ASSURANT INC
Form 10-Q
August 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

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 þ NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ 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 þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

The number of shares of the registrant s Common Stock outstanding at August 3, 2009 was 117,926,517.

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ASSURANT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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Amounts are presented in United States of America (U.S.) dollars and all amounts are in thousands, except number of shares, per share amounts, registered holders and beneficial owners.

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At June 30, 2009 and December 31, 2008

	June 30, 2009	December 31, 2008
	(in thousands except per share and share amounts)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost $9,613,773 in 2009 and $9,218,644 in 2008)	$ 9,407,954	$ 8,631,687
Equity securities available for sale, at fair value (cost $518,464 in 2009 and $ 562,940 in 2008)	446,173	434,452
Commercial mortgage loans on real estate, at amortized cost	1,470,121	1,506,694
Policy loans	56,548	58,096
Short-term investments	521,651	703,402
Collateral held under securities lending	210,703	234,027
Other investments	525,827	498,434
Total investments	12,638,977	12,066,792
Cash and cash equivalents	809,182	1,040,684
Premiums and accounts receivable, net	582,189	513,181
Reinsurance recoverables	4,073,703	4,010,170
Accrued investment income	149,475	144,679
Tax receivable		44,156
Deferred income taxes, net	358,729	449,372
Deferred acquisition costs	2,573,130	2,650,672
Property and equipment, at cost less accumulated depreciation	275,735	278,621
Goodwill	1,009,394	1,001,899
Value of business acquired	101,295	108,204
Other assets	486,396	427,347
Assets held in separate accounts	1,764,269	1,778,809
Total assets	$ 24,822,474	$ 24,514,586

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At June 30, 2009 and December 31, 2008

	June 30, 2009	December 31, 2008
	(in thousands except per share and share amounts)	
Liabilities		
Future policy benefits and expenses	$ 7,203,830	$ 7,095,645
Unearned premiums	5,203,442	5,407,859
Claims and benefits payable	3,331,280	3,302,731
Commissions payable	182,251	233,200
Reinsurance balances payable	56,776	88,393
Funds held under reinsurance	54,961	38,433
Deferred gain on disposal of businesses	173,808	187,360
Obligation under securities lending	224,774	256,506
Accounts payable and other liabilities	1,226,847	1,433,028
Tax payable	55,492	
Debt	972,007	971,957
Mandatorily redeemable preferred stock	8,160	11,160
Liabilities related to separate accounts	1,764,269	1,778,809
Total liabilities	20,457,897	20,805,081
Commitments and contingencies (Note 13)		
Stockholders equity		
Common stock, par value $0.01 per share, 800,000,000 shares authorized, 117,560,145 and 117,368,534 shares outstanding at June 30, 2009 and December 31, 2008, respectively	1,445	1,443
Additional paid-in capital	2,941,124	2,928,160
Retained earnings	2,933,131	2,650,371
Accumulated other comprehensive loss	(311,600)	(670,946)
Treasury stock, at cost; 26,997,943 shares at June 30, 2009 and December 31, 2008	(1,199,523)	(1,199,523)
Total stockholders equity	4,364,577	3,709,505
Total liabilities and stockholders equity	$ 24,822,474	$ 24,514,586

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Operations (unaudited)

Three and Six Months Ended June 30, 2009 and 2008

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands except number of shares and per share amounts)			
Revenues				
Net earned premiums and other considerations	$ 1,875,866	$ 1,995,516	$ 3,750,445	$ 3,936,933
Net investment income	174,932	201,211	353,411	398,985
Net realized losses on investments, excluding other-than-temporary impairment losses	(1,828)	(7,001)	(32,078)	(6,735)
Total other-than-temporary impairment losses	(7,996)	(27,573)	(33,435)	(70,982)
Portion of loss recognized in other comprehensive loss, before taxes	3,682		3,682	
Net other-than-temporary impairment losses recognized in earnings	(4,314)	(27,573)	(29,753)	(70,982)
Amortization of deferred gain on disposal of businesses	6,750	7,327	13,552	14,706
Fees and other income	222,203	79,280	305,909	153,178
Total revenues	2,273,609	2,248,760	4,361,486	4,426,085
Benefits, losses and expenses				
Policyholder benefits	989,402	998,208	1,949,744	1,935,667
Amortization of deferred acquisition costs and value of business acquired	398,493	425,088	786,287	830,297
Underwriting, general and administrative expenses	589,036	560,763	1,155,721	1,094,204
Interest expense	15,160	15,287	30,349	30,575
Total benefits, losses and expenses	1,992,091	1,999,346	3,922,101	3,890,743
Income before provision for income taxes	281,518	249,414	439,385	535,342
Provision for income taxes	88,196	59,460	165,482	158,558
Net income	$ 193,322	$ 189,954	$ 273,903	$ 376,784
Earnings Per Share				
Basic	$ 1.63	$ 1.61	$ 2.32	$ 3.19
Diluted (1)	$ 1.63	$ 1.59	$ 2.31	$ 3.15
Dividends per share	$ 0.15	$ 0.14	$ 0.29	$ 0.26
Share Data				
Weighted average shares outstanding used in basic per share calculations (1)	118,482,958	118,309,388	118,188,879	118,206,453
Plus: Dilutive securities (1)	245,346	1,331,495	246,152	1,344,852
Weighted average shares used in diluted per share calculations (1)	118,728,304	119,640,883	118,435,031	119,551,305

(1) Prior period amounts have been adjusted in accordance with FSP EITF 03-6-1. See notes 3 and 10.

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Stockholders Equity (unaudited)

From December 31, 2008 through June 30, 2009

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2008	$ 1,443	$ 2,928,160	$ 2,650,371	$ (670,946)	$ (1,199,523)	$ 3,709,505
Stock plan exercises	2	2,552				2,554
Stock plan compensation expense		11,944				11,944
Change in tax benefit from share-based payment arrangements		(1,532)				(1,532)
Dividends			(34,260)			(34,260)
Cumulative effect of change in accounting principle, net of taxes of $23,124 (Note 3)			43,117	(43,117)		
Comprehensive income:						
Net income			273,903			273,903
Other comprehensive income:						
Net change in unrealized losses on securities, net of taxes of $(149,092)				353,121		353,121
Net change in other-than- temporary impairment gains recognized in other comprehensive income, net of taxes of $(3,420)				6,352		6,352
Net change in foreign currency translation, net of taxes of $(6,478)				41,787		41,787
Amortization of pension and postretirement unrecognized net periodic benefit, net of taxes of $(648)				1,203		1,203
Total other comprehensive income						402,463
Total comprehensive income						676,366
Balance, June 30, 2009	$ 1,445	$ 2,941,124	$ 2,933,131	$ (311,600)	$ (1,199,523)	$ 4,364,577

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Cash Flows (unaudited)

Six Months Ended June 30, 2009 and 2008

	Six Months Ended June 30,	
	2009	2008
	(in thousands)	
Net cash (used in) provided by operating activities	$ (173,757)	$ 433,660
Investing activities		
Sales of:		
Fixed maturity securities available for sale	442,656	1,086,904
Equity securities available for sale	25,636	169,352
Property and equipment and other	286	561
Subsidiary, net of cash transferred		31,853
Maturities, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	321,681	343,634
Purchases of:		
Fixed maturity securities available for sale	(974,824)	(1,362,023)
Equity securities available for sale	(11,634)	(284,393)
Property and equipment and other	(28,062)	(28,798)
Change in commercial mortgage loans on real estate	32,553	(52,490)
Change in short-term investments	183,343	(87,728)
Change in other invested assets	(19,081)	(64,471)
Change in policy loans	1,644	822
Change in collateral held under securities lending	31,732	30,747
Net cash provided by (used in) investing activities	5,930	(216,030)
Financing activities		
Repayment of mandatorily redeemable preferred stock	(3,000)	(10,000)
Change in tax benefit from share-based payment arrangements	(1,532)	5,220
Dividends paid	(34,260)	(30,740)
Change in obligation under securities lending	(31,732)	(30,747)
Net cash used in financing activities	(70,524)	(66,267)
Effect of exchange rate changes on cash and cash equivalents	6,849	276
Change in cash and cash equivalents	(231,502)	151,639
Cash and cash equivalents at beginning of period	1,040,684	804,964
Cash and cash equivalents at end of period	$ 809,182	$ 956,603

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Six Months Ended June 30, 2009 and 2008

(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 other international markets.

The Company 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-related insurance, warranties and 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.

The interim financial data as of June 30, 2009 and for the three and six months ended June 30, 2009 and June 30, 2008 is unaudited; in the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to a fair statement of the results for the interim periods. 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 2009 presentation.

Effective January 1, 2009, new preneed life insurance policies in which death benefit adjustments are determined at the discretion of the Company are accounted for as universal life contracts under Statement of Financial Accounting Standards (FAS) No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* (FAS 97). For contracts sold prior to January 1, 2009, these preneed life insurance policies were accounted for and will continue to be accounted for under FAS No. 60, *Accounting and Reporting by Insurance Enterprises* (FAS 60). The change from reporting certain preneed life insurance policies in accordance with FAS 97 versus FAS 60 is not material to the statement of operations or balance sheet.

In accordance with FAS 97, income earned on new preneed life insurance policies is presented within policy fee income. Under FAS 60, the consideration received on preneed policies is presented separately as net earned premiums, with policyholder benefits expense being separately disclosed as incurred losses. As previously noted, the effects on net income for the three months and six months ended June 30, 2009 was not material.

Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited) (Continued)

Six Months Ended June 30, 2009 and 2008

(In thousands, except per share and share amounts)

3. Recent Accounting Pronouncements

Recent Accounting Pronouncements - Adopted

On January 1, 2009, the Company adopted 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 in that the acquisition 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 consolidated financial statements. The adoption of FAS 141R did not have an impact on the Company s financial position or results of operations. However, should the Company enter into any business combination in 2009 or beyond, our financial position or results of operations could incur a significantly different impact than had it recorded the acquisition under FAS 141. Earnings volatility could result, depending on the terms of the acquisition.

On January 1, 2009, the Company adopted FAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements an amendment of ARB No. 51* (FAS 160). FAS 160 requires that a noncontrolling interest in a subsidiary be separately reported within equity and the amount of consolidated net income attributable to the noncontrolling 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 noncontrolling equity investment retained in a deconsolidation. The adoption of FAS 160 did not have an impact on the Company s financial position or results of operations.

On January 1, 2009, the Company applied FAS No. 157, *Fair Value Measurements* (FAS 157), for all non-financial assets and liabilities measured at fair value on a non-recurring basis in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 157-2, *Effective Date of FAS 157* (FSP FAS 157-2). FSP FAS 157-2 postponed the effective date of FAS 157 for those assets and liabilities to fiscal years beginning after November 15, 2008, which for the Company is January 1, 2009. The application of FSP FAS 157-2 did not have an impact on the Company s financial position or results of operations. The Company s non-financial assets measured at fair value on a non-recurring basis include goodwill and intangible assets. In a business combination, the non-financial assets and liabilities of the acquired company would be measured at fair value in accordance with FAS 157. The requirements of FAS 157 include using an exit price based on an orderly transaction between market participants at the measurement date assuming the highest and best use of the asset by market participants. To perform a market valuation, the Company is required to use a market, income or cost approach valuation technique(s). Since the Company performs its annual impairment analyses of goodwill and indefinite-lived intangible assets in the fourth quarter of each year and since there have been no impairment triggers during the first half of 2009, the application of FAS 157 for all non-financial assets and liabilities measured at fair value on a non-recurring basis did not have an impact on the Company s financial position or results of operations. However, there may be an impact during 2009 on the Company s financial position and results of operations when the Company performs an impairment analysis of goodwill and indefinite-lived intangible assets due to the difference in fair value methodology required under FAS 157.

On January 1, 2009, the Company adopted FSP Emerging Issues Task Force (EITF) Issue 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 unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents to be treated as participating securities. Therefore, the Company s restricted stock and restricted stock units which have non-forfeitable rights to dividends are included in calculating basic and diluted earnings per share under the two-class method described in FAS No. 128, *Earnings Per Share* (FAS 128). All prior period earnings per share data presented have been adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not have a material impact on the Company s basic and diluted earnings per share calculations for the periods ended June 30, 2009 and 2008. See Note 10 for further information.

On April 1, 2009, the Company adopted FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 supersedes FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for an asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances indicating that a transaction is not orderly. Under FSP FAS 157-4, significant decreases in the volume and level of activity of an asset or liability,

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited) (Continued)

Six Months Ended June 30, 2009 and 2008

(In thousands, except per share and share amounts)

in relation to normal market activity, requires further evaluation of transactions or quoted prices and exercise of significant judgment in arriving at fair values. FSP FAS 157-4 also requires additional interim and annual disclosures. The adoption of FSP FAS 157-4 did not have an impact on the Company s financial position or results of operations.

On April 1, 2009, the Company adopted FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments (OTTI)* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends the OTTI guidance for debt securities and modifies the presentation and disclosure requirements for debt and equity securities. FSP FAS 115-2 and FAS 124-2 amends the requirement for an entity to positively assert the intent and ability to hold a debt security to recovery to determine whether an OTTI exists and replaces this provision with the assertion that an entity does not intend to sell or it is not more likely than not that the entity will be required to sell a security prior to recovery of its amortized cost basis. Additionally, FSP FAS 115-2 and FAS 124-2 modifies the presentation of certain OTTI debt securities to only present the impairment loss within the results of operations that represents the credit loss associated with the OTTI with the remaining impairment loss being presented within other comprehensive (loss) income (OCI). At adoption, the Company recorded a cumulative effect adjustment to reclassify the non-credit component of previously recognized OTTI securities which resulted in an increase of $43,117 (after-tax) in retained earnings and a decrease of $43,117 (after-tax) in accumulated OCI (AOCI). See Note 4 for further information.

On April 1, 2009, the Company adopted FSP FAS 107-1 and Accounting Principles Board Opinion (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments already required in annual financial statements to be included within interim financial statements. FSP FAS 107-1 and APB 28-1 also requires disclosure of the methods and assumptions used to estimate fair value. The adoption of FSP FAS 107-1 and APB 28-1 did not have an impact on the Company s financial position or results of operations. See Note 5 for further information.

On June 30, 2009, the Company adopted FAS 165, *Subsequent Events* (FAS 165), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FAS 165 also requires disclosure of the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The adoption of FAS 165 did not have an impact on the Company s financial position or results of operations. See Note 14.

Recent Accounting Pronouncements - Not Yet Adopted

In December 2008, the FASB issued FSP FAS 132R-1, *Employers Disclosures About Postretirement Plan Benefit Assets* (FSP FAS 132R-1). FSP FAS 132R-1 will require companies that are subject to the disclosure requirements of FAS 132R, *Employers Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106*, to make additional disclosures about plan assets for defined benefit pension and other postretirement benefit plans. The additional disclosure requirements of FSP FAS 132R-1 include how investment allocation decisions are made, the major categories of plan assets and the inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132R-1 will be effective for fiscal years ending after December 15, 2009. Therefore, the Company is required to adopt FSP FAS 132R-1 on December 31, 2009. The adoption of FSP FAS 132R-1 will not have an impact on the Company s financial position or results of operations.

In June 2009, the FASB issued FAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (FAS 166). FAS 166 amends the derecognition guidance in FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. The new guidance is effective for transfers of financial assets occurring in fiscal years beginning after November 15, 2009 and in interim periods within those fiscal years. Therefore, the Company is required to adopt FAS 166 on January 1, 2010. The Company is currently evaluating the requirements of FAS 166 and the potential impact, if any, on the Company s financial position and results of operations.

In June 2009, the FASB issued FAS No. 167, *Amendments to FASB Interpretation No. 46R* (FAS 167). FAS 167 amends the consolidation guidance applicable to variable interest entities (VIE). FAS 167 requires a qualitative assessment in the determination of the primary beneficiary of the VIE. FAS 167 changes the consideration of kick-out rights in determining if an entity is a VIE which may cause certain additional entities to now be considered VIEs. FAS 167 also requires an ongoing reconsideration of

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited) (Continued)

Six Months Ended June 30, 2009 and 2008

(In thousands, except per share and share amounts)

the primary beneficiary and amends the events that trigger a reassessment of whether an entity is a VIE. FAS 167 provides two transition alternatives: (i) retrospective application with a cumulative-effect adjustment to retained earnings as of the beginning of the first year adjusted; or (ii) application as of the date of adoption with a cumulative-effect adjustment to retained earnings recognized on that date. FAS 167 is effective as of the beginning of the Company's first fiscal year beginning after November 15, 2009, and for interim periods within those fiscal years. Therefore, the Company is required to adopt FAS 167 on January 1, 2010. The Company is currently evaluating the requirements of FAS 167 and the potential impact, if any, on the Company s financial position and results of operations.

In June 2009, the FASB issued FAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162* (FAS 168). FAS 168 establishes a single source of authoritative accounting and reporting guidance recognized by the FASB for nongovernmental entities (the Codification). The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is effective for the Company in the interim period ending September 30, 2009 and the Company does not expect the adoption to have an impact on the Company s financial position or results of operations. The references to accounting guidance contained in the Company s consolidated financial statements and disclosures will be updated in accordance with FAS 168.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited) (Continued)

Six Months Ended June 30, 2009 and 2008

(In thousands, except per share and share amounts)

4. Investments

The following tables show the cost or amortized cost, gross unrealized gains and losses, fair value and OTTI in AOCI of our fixed maturity and equity securities as of the dates indicated:

	June 30, 2009				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI (1)
Fixed maturity securities:					
United States Government and government agencies and authorities	$ 118,911	$ 6,315	$ (31)	$ 125,195	$
States, municipalities and political subdivisions	866,104	27,238	(7,358)	885,984	
Foreign governments	570,562	16,526	(9,454)	577,634	
Asset-backed	51,188	974	(2,072)	50,090	(230)
Commercial mortgage-backed	229,974	166	(26,822)	203,318	
Residential mortgage-backed	705,461	34,455	(4,873)	735,043	(2,561)
Corporate	7,071,573	166,468	(407,351)	6,830,690	628
Total fixed maturity securities	$ 9,613,773	$ 252,142	$ (457,961)	$ 9,407,954	$ (2,163)
Equity securities:					
Common stocks	$ 5,534	$ 284	$ (1,660)	$ 4,158	$
Non-redeemable preferred stocks	512,930	12,666	(83,581)	442,015	
Total equity securities	$ 518,464	$ 12,950	$ (85,241)	$ 446,173	$

(1) Represents the amount of other-than-temporary impairment losses in AOCI, which, from April 1, 2009, were not included in earnings under FSP FAS 115-2 and FAS 124-2

	December 31, 2008			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities:				
United States Government and government agencies and authorities	$ 136,725	$ 13,784	$ (22)	$ 150,487
States, municipalities and political subdivisions	874,134	14,122	(14,676)	873,580
Foreign governments	503,620	19,391	(9,693)	513,318
Asset-backed	62,184	157	(2,435)	59,906

Commercial mortgage-backed	241,458	60	(43,415)	198,103
Residential mortgage-backed	677,633	29,670	(1,027)	706,276
Corporate	6,722,890	107,270	(700,143)	6,130,017
Total fixed maturity securities	$ 9,218,644	$ 184,454	$ (771,411)	$ 8,631,687
Equity securities:				
Common stocks	$ 5,384	$ 283	$ (1,618)	$ 4,049
Non-redeemable preferred stocks	557,556	7,120	(134,273)	430,403
Total equity securities	$ 562,940	$ 7,403	$ (135,891)	$ 434,452

Assurant, Inc.

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The cost or amortized cost and fair value of fixed maturity securities at June 30, 2009 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without penalties.

	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 201,178	$ 201,967
Due after one year through five years	2,360,576	2,384,174
Due after five years through ten years	2,133,761	2,095,526
Due after ten years	3,931,635	3,737,836
Total	8,627,150	8,419,503
Asset-backed	51,188	50,090
Commercial mortgaged-backed	229,974	203,318
Residential mortgage-backed	705,461	735,043
Total	$ 9,613,773	$ 9,407,954

The following table summarizes the proceeds from sales of available-for-sale securities and the gross realized gains and gross realized losses that have been included in earnings as a result of those sales.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Proceeds from sales	$ 281,069	$ 495,453	$ 475,036	$ 1,261,037
Gross realized gains	7,242	10,003	12,336	36,218
Gross realized losses	2,618	18,062	39,421	43,618

Throughout 2008 and continuing into 2009, the fixed maturity and equity security markets experienced significant volatility and declines in market values. These declines were primarily due to a depressed housing market, unemployment, credit availability, as well as a general economic slowdown. As a result, certain securities directly exposed to these factors have had significant market value declines.

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In connection with these market declines, we recorded net realized losses, including other-than-temporary impairments, in the statement of operations as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net realized (losses) gains related to sales and other:				
Fixed maturity securities	$ 5,088	$ (5,217)	$ (3,487)	$ (1,005)
Equity securities	(256)	(803)	(21,895)	(4,356)
Other investments	(6,660)	(981)	(6,696)	(1,374)
Total net realized losses related to sales and other	(1,828)	(7,001)	(32,078)	(6,735)
Net realized losses related to other-than-temporary impairments:				
Fixed maturity securities	(3,715)	(20,005)	(15,253)	(58,570)
Equity securities	(599)	(7,568)	(14,500)	(12,412)
Total net realized losses related to other-than-temporary impairments	(4,314)	(27,573)	(29,753)	(70,982)
Total net realized losses	$ (6,142)	$ (34,574)	$ (61,831)	$ (77,717)

Other-Than-Temporary Impairments

Adoption of FSP FAS 115-2 and 124-2

On April 1, 2009, the Company adopted FASB FSP No. FAS 115-2 and FAS 124-2. See Note 3 for further information. FSP FAS 115-2 and FAS 124-2 requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which the Company asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. Prior to April 1, 2009, the Company had to determine whether it had the intent and ability to hold the investment for a sufficient period of time for the value to recover. When the analysis of the above factors resulted in the Company s conclusion that declines in market values were other-than-temporary, the cost of the securities was written down to market value and the reduction in value was reflected as a realized loss in the statement of operations. Under FSP FAS 115-2 and FAS 124-2, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (*e.g.*, interest rates, market conditions, etc.) is recorded as a component of other comprehensive income. In instances where no credit loss exists but it is more likely than not that the Company will have to sell the debt security prior to the anticipated recovery, the decline in market value below amortized cost is recognized as an OTTI in earnings. In periods after the recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income.

FSP FAS 115-2 and FAS 124-2 requires that the Company record, as of April 1, 2009, the date of adoption, a cumulative effect adjustment to reclassify the noncredit component of a previously recognized OTTI from retained earnings to other comprehensive income. For purposes of calculating the cumulative effect adjustment, the Company reviewed OTTI it had recorded through realized losses on securities held at March 31, 2009, which were $188,614, and estimated the portion related to credit losses (*i.e.*, where the present value of cash flows expected to be collected are lower than the amortized cost basis of the security) and the portion related to all other factors. The Company determined that $119,022 of the OTTI previously recorded related to specific credit losses and $69,591 related to all other factors. Under FSP FAS 115-2 and FAS 124-2, the Company increased the amortized cost basis of these debt securities by $66,242 and recorded a cumulative effect adjustment, net of tax, in its shareholders equity section. The cumulative effect adjustment had no effect on total shareholders equity as it increased retained earnings and reduced accumulated other comprehensive loss.

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For the three and six months ended June 30, 2009, the Company recorded $7,996 and $33,435, respectively, of OTTI of which $4,314 and $29,753, respectively was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining $3,682 for both periods related to all other factors and recorded as an unrealized loss component of accumulated other comprehensive loss.

The following table sets forth the amount of credit loss impairments recognized within the results of operations on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts.

Beginning balance at April 1, 2009 related to credit losses remaining in retained earnings related to adoption of FSP FAS 115-2 and FAS 124-2	$ 119,022
Additions for credit loss impairments recognized in the current period on securities not previously impaired	1,237
Additions for credit loss impairments recognized in the current period on securities previously impaired	2,237
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(16,262)
Balance, June 30, 2009	$ 106,234

We regularly monitor our investment portfolio to ensure investments that may be other-than-temporarily impaired are identified in a timely fashion, properly valued, and charged against earnings in the proper period. The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held, the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery for equity securities and the intent to sell or whether it is more likely than not that the Company will be required to sell for fixed maturity securities. Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors, or countries could result in additional impairments in future periods for other-than-temporary declines in value. Any equity security whose price decline is deemed other-than-temporary is written down to its then current market value with the amount of the impairment reported as a realized loss in that period. The impairment of a fixed maturity security that the Company has the intent to sell or that it is more likely than not that the Company will be required to sell is deemed other-than-temporary and is written down to its market value at the Balance Sheet date with the amount of the impairment reported as a realized loss in that period. For all other-than-temporarily impaired fixed maturity securities that do not meet either of these two criteria, the Company is required to analyze its ability to recover the amortized cost of the security by calculating the net present value of projected future cash flows. For these other-than-temporarily impaired fixed maturity securities, the net amount recognized in earnings is equal to the difference between the amortized cost of the fixed maturity security and its net present value.

The Company considers different factors to determine the amount of projected future cash flows and discounting methods for corporate debt and residential and commercial mortgage-backed or asset-backed securities. For corporate debt securities, the split between the credit and non-credit losses is driven principally by assumptions regarding the amount and timing of projected future cash flows. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the security at the date of acquisition. For residential and commercial mortgage-backed and asset-backed securities, cash flow estimates including prepayment assumptions, which are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security prior to impairment at the Balance Sheet date. The discounted cash flows become the new amortized cost basis of the fixed maturity security.

In periods subsequent to the recognition of an other-than-temporary impairment, we generally accrete the discount (or amortize the reduced premium) into net investment income, up to the non-discounted amount of projected future cash flows, resulting from the reduction in cost basis, based upon the amount and timing of the expected future cash flows over the estimated period of cash flows.

Realized gains and losses on sales of investments are recognized on the specific identification basis.

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The investment categories and duration of the Company s gross unrealized losses on fixed maturity securities and equity securities at June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
United States Government and government agencies and authorities	$ 4,013	$ (31)	$	$	$ 4,013	$ (31)
States, municipalities and political subdivisions	84,434	(3,603)	75,637	(3,755)	160,071	(7,358)
Foreign governments	129,561	(6,247)	29,354	(3,207)	158,915	(9,454)
Asset-backed	3,218	(904)	11,900	(1,168)	15,118	(2,072)
Commercial mortgage-backed	31,157	(3,829)	153,051	(22,993)	184,208	(26,822)
Residential mortgage-backed	33,988	(3,150)	5,097	(1,723)	39,085	(4,873)
Corporate	834,374	(70,691)	2,520,622	(336,660)	3,354,996	(407,351)
Total fixed maturity securities	$ 1,120,745	$ (88,455)	$ 2,795,661	$ (369,506)	$ 3,916,406	$ (457,961)
Equity securities:						
Common stocks	$ 3,426	$ (1,660)	$	$	$ 3,426	$ (1,660)
Non-redeemable preferred stocks	113,517	(11,560)	261,581	(72,021)	375,098	(83,581)
Total equity securities	$ 116,943	$ (13,220)	$ 261,581	$ (72,021)	$ 378,524	$ (85,241)

	December 31, 2008					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
United States Government and government agencies and authorities	$ 983	$ (22)	$	$	$ 983	$ (22)
States, municipalities and political subdivisions	361,383	(12,397)	27,545	(2,279)	388,928	(14,676)
Foreign governments	117,133	(5,853)	28,478	(3,840)	145,611	(9,693)
Asset-backed	28,524	(384)	7,404	(2,051)	35,928	(2,435)
Commercial mortgage-backed	120,589	(26,663)	74,339	(16,752)	194,928	(43,415)
Residential mortgage-backed	6,668	(465)	2,303	(562)	8,971	(1,027)
Corporate	2,906,093	(372,956)	1,343,350	(327,187)	4,249,443	(700,143)

Total fixed maturity securities	$ 3,541,373	$ (418,740)	$ 1,483,419	$ (352,671)	$ 5,024,792	$ (771,411)
Equity securities:						
Common stocks	$ 3,366	$ (1,618)	$	$	$ 3,366	$ (1,618)
Non-redeemable preferred stocks	177,234	(57,723)	188,634	(76,550)	365,868	(134,273)
Total equity securities	$ 180,600	$ (59,341)	$ 188,634	$ (76,550)	$ 369,234	$ (135,891)

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Total gross unrealized losses represent less than 13% and 17% of the aggregate fair value of the related securities at June 30, 2009 and December 31, 2008, respectively. Approximately 19% and 53% of these gross unrealized losses have been in a continuous loss position for less than twelve months at June 30, 2009 and December 31, 2008, respectively. The total gross unrealized losses are comprised of 1,055 and 1,409 individual securities at June 30, 2009 and December 31, 2008, respectively. In accordance with its policy described above, the Company concluded that for these securities an adjustment to its results of operations for other-than-temporary impairments of the gross unrealized losses was not warranted at June 30, 2009 or December 31, 2008. These conclusions are based on a detailed analysis of the underlying credit and expected cash flows of each security. As of June 30, 2009, the gross unrealized losses that have been in a continuous loss position for twelve months or more were concentrated in non-redeemable preferred stocks and in the financial, consumer cyclical and industrial industries of the Company s corporate fixed maturity securities. For these concentrations, gross unrealized losses of twelve month or more were $323,509, or 73%, of the total. The gross unrealized losses are primarily attributable to widening credit spreads associated with an underlying shift in overall credit risk premium. As of June 30, 2009, the Company did not intend to sell the securities and it was not more likely than not that the Company would be required to sell the securities before the anticipated recovery of their amortized cost basis.

Securities Lending

The Company engages in transactions in which fixed maturity securities, especially bonds issued by the U.S. government, government agencies and authorities, and U.S. corporations, are loaned to selected broker/dealers. Collateral, greater than or equal to 102% of the fair value of the securities lent, plus accrued interest, is received in the form of cash and cash equivalents held by a custodian bank for the benefit of the Company. The use of cash collateral received is unrestricted. The Company reinvests the cash collateral received, generally in investments of high credit quality that are designated as available-for-sale under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115). The Company monitors the fair value of securities loaned and the collateral received, with additional collateral obtained, as necessary. The Company is subject to the risk of loss to the extent there is a loss on the re-investment of cash collateral.

As of June 30, 2009 and December 31, 2008, our collateral held under securities lending, the use of which is unrestricted, was $210,703 and $234,027, respectively, while our liability to the borrower for collateral received was $224,774 and $256,506, respectively. The difference between the collateral held and obligations under securities lending is recorded as an unrealized loss and is included as part of AOCI. The unrealized losses have been in a continuous loss position for twelve months or longer as of June 30, 2009 and December 31, 2008. The Company has actively reduced the size of the securities lending program to mitigate counter-party exposure. The Company includes the available-for-sale investments purchased with the cash collateral in its evaluation of other-than-temporary impairments.

Cash proceeds that the Company receives as collateral for the securities it lends and subsequent repayment of the cash are regarded by the Company as cash flows from financing activities, since the cash received is considered a borrowing. Since the Company reinvests the cash collateral generally in investments that are designated as available-for-sale under FAS 115, the reinvestment is presented as cash flows from investing activities.

5. Fair Value Disclosures

FAS 157 Disclosures

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 paid 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 into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique.

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

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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 private placement bonds, U.S. Government and agency securities, residential and commercial mortgage-backed securities, asset-backed securities, non-redeemable 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 non-redeemable preferred stocks, foreign government and corporate bonds, and commercial mortgage-backed and asset-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 tables present the Company s fair value hierarchy for those recurring basis assets and liabilities as of June 30, 2009 and December 31, 2008.

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	June 30, 2009						
Financial Assets	**Total**	**Level 1**		**Level 2**		**Level 3**	
Fixed maturity securities:							
United States Government and government agencies and authorities	$ 125,195	$		$ 125,195		$	
State, municipalities and political subdivisions	885,984			885,984			
Foreign governments	577,634	2,791		560,034		14,809	
Asset-backed	50,090			50,080		10	
Commercial mortgage-backed	203,318			173,071		30,247	
Residential mortgage-backed	735,043			735,043			
Corporate	6,830,690			6,715,727		114,963	
Equity securities:							
Common stocks	4,158	3,116	a	1,042			
Non-redeemable preferred stocks	442,015			436,450		5,565	
Short-term investments	521,651	389,142		132,509			
Collateral held under securities lending	185,703	84,735		100,968			
Other investments	246,345	71,616	b, c	169,855	c	4,874	c
Cash equivalents	532,925	531,622		1,303			
Other assets	9,315					9,315	
Assets held in separate accounts	1,689,535	1,509,975	a	179,560			
Total financial assets	$ 13,039,601	$ 2,592,997		$ 10,266,821		$ 179,783	
Financial Liabilities							
Other liabilities	$ 60,777	$ 60,777	b	$		$	

	December 31, 2008						
Financial Assets	**Total**	**Level 1**		**Level 2**		**Level 3**	
Fixed maturity securities:							
United States Government and government agencies and authorities	$ 150,487	$		$ 150,487		$	
State, municipalities and political subdivisions	873,580			873,580			
Foreign governments	513,318	2,398		491,522		19,398	
Asset-backed	59,906			59,895		11	
Commercial mortgage-backed	198,103			159,194		38,909	
Residential mortgage-backed	706,276			706,276			
Corporate	6,130,017			6,023,335		106,682	
Equity securities:							
Common stocks	4,049	3,165	a	884			
Non-redeemable preferred stocks	430,403			417,822		12,581	
Short-term investments	703,402	611,460		91,942			
Collateral held under securities lending	159,028	54,192		104,836			
Other investments	239,605	56,296	b	176,285	c	7,024	c
Cash equivalents	674,390	674,390					
Other assets	7,080					7,080	
Assets held in separate accounts	1,701,996	1,523,024	a	178,972			
Total financial assets	$ 12,551,640	$ 2,924,925		$ 9,435,030		$ 191,685	
Financial Liabilities							
Other liabilities	$ 56,296	$ 56,296	b	$		$	

[a] Mainly includes mutual fund investments

[b] Comprised of Assurant Investment Plan (AIP), American Security Insurance Company Investment Plan (ASIC) and Assurant Deferred Compensation Plan (ADC) investments and related liability which are invested in mutual funds

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

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The following tables summarize the change in balance sheet carrying value associated with Level 3 financial assets carried at fair value during the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30, 2009							
		Fixed Maturity Securities				Equity Securities		
	Total level 3 assets	Foreign government	Asset-backed	Commercial mortgage-backed	Corporate	Non-redeemable preferred	Other investments	Other assets
Balance, beginning of period	$ 190,933	$ 17,147	$ 11	$ 38,395	$ 108,085	$ 12,315	$ 6,046	$ 8,934
Total (losses)gains (realized/unrealized) included in earnings	(914)	188		17	(1,325)		2	204
Net unrealized gains (losses) included in stockholder's equity	7,919	(2,526)		2,102	7,474	324	545	
Purchases, issuances, (sales) and (settlements)	4,270		(1)	(10,267)	15,120		(759)	177
Net transfers out	(22,425)				(14,391)	(7,074)	(960)	
Balance, end of period	$ 179,783	$ 14,809	$ 10	$ 30,247	$ 114,963	$ 5,565	$ 4,874	$ 9,315

	Three Months Ended June 30, 2008								
		Fixed Maturity Securities					Equity Securities		
	Total level 3 assets	Foreign government	Asset-backed	Commercial mortgage-backed	Residential mortgage-backed	Corporate	Non-redeemable preferred	Other investments	Other assets
Balance, beginning of period	$ 216,207	$ 5,112	$ 15	$ 38,882	$	$ 152,230	$ 6,667	$ 9,613	$ 3,688
Total (losses)gains (realized/unrealized) included in earnings	1,552	98		521		(208)		13	1,128
Net unrealized gains (losses) included in stockholder's equity	(9,958)	105		(338)	418	(10,003)	(100)	(40)	
Purchases, issuances, (sales) and (settlements)	22,829	8,250	(2)	7,044	19,357	(13,601)	1,940	(346)	187
Net transfers in	18,698					12,400	6,298		
Balance, end of period	$ 249,328	$ 13,565	$ 13	$ 46,109	$ 19,775	$ 140,818	$ 14,805	$ 9,240	$ 5,003

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	Six Months Ended June 30, 2009							
		Fixed Maturity Securities				Equity Securities		
	Total level 3 assets	Foreign government	Asset-backed	Commercial mortgage-backed	Corporate	Non-redeemable preferred	Other investments	Other assets
Balance, beginning of year	$ 191,685	$ 19,398	$ 11	$ 38,909	$ 106,682	$ 12,581	$ 7,024	$ 7,080
Total (losses)gains (realized/unrealized) included in earnings	15	374		10	(2,208)		3	1,836
Net unrealized gains (losses) included in stockholder's equity	9,943	(3,559)		4,884	8,298	58	262	
Purchases, issuances, (sales) and (settlements)	12,476		(1)	(10,415)	23,948		(1,455)	399
Net transfers out	(34,336)	(1,404)		(3,141)	(21,757)	(7,074)	(960)	
Balance, end of period	$ 179,783	$ 14,809	$ 10	$ 30,247	$ 114,963	$ 5,565	$ 4,874	$ 9,315

	Six Months Ended June 30, 2008								
		Fixed Maturity Securities					Equity Securities		
	Total level 3 assets	Foreign government	Asset-backed	Commercial mortgage-backed	Residential mortgage-backed	Corporate	Non-redeemable preferred	Other investments	Other assets
Balance, beginning of year	$ 282,581	$ 2,993	$ 1,808	$ 44,538	$	$ 212,283	$ 7,431	$ 10,368	$ 3,160
Total (losses)gains (realized/unrealized) included in earnings	(91)	99	2	798		(1,437)		16	431
Net unrealized losses (gains) included in stockholder's equity	(15,975)	25	(1)	(697)	418	(14,882)	(387)	(451)	
Purchases, issuances, (sales) and (settlements)	26,560	8,250	(4)	6,518	19,357	(10,220)	1,940	(693)	1,412
Net transfers (out) in	(43,747)	2,198	(1,792)	(5,048)		(44,926)	5,821		
Balance, end of period	$ 249,328	$ 13,565	$ 13	$ 46,109	$ 19,775	$ 140,818	$ 14,805	$ 9,240	$ 5,003

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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 in 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.

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 not all three approaches are applicable to all financial assets or liabilities, where appropriate, one or more valuation techniques 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, 2009, the application of the valuation technique applied to similar assets and liabilities has been consistent.

Level 1 and Level 2 securities are valued using various observable market inputs obtained from a pricing service. The pricing service prepares estimates of fair value measurements for our Level 2 securities using proprietary valuation models based on techniques such as matrix pricing which 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. The pricing service also evaluates each security 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. When market observable inputs are unavailable, the remaining unpriced securities are submitted to independent brokers who provide non-binding broker quotes or are priced by other qualified sources and are categorized as Level 3 securities.

Management evaluates the following factors in order to determine whether the market for a financial asset is inactive. The factors include, but are not limited to:

- There are few recent transactions,
- Little information is released publicly,
- The available prices vary significantly over time or among market participants,
- The prices are stale (i.e., not current), and
- The magnitude of the bid-ask spread.

Illiquidity did not have a material impact in the fair value determination of the Company s financial assets.

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The Company generally obtains one price for each financial asset. 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 service methodologies, review of the prices received from the pricing service, review of pricing statistics and trends, and comparison of prices for certain securities with two different appropriate price sources for reasonableness. Following this analysis, the Company generally uses the best estimate of fair value based upon all available inputs. On infrequent occasions, a non-pricing service source may be more familiar with the market activity for a particular security than the pricing service. In these cases the price used is taken from the non-pricing service source. The pricing service provides information to indicate which securities were priced using market observable inputs so that the Company can properly categorize our financial assets in the fair value hierarchy.

FAS 107 Disclosures

FAS No. 107, *Disclosures About Fair Value of Financial Instruments* (FAS 107) requires disclosure of fair value information about financial instruments, as defined therein, for which it is practicable to estimate such fair value. Therefore, it requires fair value disclosure for additional financial instruments as compared to FAS 157, including financial instruments that are not recognized in the consolidated balance sheets. However, FAS 107 excludes certain financial instruments including those related to insurance contracts and those accounted for under Accounting Principles Board Opinions (APB) No. 18, *The Equity Method of Accounting for Investments in Common Stock* such as real estate joint ventures.

Please refer to the FAS 157 disclosure above for the methods and assumptions used to estimate fair value for the following assets and liabilities:

Fixed maturity securities

Equity securities

Short-term investments

Other assets

Other liabilities

Fair values for collateral held and obligations under securities lending, separate account assets (with matching liabilities) and invested assets related to a modified coinsurance arrangement and the AIP, ASIC and ADC are obtained from an independent pricing service which uses observable market information.

In estimating the fair value of the financial instruments presented, the Company used the following methods and assumptions:

Cash and cash equivalents: the carrying amount reported approximates fair value because of the short maturity of the instruments.

Commercial mortgage loans and policy loans: the fair values of mortgage loans are estimated using discounted cash flow analyses, based on interest rates currently being offered for similar loans to borrowers with similar credit ratings. Mortgage loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts of policy loans reported in the balance sheets approximate fair value.

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Other investments: the invested assets related to the modified coinsurance arrangement are classified as trading securities and are reported at their fair values, which are primarily based on matrix pricing models. The invested assets of the AIP, ASIC and ADC are classified as trading securities and are reported at their fair values, which are based on quoted market prices. The carrying amounts of the remaining other investments approximate fair value.

Collateral and obligations under securities lending: the invested assets of the collateral held under securities lending are reported at their estimated fair values, which are primarily based on matrix pricing models and quoted market prices. The obligations under securities lending are reported at the amount received from the selected broker/dealers.

Policy reserves under investment products: the fair values for the Company s policy reserves under the investment products are determined using discounted cash flow analysis.

Separate account assets and liabilities: separate account assets and liabilities are reported at their estimated fair values, which are primarily based on quoted market prices.

Funds held under reinsurance: the carrying amount reported approximates fair value due to the short maturity of the instruments.

Debt: the fair value of debt is based upon quoted market prices.

Mandatorily redeemable preferred stock: the fair value of mandatorily redeemable preferred stock equals the carrying value for all series of mandatorily redeemable preferred stock.

The following table demonstrates the carrying value and fair value of our financial assets and liabilities as of June 30, 2009 and December 31, 2008.

	June 30, 2009		December 31, 2008	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 809,182	$ 809,182	$ 1,040,684	$ 1,040,684
Fixed maturity securities	9,407,954	9,407,954	8,631,687	8,631,687
Equity securities	446,173	446,173	434,452	434,452
Commercial mortgage loans on real estate	1,470,121	1,428,270	1,506,694	1,509,923
Policy loans	56,548	56,548	58,096	58,096
Short-term investments	521,651	521,651	703,402	703,402
Other investments	341,323	341,323	339,453	339,453
Assets held in separate accounts	1,764,269	1,764,269	1,778,809	1,778,809
Collateral held under securities lending	210,703	210,703	234,027	234,027
Financial liabilities				
Policy reserves under investment products (Individual and group annuities, subject to discretionary withdrawal)	$ 823,245	$ 727,872	$ 804,883	$ 701,529

Funds held under reinsurance	54,961	54,961	38,433	38,433
Debt	972,007	797,500	971,957	769,021
Mandatorily redeemable preferred stocks	8,160	8,160	11,160	11,160
Liabilities related to separate accounts	1,764,269	1,764,269	1,778,809	1,778,809
Obligations under securities lending	224,774	224,774	256,506	256,506

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The fair value of the Company s liabilities for insurance contracts, other than investment-type contracts, are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company s overall management of interest rate risk, such that the Company s exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

6. Income Taxes

As of December 31, 2008, the Company had a cumulative valuation allowance of $98,793 against deferred tax assets. During the six months ended June 30, 2009, the Company recognized income tax expense of $5,423, and other comprehensive income of $25,917. The overall impact to the valuation allowance was a net decrease of $20,494. The decrease in the valuation allowance was primarily related to additional unrealized gains in the Company s investment portfolio. It is management s assessment that it is more likely than not that $78,299 of deferred tax assets will not be realized.

The Company s ability to realize deferred tax assets depends on its ability to generate sufficient taxable income of the same character within the carryback or carryforward periods. In assessing future GAAP taxable income, the Company has considered all sources of taxable income available to realize its deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies. If changes occur in the assumptions underlying the Company s tax planning strategies or in the scheduling of the reversal of the Company s deferred tax assets, the valuation allowance may need to be adjusted in the future.

7. Debt

In February 2004, the Company issued two series of senior notes with an aggregate principal amount of $975,000 (the Senior Notes). 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 Senior Notes and is included as part of interest expense on the statement of operations.

The interest expense incurred related to the Senior Notes was $15,047 for the three months ended June 30, 2009 and 2008, respectively, and $30,094 for the six months ended June 30, 2009 and 2008, respectively. There was $22,570 of accrued interest at June 30, 2009 and 2008, respectively. The Company made interest payments of $30,094 on February 15, 2009 and 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. There were no amounts relating to the commercial paper program outstanding at June 30, 2009. The Company did not use the revolving credit facility during the six months ended June 30, 2009 or the twelve months ended December 31, 2008 and no amounts are currently outstanding. The $500,000 senior revolving credit facility contains a $30,000 commitment from Lehman Brothers Bank, FSB (Lehman). Based on the financial condition of Lehman, the Company is not relying on Lehman s commitment.

The revolving credit facility contains restrictive covenants. The terms of the revolving credit facility also require that the Company maintain certain specified minimum ratios and thresholds. Among others, these covenants include maintaining a maximum debt to capitalization ratio and a minimum consolidated adjusted net worth. As of June 30, 2009 the Company was in compliance with all covenants, minimum ratios and thresholds.

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8. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, at June 30, 2009 are as follows:

	Foreign currency translation adjustment	Unrealized losses on securities	OTTI	Pension under-funding	Accumulated other comprehensive loss
Balance at December 31, 2008	$ (45,944)	$ (478,400)	$	$ (146,602)	$ (670,946)
Cumulative effect of change in accounting principle (after-tax)(1)		(35,359)	(7,758)		(43,117)
Activity in 2009	41,787	353,121	6,352	1,203	402,463
Balance at June 30, 2009	$ (4,157)	$ (160,638)	$ (1,406)	$ (145,399)	$ (311,600)

(1) Related to adoption of FSP FAS 115-2 and FAS 124-2. See Notes 3 and 4 for further information.
The amounts in the unrealized losses on securities column is net of reclassification adjustments of $(37,970), net of tax, for the six months ended June 30, 2009, for net realized gains (losses) on sales of securities included in net income.

9. Stock Based Compensation

Long-Term Equity Incentive Plan

In May 2008, the shareholders of the Company approved 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 may grant awards based on shares of our Common Stock, including stock options, stock appreciation rights (SARs), restricted stock (including performance shares), unrestricted stock, restricted stock units (RSUs), performance share units (PSUs) and dividend equivalents. All future share-based grants will be issued under the ALTEIP.

The Compensation Committee of the Board of Directors (the Compensation Committee) has decided to award PSUs and RSUs in 2009. RSUs and PSUs are promises to provide actual stock at the end of a vesting period or performance period. The RSUs granted to employees under the ALTEIP were based on salary grade and performance and will vest one-third each year over a three-year period. RSUs granted to non-employee directors also vest one-third each year over a three-year period. RSUs receive dividend equivalents in cash during the restricted period and they will not have voting rights during the restricted period. PSUs will accrue dividend equivalents during the performance period, which will be paid in cash at the end of the performance period.

For the PSU portion of an award, the number of shares a participant will receive upon vesting is contingent upon the Company meeting certain pre-established performance goals, identified below, at the end of a three-year performance period. At the end of the three-year performance period, these performance goals will be measured to determine the number of shares a participant will receive. The payout levels can vary between 0% and 150% (maximum) of the target (100%) ALTEIP award amount based on the Company s level of performance against the pre-established performance goals.

PSU Performance Goals. For 2009, the Compensation Committee has established earnings per share (EPS) growth, revenue growth and total stockholder return as the three performance measures for PSU awards. Earnings per share growth is defined as the year-over-year change in GAAP net income divided by average diluted shares outstanding. Revenue growth is defined as year-over-year change in GAAP total revenues as disclosed in the Company s annual statement of operations. Total stockholder s return is defined as appreciation in Company stock plus dividend yield to stockholders. The particular performance goals were set based on the performance of each measure relative to the A.M. Best U.S. Insurance Index.

Under the ALTEIP, the Company s CEO is authorized by the Board of Directors to grant common stock, restricted stock and RSUs 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). Restricted stock and RSUs granted under this program may have different vesting periods.

Assurant, Inc.

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Long-Term Incentive Plan

Prior to the approval of the ALTEIP, share based awards were granted under the 2004 Assurant Long-Term Incentive Plan (ALTIP), which authorized the granting of up to 10,000,000 new shares of the Company s common stock to employees and officers under the ALTIP, Business Value Rights Program (BVR) and CEO Equity Grants Program. Under the ALTIP, the Company was authorized to grant restricted stock and SARs. Since May 2008, no new grants have been made under this plan.

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.

Restricted Stock Units

RSUs granted to employees and to non-employee directors were 83,738 and 754,804 for the three and six months ended June 30, 2009, respectively. The compensation expense recorded related to RSUs was $2,051 and $2,445 for the three and six months ended June 30, 2009, respectively. The related total income tax benefit recognized was $718 and $856 for the three and six months ended June 30, 2009, respectively. The weighted average grant date fair value for RSUs granted during the six months ended June 30, 2009 was $20.52.

As of June 30, 2009, there was $11,801 of unrecognized compensation cost related to outstanding RSUs. That cost is expected to be recognized over a weighted-average period of 1.82 years.

Performance Share Units

PSUs granted to employees were 631,066 for the six months ended June 30, 2009. No PSUs were granted during the three months ended June 30, 2009. The compensation expense recorded related to PSUs was $(370) and $31 for the three and six months ended June 30, 2009, respectively. Compensation expense recorded during the three months ended, March 31, 2009, has been reversed during the three months ended June 30, 2009 because the performance-based goals were below minimum payout threshold levels. The related total income tax expense recognized was $130 for the three months ended June 30, 2009. The related total income tax benefit recognized was $11 for the six months ended June 30, 2009. The weighted average grant date fair value for PSUs granted during the six months ended June 30, 2009 was $16.32.

As of June 30, 2009, there was no unrecognized compensation cost related to outstanding PSUs.

The fair value of PSUs with market conditions was estimated on the date of grant using a Monte Carlo simulation model, which utilizes multiple variables that determine the probability of satisfying the market condition stipulated in the award. Expected volatilities for awards issued during the six months ended June 30, 2009 were based on the historical stock prices of the Company s stock and peer insurance group. The expected term for grants issued during the six months ended June 30, 2009 was assumed to equal the average of the vesting period of the PSUs. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant.

Restricted Stock

Restricted stock granted to employees and to non-employee directors were 0 and 35,846 for the three months ended June 30, 2009 and 2008, respectively, and 10,900 and 120,631 for the six months ended June 30, 2009 and 2008, respectively. The compensation expense recorded related to restricted stock was $1,052 and $2,248 for the three months ended June 30, 2009 and 2008, respectively, and $2,581 and $3,703 for the six months ended June 30, 2009 and 2008, respectively. The related total income tax benefit recognized was $368 and $589 for the three months ended June 30, 2009 and 2008, respectively, and $903 and $1,098 for the six months ended June 30, 2009 and 2008, respectively. The weighted average grant date fair value for restricted stock granted during the six months ended June 30, 2009 and 2008 was $29.77 and $62.59, respectively.

As of June 30, 2009, there was $3,861 of unrecognized compensation cost related to outstanding restricted stock. That cost is expected to be recognized over a weighted-average period of 1.12 years. The total fair value of restricted stock vested during the three

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months ended June 30, 2009 and 2008 was $902 and $3,717, respectively, and $1,910 and $5,455 for the six months ended June 30, 2009 and 2008, respectively.

Stock Appreciation Rights

There were no SARs granted during the three and six months ended June 30, 2009. There were 8,091 and 1,497,891 SARs granted during the three and six months ended June 30, 2008, respectively. The compensation expense recorded related to SARs was $2,689 and $3,541 for the three months ended June 30, 2009 and 2008, respectively, and $4,844 and $6,600 for the six months ended June 30, 2009 and 2008, respectively. The related total income tax benefit recognized was $941 and $1,199 for the three months ended June 30, 2009 and 2008, respectively, and $1,695 and $2,270 for the six months ended June 30, 2009 and 2008, 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, 2009 and 2008 was $417 and $35,963, respectively. As of June 30, 2009, there was approximately $13,195 of unrecognized compensation cost related to outstanding SARs. That cost is expected to be recognized over a weighted-average period of 1.23 years.

The fair value of each SAR granted to employees and officers 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 was based on the current annual dividend and share price as of the grant date.

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. Since May 2008, all grants issued to directors have been issued from the ALTEIP, discussed above. There were no common shares issued or expense recorded for the three or six months ended June 30, 2009 and 2008, respectively.

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 shares 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 $984 and $330 for the three months ended June 30, 2009 and 2008, respectively, and $2,044 and $851 for the six months ended June 30, 2009 and 2008, respectively.

In January 2009, the Company issued 133,994 shares to employees at a discounted price of $27.00 for the offering period of July 1, 2008 through December 31, 2008. 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, 2007 through December 31, 2007.

In July 2009, the Company issued 186,940 shares to employees at a discounted price of $21.68 for the offering period of January 1, 2009 through June 30, 2009. 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, 2008 through June 30, 2008.

The fair value of each award under the 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. The dividend yield is based on the current annualized dividend and share price as of the grant date.

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10. Earnings Per Common Share

In accordance with FSP EITF 03-6-1 and as described in Note 3, restricted stock and RSUs which have non-forfeitable rights to dividends or dividend equivalents are included in calculating basic and diluted earnings per share under the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock according to dividends declared and participation rights in undistributed earnings. All prior period EPS data presented has been adjusted retrospectively.

The following table presents net income, 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 period presented below.

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Numerator				
Net income	$ 193,322	$ 189,954	$ 273,903	$ 376,784
Deduct dividends paid	(17,771)	(16,566)	(34,260)	(30,740)
Undistributed earnings	$ 175,551	$ 173,388	$ 239,643	$ 346,044
Denominator				
Weighted average shares outstanding used in basic earnings per share calculations	118,482,958	118,309,388	118,188,879	118,206,453
Incremental common shares from :				
SARs	58,368	1,265,602	59,174	1,278,959
ESPP	186,978	65,893	186,978	65,893
Weighted average shares used in diluted earnings per share calculations	118,728,304	119,640,883	118,435,031	119,551,305
Earnings per common share - Basic				
Distributed earnings	$ 0.15	$ 0.14	$ 0.29	$ 0.26
Undistributed earnings	1.48	1.47	2.03	2.93
Net income	$ 1.63	$ 1.61	$ 2.32	$ 3.19
Earnings per common share - Diluted				
Distributed earnings	$ 0.15	$ 0.14	$ 0.29	$ 0.26
Undistributed earnings	1.48	1.45	2.02	2.89

Net income	$ 1.63	$ 1.59	$ 2.31	$ 3.15

Average SARs totaling 4,460,151 and 1,471,068 for the three months ended June 30, 2009 and 2008, respectively, and 4,665,504 and 891,177 for the six months ended June 30, 2009 and 2008, respectively, were outstanding but were anti-dilutive and thus not included in the computation of diluted EPS under the treasury stock method.

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11. 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, 2009 and 2008 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,	
	2009	2008	2009	2008	2009	2008
Service cost	$ 5,450	$ 5,300	$ 550	$ 475	$ 675	$ 775
Interest cost	7,350	6,575	1,600	1,475	1,050	950
Expected return on plan assets	(8,800)	(9,275)			(475)	(300)
Amortization of prior service cost	100	725	150	200	325	325
Amortization of net loss (gain)	125	1,050	275	350	(50)	
Special termination benefits				1,748		