiums	5,412,023	5,410,709
Claims and benefits payable	3,297,077	3,303,084
Commissions payable	226,372	267,886
Reinsurance balances payable	85,547	104,105
Funds held under reinsurance	49,954	50,147
Deferred gain on disposal of businesses	209,393	216,772
Obligation under securities lending	521,347	541,650
Accounts payable and other liabilities	1,409,357	1,332,824
Deferred income taxes, net	52,168	108,429
Income taxes payable	94,720	
Debt	971,886	971,863
Mandatorily redeemable preferred stock	11,160	21,160
Liabilities related to separate accounts	2,720,297	3,143,288
Total liabilities	22,239,200	22,661,413
Commitments and contingencies (Note 10)		
Stockholders equity		
Common stock, par value $0.01 per share, 800,000,000 shares authorized, 144,180,406 and 144,009,979 shares issued, 117,922,870 and 117,808,007 shares outstanding at March 31, 2008 and December 31, 2007, respectively	1,440	1,438
Additional paid-in capital	2,912,891	2,904,970
Retained earnings	2,438,904	2,269,107
Accumulated other comprehensive (loss) income	(5,497)	53,911
Treasury stock, at cost; 25,997,943 shares at March 31, 2008 and December 31, 2007	(1,140,523)	(1,140,523)
Total stockholders equity	4,207,215	4,088,903
Total liabilities and stockholders equity	$ 26,446,415	$ 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 Months Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008	2007
	(in thousands except number of shares and per share amounts)	
Revenues		
Net earned premiums and other considerations	$ 1,941,417	$ 1,759,509
Net investment income	197,774	216,896
Net realized (losses) gains on investments	(43,143)	5,570
Amortization of deferred gain on disposal of businesses	7,379	8,349
Fees and other income	73,898	66,939
Total revenues	2,177,325	2,057,263
Benefits, losses and expenses		
Policyholder benefits	935,083	889,522
Amortization of deferred acquisition costs and value of business acquired	405,208	319,714
Underwriting, general and administrative expenses	535,818	555,212
Interest expense	15,288	15,297
Total benefits, losses and expenses	1,891,397	1,779,745
Income before provision for income taxes	285,928	277,518
Provision for income taxes	99,098	98,061
Net income	$ 186,830	$ 179,457
Earnings Per Share		
Basic	$ 1.58	$ 1.47
Diluted	$ 1.57	$ 1.45
Dividends per share	$ 0.12	$ 0.10
Share Data:		
Weighted average shares outstanding used in basic per share calculations	117,883,761	122,149,873
Plus: Dilutive securities	1,397,219	1,961,661
Weighted average shares used in diluted per share calculations	119,280,980	124,111,534

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 March 31, 2008

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total	Shares of Common Stock Issued
Balance, December 31, 2007	$ 1,438	$ 2,904,970	$ 2,269,107	$ 53,911	$ (1,140,523)	$ 4,088,903	144,009,979
Stock plan exercises	2	2,286				2,288	170,427
Stock plan compensation expense		5,036				5,036	
Tax benefit of exercise of stock options		599				599	
Dividends			(14,173)			(14,173)	
Cumulative effect of change in accounting principles (Note 2)			(2,860)			(2,860)	
Comprehensive income:							
Net income			186,830			186,830	
Other comprehensive loss:							
Net change in unrealized (losses) on securities, net of taxes				(54,512)		(54,512)	
Net change in foreign currency translation, net of taxes				(6,609)		(6,609)	
Amortization of pension and postretirement unrecognized net periodic benefit, net of taxes				1,713		1,713	
Total other comprehensive loss						(59,408)	
Total comprehensive income:						127,422	
Balance, March 31, 2008	$ 1,440	$ 2,912,891	$ 2,438,904	$ (5,497)	$ (1,140,523)	$ 4,207,215	144,180,406

See the accompanying notes to the consolidated financial statements

Table of Contents

Assurant, Inc. and Subsidiaries

Consolidated Statement of Cash Flows (unaudited)

Three Months Ended March 31, 2008 and 2007

	Three Months Ended March 31, 2008	2007
	(in thousands)	
Net cash provided by operating activities	$ 450,192	$ 170,593
Investing activities		
Sales of:		
Fixed maturity securities available for sale	575,869	398,894
Equity securities available for sale	81,492	46,481
Property and equipment and other	1,251	1,186
Maturities, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	189,552	203,173
Purchases of:		
Fixed maturity securities available for sale	(578,632)	(764,142)
Equity securities available for sale	(177,592)	(55,300)
Property and equipment and other	(15,455)	(16,151)
Change in commercial mortgage loans on real estate	(37,875)	(20,829)
Change in short term investments	(242,936)	(116,362)
Change in other invested assets	(5,946)	9,755
Change in policy loans	58	325
Change in collateral held under securities lending	20,303	(210,171)
Net cash (used in) investing activities	(189,911)	(523,141)
Financing activities		
Repayment of mandatorily redeemable preferred stock	(10,000)	
Excess tax benefits from stock-based payment arrangements	599	1,440
Acquisition of treasury stock		(75,002)
Dividends paid	(14,173)	(12,233)
Change in obligation under securities lending	(20,303)	210,171
Commercial paper issued		19,979
Commercial paper repaid		(20,000)
Net cash (used in) provided by financing activities	(43,877)	124,355
Effect of exchange rate changes on cash and cash equivalents	(774)	356
Change in cash and cash equivalents	215,630	(227,837)
Cash and cash equivalents at beginning of period	804,964	987,672
Cash and cash equivalents at end of period	$ 1,020,594	$ 759,835

See the accompanying notes to the consolidated financial statements

[Table of Contents](#)

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 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 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 4 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 $43,409 of other-than-temporary impairments for the three months ended March 31, 2008. There were no other-than-temporary impairments for the three months ended March 31, 2007.

Operating results for the three months ended March 31, 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 financial assets that were measured at fair value using a transaction price. For these financial instruments, which the Company has, FAS 157 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 4 for further information regarding the adoption of FAS 157.

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

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 FASB Statement 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.

In February 2008, the FASB issued Financial Statement of Position FAS 157-2 (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 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.

8

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

4. 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.

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, certain 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 March 31, 2008.

9

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

				March 31, 2008
Financial Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturity securities	$ 9,692,529	$ 5,139	$ 9,496,110	$ 191,280
Equity securities	728,473	4,793a	712,054	11,626
Short-term investments	652,305	567,378	84,927	
Collateral held under securities lending	481,347	58,278	423,069	
Other investments	301,471	97,794b	194,064c	9,613c
Cash equivalents	717,681	717,681		
Other assets	3,688			3,688
Assets held in separate accounts	2,720,297	2,450,408a	269,889	
Total financial assets	$ 15,297,791	$ 3,901,471	$ 11,180,113	$ 216,207
Financial Liabilities				
Other liabilities	$ 97,794	$ 97,794b	$	$

[a] Mainly includes exchange-traded mutual fund investments

[b] Comprised of Assurant Incentive Plan investments and related liability which are invested in exchange-traded mutual funds

[c] Consists of invested assets associated with a modified coinsurance arrangement

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 March 31, 2008:

	Total Level 3 Assets	**Fixed Maturity Securities**	**Equity Securities**	**Other Investments**	**Other Assets**
Balance, beginning of period	$ 282,581	$ 256,937	$ 12,116	$ 10,368	$ 3,160
Total gains or (losses) (realized/unrealized) included in earnings	(1,643)	(950)		3	(696)
Unrealized (losses) relating to instruments still held at the reporting date	(6,017)	(4,959)	(646)	(412)	
Purchases, issuances, (sales) and (settlements)	3,731	2,853		(346)	1,224
Transfers in and/or (out of) Level 3	(62,445)	(62,601)	156		
Balance, end of period	$ 216,207	$ 191,280	$ 11,626	$ 9,613	$ 3,688

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 technique 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.

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.

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

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 March 31, 2008, the application of valuation techniques 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 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.

5. 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, including $7,523 of accrued interest for the three months ended March 31, 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 three months ended March 31, 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 three months ended March 31, 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.

11

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

6. Stock Based Compensation
Director s Compensation Plan

The Company s Director s Compensation Plan permits the issuance of up to 500,000 shares of the Company s common stock to non-employee Directors. There were no common shares issued or expense recorded related to the Director s Plan for the three months ended March 31, 2008 and 2007, respectively.

Long-Term Incentive Plan

The 2004 Long-Term Incentive Plan authorizes 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 is authorized to grant restricted stock and Stock Appreciation Rights (SARs). Unearned compensation, representing the market value of the shares at the date of issuance, is charged to earnings over the vesting period.

Restricted stock grants under the ALTIP vest 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 in future years, 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.

Restricted Stock

During the three months ended March 31, 2008 and 2007, there were 84,785 and 77,009 restricted shares granted with a weighted average grant date fair value of $61.11 and $53.87, respectively. The compensation expense recorded related to restricted stock was $1,455 and $1,168 for the three months ended March 31, 2008 and 2007, respectively. The related total income tax benefit recognized was $509 and $409 for the three months ended March 31, 2008 and 2007, respectively.

As of March 31, 2008, there was $7,974 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 March 31, 2008 and 2007 was $1,738 and $177, respectively.

Stock Appreciation Rights

There were 1,495,600 and 1,531,525 SARs granted during the three months ended March 31, 2008 and 2007. The compensation expense recorded related to SARs was $3,060 and $2,165 for the three months ended March 31, 2008 and 2007, respectively. The related total income tax benefit recognized was $1,071 and $758 for the three months ended March 31, 2008 and 2007, respectively. The weighted average grant date fair value for SARs granted during the three months ended March 31, 2008 was $13.76.

The total intrinsic value of SARs exercised during the three months ended March 31, 2008 and 2007 was $2,518 and $13,123, respectively. As of March 31, 2008, there was approximately $28,655 of unrecognized compensation cost related to outstanding SARs. That cost is expected to be recognized over a weighted-average period of 1.9 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 three months ended March 31, 2008 were based on the median historical stock price volatility of insurance guideline companies and implied volatilities from traded

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

options on the Company s stock. The expected term for grants issued during the three months ended March 31, 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. The compensation expense recorded related to the ESPP was $521 and $336 for the three months ended March 31, 2008 and 2007, respectively.

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

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.

7. 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 March 31, 2008	2007
Numerator		
Net income	$ 186,830	$ 179,457
Denominator		
Weighted average shares outstanding used in basic earnings per share calculations	117,883,761	122,149,873
Incremental common shares from assumed:		
SARs	1,283,802	1,872,842
Restricted stock	113,417	88,819
Weighted average shares used in diluted earnings per share calculations	119,280,980	124,111,534
Earnings per share		

Basic	$	1.58	$	1.47
Diluted	$	1.57	$	1.45

Average restricted shares totaling 17,172 for the three months ended March 31, 2007 were outstanding but were anti-dilutive and thus not included in the computation of diluted EPS under the treasury stock method. There were no restricted shares outstanding but anti-dilutive for the three months ended March 31, 2008. Average SARs totaling 312,477 and 1,410,325 for the three months ended March 31, 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.

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

8. 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 months ended March 31, 2008 and 2007 were as follows:

	Qualified Pension Benefits For the three months ended March 31,		Nonqualified Pension Benefits (1) For the three months ended March 31,		Retirement Health Benefits For the three months ended March 31,	
	2008	2007	2008	2007	2008	2007
Service cost	$ 5,300	$ 5,050	$ 475	$ 500	$ 775	$ 750
Interest cost	6,575	6,050	1,475	1,375	950	900
Expected return on plan assets	(9,275)	(7,800)			(300)	(300)
Amortization of prior service cost	725	775	200	325	325	325
Amortization of net loss	1,050	1,600	350	625		
Net periodic benefit cost	$ 4,375	$ 5,675	$ 2,500	$ 2,825	$ 1,750	$ 1,675

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

During the first three months of 2008, we contributed $5,000 to the qualified pension benefits plan. We expect to contribute an additional $15,000 to the qualified pension benefits plan over the remaining course of 2008.

9. 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.

14

Table of Contents

Assurant, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

Three Months Ended March 31, 2008 and 2007

(In thousands, except per share and share amounts)

The following tables summarize selected financial information by segment:

	Three Months Ended March 31, 2008					
	Solutions	Specialty Property	Health	Employee Benefits	Corporate & Other	Consolidated
Revenues						
Net earned premiums and other considerations	$ 683,493	$ 481,427	$ 496,060	$ 280,437	$	$ 1,941,417
Net investment income	106,730	29,375	15,648	38,369	7,652	197,774
Net realized losses on investments					(43,143)	(43,143)
Amortization of deferred gain on disposal of businesses						