ASSURANT INC
Form 10-Q
August 01, 2012
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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, 2012

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 July 26, 2012 was 81,084,645.

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ASSURANT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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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 and per share amounts.

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At June 30, 2012 and December 31, 2011

	June 30, 2012	December 31, 2011
	(in thousands except number of shares and per share amounts)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost $9,980,885 in 2012 and $10,123,429 in 2011)	$ 11,214,423	$ 11,192,599
Equity securities available for sale, at fair value (cost $369,640 in 2012 and $357,411 in 2011)	399,943	362,376
Commercial mortgage loans on real estate, at amortized cost	1,302,609	1,309,687
Policy loans	53,449	54,192
Short-term investments	504,924	441,383
Collateral held/pledged under securities agreements	94,608	95,221
Other investments	585,803	570,707
Total investments	14,155,759	14,026,165
Cash and cash equivalents	1,106,992	1,166,713
Premiums and accounts receivable, net	685,820	649,122
Reinsurance recoverables	5,428,106	5,411,064
Accrued investment income	153,733	153,783
Deferred acquisition costs	2,635,132	2,492,857
Property and equipment, at cost less accumulated depreciation	241,722	242,908
Deferred income taxes, net	0	44,280
Tax receivable	9,989	0
Goodwill	639,517	639,097
Value of business acquired	66,506	71,014
Other intangible assets, net	279,906	303,832
Other assets	118,929	124,298
Assets held in separate accounts	1,721,478	1,694,729
Total assets	$ 27,243,589	$ 27,019,862

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At June 30, 2012 and December 31, 2011

	June 30, 2012	December 31, 2011
	(in thousands except number of shares and per share amounts)	
Liabilities		
Future policy benefits and expenses	$ 8,412,128	$ 8,359,206
Unearned premiums	5,685,188	5,482,017
Claims and benefits payable	3,352,224	3,437,119
Commissions payable	216,341	260,022
Reinsurance balances payable	103,899	130,144
Funds held under reinsurance	60,890	64,413
Deferred gain on disposal of businesses	124,816	134,033
Obligation under securities agreements	94,615	95,494
Accounts payable and other liabilities	1,413,769	1,486,026
Deferred income taxes, net	52,336	0
Tax payable	0	30,431
Debt	972,337	972,278
Liabilities related to separate accounts	1,721,478	1,694,729
Total liabilities	22,210,021	22,145,912
Commitments and contingencies (Note 14)		
Stockholders equity		
Common stock, par value $0.01 per share, 800,000,000 shares authorized, 82,392,454 and 88,524,374 shares outstanding at June 30, 2012 and December 31, 2011, respectively	1,472	1,464
Additional paid-in capital	3,028,665	3,025,477
Retained earnings	3,883,865	3,586,784
Accumulated other comprehensive income	676,432	557,576
Treasury stock, at cost; 64,406,999 and 57,433,178 shares at June 30, 2012 and December 31, 2011, respectively	(2,556,866)	(2,297,351)
Total stockholders equity	5,033,568	4,873,950
Total liabilities and stockholders equity	$ 27,243,589	$ 27,019,862

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statements of Operations (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(in thousands except number of shares and per share amounts)			
Revenues				
Net earned premiums and other considerations	$ 1,792,236	$ 1,768,308	$ 3,569,297	$ 3,530,320
Net investment income	199,314	173,844	371,609	345,717
Net realized gains on investments, excluding other-than-temporary impairment losses	18,175	17,502	27,558	22,858
Total other-than-temporary impairment losses	0	(1,191)	(1,936)	(3,145)
Portion of net gain recognized in other comprehensive income, before taxes	0	(265)	97	110
Net other-than-temporary impairment losses recognized in earnings	0	(1,456)	(1,839)	(3,035)
Amortization of deferred gain on disposal of businesses	4,596	5,105	9,217	10,239
Fees and other income	114,969	99,584	226,372	193,459
Total revenues	2,129,290	2,062,887	4,202,214	4,099,558
Benefits, losses and expenses				
Policyholder benefits	872,027	986,844	1,728,385	1,879,872
Amortization of deferred acquisition costs and value of business acquired	334,861	331,598	676,619	657,138
Underwriting, general and administrative expenses	642,667	598,728	1,252,751	1,187,274
Interest expense	15,074	15,075	30,150	30,206
Total benefits, losses and expenses	1,864,629	1,932,245	3,687,905	3,754,490
Income before provision (benefit) for income taxes	264,661	130,642	514,309	345,068
Provision (benefit) for income taxes	95,491	(34,374)	181,879	39,301
Net income	$ 169,170	$ 165,016	$ 332,430	$ 305,767
Earnings Per Share				
Basic	$ 1.96	$ 1.69	$ 3.80	$ 3.07
Diluted	$ 1.94	$ 1.67	$ 3.76	$ 3.05
Dividends per share	$ 0.21	$ 0.18	$ 0.39	$ 0.34
Share Data				
Weighted average shares outstanding used in basic per share calculations	86,279,670	97,713,045	87,526,257	99,444,311
Plus: Dilutive securities	764,911	977,069	956,600	954,821
Weighted average shares used in diluted per share calculations	87,044,581	98,690,114	88,482,857	100,399,132

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(in thousands)			
Net income	$ 169,170	$ 165,016	$ 332,430	$ 305,767
Other comprehensive income:				
Change in unrealized gains on securities, net of taxes of $(54,475), $(39,326), $(63,918) and $(35,757), respectively	101,922	79,084	120,118	66,385
Change in other-than-temporary impairment gains recognized in other comprehensive income, net of taxes of $(481), $(1,221), $(2,078) and $(3,452), respectively	894	2,268	3,859	6,410
Changes in foreign currency translation, net of taxes of $2,904, $824, $221 and $(3,068), respectively	(27,337)	129	(12,596)	16,670
Amortization of pension and postretirement unrecognized net periodic benefit cost and change in funded status, net of taxes of $(2,013), $(1,558), $(4,025) and $(3,122), respectively	3,737	2,893	7,475	5,778
Total other comprehensive income	79,216	84,374	118,856	95,243
Total comprehensive income	$ 248,386	$ 249,390	$ 451,286	$ 401,010

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Stockholders Equity (unaudited)

From December 31, 2011 through June 30, 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(in thousands)			
Balance, December 31, 2011, as previously reported	$ 1,464	$ 3,025,477	$ 3,742,479	$ 554,867	$ (2,297,351)	$ 5,026,936
Cumulative effect of adjustment resulting from new accounting guidance	0	0	(155,695)	2,709	0	(152,986)
Adjusted balance, December 31, 2011	1,464	3,025,477	3,586,784	557,576	(2,297,351)	4,873,950
Stock plan exercises	8	(13,610)	0	0	0	(13,602)
Stock plan compensation expense	0	14,411	0	0	0	14,411
Change in tax benefit from share-based payment arrangements	0	2,387	0	0	0	2,387
Dividends	0	0	(35,349)	0	0	(35,349)
Acquisition of common stock	0	0	0	0	(259,515)	(259,515)
Net income	0	0	332,430	0	0	332,430
Other comprehensive income	0	0	0	118,856	0	118,856
Balance, June 30, 2012	$ 1,472	$ 3,028,665	$ 3,883,865	$ 676,432	$ (2,556,866)	$ 5,033,568

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statements of Cash Flows (unaudited)

Six Months Ended June 30, 2012 and 2011

	Six Months Ended June 30, 2012	2011
	(in thousands)	
Net cash provided by operating activities	$ 184,511	$ 323,751
Investing activities		
Sales of:		
Fixed maturity securities available for sale	889,773	898,199
Equity securities available for sale	70,122	32,586
Other invested assets	48,774	11,557
Property and equipment and other	1,806	3,188
Maturities, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	525,705	548,565
Commercial mortgage loans on real estate	63,116	52,037
Purchases of:		
Fixed maturity securities available for sale	(1,293,412)	(1,322,244)
Equity securities available for sale	(86,048)	(24,524)
Commercial mortgage loans on real estate	(58,024)	(43,772)
Other invested assets	(20,621)	(22,003)
Property and equipment and other	(22,363)	(17,041)
Subsidiary, net of cash transferred	(3,500)	(45,080)
Change in short-term investments	(65,520)	(85,115)
Change in policy loans	730	647
Change in collateral held/pledged under securities agreements	879	29,806
Net cash provided by investing activities	51,417	16,806
Financing activities		
Repayment of mandatorily redeemable preferred stock		(5,000)
Change in tax benefit from share-based payment arrangements	2,387	(3,458)
Acquisition of common stock	(258,695)	(286,791)
Dividends paid	(35,349)	(33,680)
Change in obligation under securities agreements	(879)	(29,806)
Change in receivables under securities loan agreements		14,370
Change in obligations to return borrowed securities		(14,281)
Net cash used in financing activities	(292,536)	(358,646)
Effect of exchange rate changes on cash and cash equivalents	(3,113)	2,672
Change in cash and cash equivalents	(59,721)	(15,417)
Cash and cash equivalents at beginning of period	1,166,713	1,150,516
Cash and cash equivalents at end of period	$ 1,106,992	$ 1,135,099

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per 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 select worldwide markets.

The Company is traded on the New York Stock Exchange under the symbol AIZ.

Through its operating subsidiaries, the Company provides debt protection administration, credit-related insurance, warranties and service contracts, pre-funded funeral insurance, lender-placed homeowners insurance, manufactured housing homeowners insurance, individual health and small employer group health insurance, group dental insurance, group disability insurance, and group life 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 GAAP for complete financial statements.

On January 1, 2012, the Company adopted the amendments to existing guidance on accounting for costs associated with acquiring or renewing insurance contracts. This guidance was adopted retrospectively and has been applied to all prior period financial information contained in these consolidated financial statements.

The interim financial data as of June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 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 2012 presentation.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, and the rules and regulations thereunder (together, the Affordable Care Act) was signed into law in March 2010. One provision of the Affordable Care Act, effective January 1, 2011, established a minimum medical loss ratio (MLR) designed to ensure that a minimum level of benefits are paid to health insurance policyholders. The Affordable Care Act established an MLR of 80% for individual and small group business and 85% for large group business. If the actual loss ratios, calculated in a manner prescribed by the Department of Health and Human Services (HHS), are less than the required MLR, rebates are payable to the policyholders by August 1 of the subsequent year.

Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

3. Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

On January 1, 2012, the Company adopted the guidance on fair value measurement. This amended guidance changes certain fair value measurement principles and expands required disclosures to include quantitative and qualitative information about unobservable inputs in Level 3 measurements to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRS). The adoption of this guidance did not have an impact on the Company s financial position or results of operations.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per share amounts)

On January 1, 2012, the Company adopted the amendments to existing guidance on accounting for costs associated with acquiring or renewing insurance contracts. The amendments modified the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. Under this amended guidance, only direct incremental costs associated with successful insurance contract acquisitions or renewals are deferrable. This guidance was adopted retrospectively and has been applied to all prior period financial information contained in these consolidated financial statements. As of January 1, 2011, the beginning of the earliest period presented, the cumulative effect adjustment recorded to reflect this guidance resulted in a decrease of $148,811 in retained earnings, an increase of $1,411 in accumulated other comprehensive income and a decrease of $147,400 in total stockholders equity.

The effect of adoption of this new guidance on the December 31, 2011 consolidated balance sheet was as follows:

	As Previously Reported	Effect of Change	As Currently Reported
Deferred acquisition costs	$ 2,632,720	$ (139,863)	$ 2,492,857
Deferred income taxes, net	0	44,280	44,280
Total assets	27,115,445	(95,583)	27,019,862
Future policy benefits and expenses	8,269,343	89,863	8,359,206
Deferred income taxes, net	32,460	(32,460)	0
Total liabilities	22,088,509	57,403	22,145,912
Retained earnings	3,742,479	(155,695)	3,586,784
Accumulated other comprehensive income	554,867	2,709	557,576
Total stockholders equity	5,026,936	(152,986)	4,873,950
Total liabilities and stockholders equity	27,115,445	(95,583)	27,019,862

The effect of adoption of this new guidance on the consolidated statement of operations for the three months ended June 30, 2011 was as follows:

	As Previously Reported	Effect of Change	As Currently Reported
Policyholder benefits	$ 988,197	$ (1,353)	$ 986,844
Amortization of deferred acquisition costs and value of business acquired	362,013	(30,415)	331,598
Underwriting, general and administrative expenses	565,674	33,054	598,728
Total benefits, losses and expenses	1,930,959	1,286	1,932,245
Income before provision for income taxes	131,928	(1,286)	130,642
Provision for income taxes	(33,932)	(442)	(34,374)
Net income	165,860	(844)	165,016
Earnings per share			
Basic	1.70	(0.01)	1.69
Diluted	1.68	(0.01)	1.67

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per share amounts)

The effect of adoption of this new guidance on the consolidated statement of operations for the six months ended June 30, 2011 was as follows:

	As Previously Reported	Effect of Change	As Currently Reported
Policyholder benefits	$ 1,882,707	$ (2,835)	$ 1,879,872
Amortization of deferred acquisition costs and value of business acquired	716,613	(59,475)	657,138
Underwriting, general and administrative expenses	1,123,475	63,799	1,187,274
Total benefits, losses and expenses	3,753,001	1,489	3,754,490
Income before provision for income taxes	346,557	(1,489)	345,068
Provision for income taxes	38,956	345	39,301
Net income	307,601	(1,834)	305,767
Earnings per share			
Basic	3.09	(0.02)	3.07
Diluted	3.06	(0.01)	3.05

Recent Accounting Pronouncements Not Yet Adopted

In July 2011, the Financial Accounting Standards Board (FASB) issued amendments to the other expenses guidance to address how health insurers should recognize and classify in their income statements fees mandated by the Affordable Care Act. The Affordable Care Act imposes an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense ratably over the calendar year during which it is payable. The guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. Therefore, the Company is required to adopt this guidance on January 1, 2014. The Company is currently evaluating the requirements of the amendments and the potential impact on the Company s financial position and results of operations.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per share amounts)

4. Investments

The following tables show the cost or amortized cost, gross unrealized gains and losses, fair value and other-than-temporary impairment (OTTI) of our fixed maturity and equity securities as of the dates indicated:

	June 30, 2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities:					
United States Government and government agencies and authorities	$ 164,799	$ 9,264	$ (87)	$ 173,976	$ 0
States, municipalities and political subdivisions	806,246	103,516	(148)	909,614	0
Foreign governments	595,180	80,512	(1,125)	674,567	0
Asset-backed	29,797	1,790	(519)	31,068	1,149
Commercial mortgage-backed	75,965	5,750	0	81,715	0
Residential mortgage-backed	782,395	60,795	(189)	843,001	11,641
Corporate	7,526,503	999,479	(25,500)	8,500,482	16,817
Total fixed maturity securities	$ 9,980,885	$ 1,261,106	$ (27,568)	$ 11,214,423	$ 29,607
Equity securities:					
Common stocks	$ 14,037	$ 3,050	$ (71)	$ 17,016	$ 0
Non-redeemable preferred stocks	355,603	38,506	(11,182)	382,927	0
Total equity securities	$ 369,640	$ 41,556	$ (11,253)	$ 399,943	$ 0

	December 31, 2011				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI
Fixed maturity securities:					
United States Government and government agencies and authorities	$ 148,379	$ 8,987	$ (26)	$ 157,340	$ 0
States, municipalities and political subdivisions	832,788	96,536	(301)	929,023	0
Foreign governments	647,133	78,148	(1,368)	723,913	0
Asset-backed	30,681	2,072	(320)	32,433	1,118
Commercial mortgage-backed	82,184	5,840	0	88,024	0
Residential mortgage-backed	841,488	56,364	(633)	897,219	8,240
Corporate	7,540,776	882,628	(58,757)	8,364,647	14,313

Total fixed maturity securities	$ 10,123,429	$ 1,130,575	$ (61,405)	$ 11,192,599	$ 23,671
Equity securities:					
Common stocks	$ 14,037	$ 2,018	$ (54)	$ 16,001	$ 0
Non-redeemable preferred stocks	343,374	28,141	(25,140)	346,375	0
Total equity securities	$ 357,411	$ 30,159	$ (25,194)	$ 362,376	$ 0

Our states, municipalities and political subdivisions holdings are highly diversified across the U.S. and Puerto Rico, with no individual state s exposure (including both general obligation and revenue securities) exceeding 0.5% of the overall investment

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per share amounts)

portfolio as of June 30, 2012 and December 31, 2011. At June 30, 2012 and December 31, 2011, the securities include general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers, including $165,115 and $164,347, respectively, of advance refunded or escrowed-to-maturity bonds (collectively referred to as pre-refunded bonds), which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. As of June 30, 2012 and December 31, 2011, revenue bonds account for 52% and 51% of the holdings, respectively. Excluding pre-refunded bonds, sales tax, highway, water, fuel sales, transit and miscellaneous (which includes bond banks, finance authorities and appropriations) provide for 80% of the revenue sources, as of June 30, 2012 and December 31, 2011.

The Company s investments in foreign government fixed maturity securities are held mainly in countries and currencies where the Company has policyholder liabilities, which allow the assets and liabilities to be more appropriately matched. At June 30, 2012 and December 31, 2011, approximately 65%, 14%, 7% and 63%, 13%, 7% of the foreign government securities were held in the Canadian government/provincials and the governments of Brazil and Germany, respectively. No other country represented more than 4% and 5% of our foreign government securities as of June 30, 2012 and December 31, 2011, respectively.

The Company has European investment exposure in its corporate fixed maturity and equity securities of $914,889 with an unrealized gain of $78,859 at June 30, 2012 and $868,012 with an unrealized gain of $61,387 at December 31, 2011. Approximately 29% and 31% of the corporate European exposure is held in the financial industry at June 30, 2012 and December 31, 2011, respectively. No European country represented more than 5% of the fair value of our corporate securities as of June 30, 2012 and December 31, 2011. Approximately 5% of the fair value of the corporate European securities are pound and euro-denominated and are not hedged to U.S. dollars, but held to support those foreign-denominated liabilities. Our international investments are managed as part of our overall portfolio with the same approach to risk management and focus on diversification.

The cost or amortized cost and fair value of fixed maturity securities at June 30, 2012 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 call or prepayment penalties.

	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 399,311	$ 406,724
Due after one year through five years	2,020,383	2,158,032
Due after five years through ten years	2,443,293	2,669,972
Due after ten years	4,229,741	5,023,911
Total	9,092,728	10,258,639
Asset-backed	29,797	31,068
Commercial mortgage-backed	75,965	81,715
Residential mortgage-backed	782,395	843,001
Total	$ 9,980,885	$ 11,214,423

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Proceeds from sales	$ 498,324	$ 625,903	$ 966,915	$ 948,492
Gross realized gains	19,264	20,192	34,796	28,435
Gross realized losses	1,677	5,455	8,246	9,307

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2012 and 2011

(In thousands, except number of shares and per share amounts)

The following table sets forth the net realized gains (losses), including OTTI, recognized in the statements of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net realized gains (losses) related to sales and other:				
Fixed maturity securities	$ 17,000	$ 14,573	$ 29,205	$ 20,905
Equity securities	769	166	(2,309)	(89)
Mortgage loans	(256)	0	(256)	0
Other investments	662	2,763	918	2,042
Total net realized gains related to sales and other	18,175	17,502	27,558	22,858
Net realized losses related to other-than-temporary impairments:				
Fixed maturity securities	0	(1,454)	(1,283)	(3,014)
Equity securities	0	(2)	(226)	(21)
Other investments	0	0	(330)	0
Total net realized losses related to other-than-temporary impairments	0	(1,456)	(1,839)	(3,035)
Total net realized gains	$ 18,175	$ 16,046	$ 25,719	$ 19,823

Other-Than-Temporary Impairments

The Company follows the OTTI guidance which 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, and it is more likely than not that it will not be required to sell before recovery of its cost basis. Under the OTTI guidance, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other, non-credit, 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 the Company intends to sell the security or 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 was 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.

For the six months ended June 30, 2012, the Company recorded $1,936, of OTTI, of which $1,839 was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining $97 related to all other factors and recorded as an unrealized loss component of AOCI. For the three months ended June 30, 2012 the Company did not incur any OTTI. For the three and six months ended June 30, 2011, the Company recorded $1,191 and $3,145, respectively, of OTTI, of which $1,456 and $3,035 was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining $(265) and $110, respectively, related to all other factors and recorded as an unrealized (gain) loss component of AOCI.

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The following tables set 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.

	Three Months ended June 30, 2012	Three Months ended June 30, 2011
Balance, March 31,	$ 102,353	$ 104,973
Additions for credit loss impairments recognized in the current period on securities previously impaired	0	1,454
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(599)	(134)
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(3,166)	(659)
Balance, June 30,	$ 98,588	$ 105,634

	Six Months ended June 30, 2012	Six Months ended June 30, 2011
Balance, January 1,	$ 103,090	$ 105,245
Additions for credit loss impairments recognized in the current period on securities not previously impaired	0	1,455
Additions for credit loss impairments recognized in the current period on securities previously impaired	56	1,558
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(814)	(268)
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(3,744)	(2,356)
Balance, June 30,	$ 98,588	$ 105,634

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.

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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, 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 OTTI, the Company generally accretes the discount (or amortizes 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.

The investment category and duration of the Company s gross unrealized losses on fixed maturity securities and equity securities at June 30, 2012 and December 31, 2011 were as follows:

	June 30, 2012					
	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	$ 17,727	$ (87)	$ 0	$ 0	$ 17,727	$ (87)
States, municipalities and political subdivisions	0	0	4,516	(148)	4,516	(148)
Foreign governments	16,366	(6)	9,081	(1,119)	25,447	(1,125)
Asset-backed	2,474	(519)	0	0	2,474	(519)
Residential mortgage-backed	23,362	(90)	3,827	(99)	27,189	(189)
Corporate	343,311	(11,247)	167,277	(14,253)	510,588	(25,500)
Total fixed maturity securities	$ 403,240	$ (11,949)	$ 184,701	$ (15,619)	$ 587,941	$ (27,568)
Equity securities:						
Common stocks	$ 1,245	$ (71)	$ 0	$ 0	$ 1,245	$ (71)
Non-redeemable preferred stocks	27,032	(416)	65,560	(10,766)	92,592	(11,182)
Total equity securities	$ 28,277	$ (487)	$ 65,560	$ (10,766)	$ 93,837	$ (11,253)

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	December 31, 2011					
	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	$ 8,852	$ (26)	$ 0	$ 0	$ 8,852	$ (26)
States, municipalities and political subdivisions	0	0	5,503	(301)	5,503	(301)
Foreign governments	31,125	(150)	9,443	(1,218)	40,568	(1,368)
Asset-backed	2,624	(320)	0	0	2,624	(320)
Residential mortgage-backed	43,141	(513)	2,368	(120)	45,509	(633)
Corporate	718,815	(32,899)	176,279	(25,858)	895,094	(58,757)
Total fixed maturity securities	$ 804,557	$ (33,908)	$ 193,593	$ (27,497)	$ 998,150	$ (61,405)
Equity securities:						
Common stocks	$ 1,174	$ (54)	$ 0	$ 0	$ 1,174	$ (54)
Non-redeemable preferred stocks	51,577	(4,499)	85,704	(20,641)	137,281	(25,140)
Total equity securities	$ 52,751	$ (4,553)	$ 85,704	$ (20,641)	$ 138,455	$ (25,194)

Total gross unrealized losses represent less than 6% and 8% of the aggregate fair value of the related securities at June 30, 2012 and December 31, 2011, respectively. Approximately 32% and 44% of these gross unrealized losses have been in a continuous loss position for less than twelve months at June 30, 2012 and December 31, 2011, respectively. The total gross unrealized losses are comprised of 217 and 389 individual securities at June 30, 2012 and December 31, 2011, 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, 2012 and December 31, 2011. These conclusions are based on a detailed analysis of the underlying credit and expected cash flows of each security. As of June 30, 2012, the gross unrealized losses that have been in a continuous loss position for twelve months or more were concentrated in the Company s corporate fixed maturity securities and in non-redeemable preferred stocks. Within the Company s corporate fixed maturity securities, the majority of the loss position relates to securities in the financial industry sector. For these concentrations, gross unrealized losses of twelve months or more were $9,193, or 65%, of the total. The non-redeemable preferred stocks are perpetual preferred securities that have characteristics of both debt and equity securities. To evaluate these securities, we apply an impairment model similar to that used for our fixed maturity securities. As of June 30, 2012, the Company did not intend to sell these securities and it was not more likely than not that the Company would be required to sell them and no underlying cash flow issues were noted. Therefore, we did not recognize an OTTI on those perpetual preferred securities that had been in a continuous unrealized loss position for twelve months or more. As of June 30, 2012, the Company did not intend to sell the fixed maturity 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. The gross unrealized losses are primarily attributable to widening credit spreads associated with an underlying shift in overall credit risk premium.

The Company has made commercial mortgage loans, collateralized by the underlying real estate, on properties located throughout the U.S. and Canada. At June 30, 2012, approximately 39% of the outstanding principal balance of commercial mortgage loans was concentrated in the states of California, New York, and Utah. Although the Company has a diversified loan portfolio, an economic downturn could have an adverse impact on the ability of its debtors to repay their loans. The outstanding balance of commercial mortgage loans range in size from $45 to $16,114 at June 30, 2012 and from $36 to $16,285 at December 31, 2011.

Credit quality indicators for commercial mortgage loans are loan-to-value and debt-service coverage ratios. Loan-to-value and debt-service coverage ratios are measures commonly used to assess the credit quality of commercial mortgage loans. The loan-to-value ratio compares the principal amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. The debt-service coverage ratio compares a property s net operating income to its debt-service payments and is commonly expressed as a ratio. The loan-to-value and debt-service coverage ratios are generally updated annually in the third quarter.

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The following summarizes our loan-to value and average debt-service coverage ratios as of the dates indicated:

	June 30, 2012		
Loan-to-Value	**Carrying Value**	**% of Gross Mortgage Loans**	**Debt-Service Coverage ratio**
70% and less	$ 1,056,652	80.5%	2.05
71 80%	165,201	12.6%	1.39
81 95%	55,422	4.2%	1.20
Greater than 95%	35,659	2.7%	0.78
Gross commercial mortgage loans	1,312,934	100.0%	1.89
Less valuation allowance	(10,325)		
Net commercial mortgage loans	$ 1,302,609		

	December 31, 2011		
Loan-to-Value	**Carrying Value**	**% of Gross Mortgage Loans**	**Debt-Service Coverage ratio**
70% and less	$ 1,018,927	77.1%	2.09
71 80%	188,816	14.3%	1.37
81 95%	74,657	5.7%	1.16
Greater than 95%	37,697	2.9%	0.76
Gross commercial mortgage loans	1,320,097	100.0%	1.90
Less valuation allowance	(10,410)		
Net commercial mortgage loans	$ 1,309,687		

All commercial mortgage loans that are individually impaired have an established mortgage loan valuation allowance for losses. Changing economic conditions affect our valuation of commercial mortgage loans. Changing vacancies and rents are incorporated into the discounted cash flow analysis that we perform for monitored loans and may contribute to the establishment of (or an increase or decrease in) a commercial mortgage loan valuation allowance for losses. In addition, we continue to monitor the entire commercial mortgage loan portfolio to identify risk. Areas of emphasis are properties that have exposure to earthquakes, have deteriorating credits or have experienced a reduction in debt-service coverage ratio. Where warranted, we have established or increased a valuation allowance based upon this analysis.

Collateralized Transactions

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. 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, 2012 and December 31, 2011, our collateral held under securities lending, of which its use is unrestricted, was $94,608 and $95,221, respectively, and is included in the consolidated balance sheets under the collateral held/pledged under securities agreements. Our liability to the borrower for collateral received was $94,615 and $95,494, respectively, and is included in the consolidated balance sheets under the obligation under securities agreements. The difference between the collateral held and obligations under securities lending is recorded as an unrealized loss and is included as part of AOCI. All securities with unrealized losses have been in a continuous loss position for twelve months or longer as of June 30, 2012 and December 31, 2011. The Company includes the available-for-sale investments purchased with the cash collateral in its evaluation of other-than-temporary impairments.

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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, the reinvestment is presented as cash flows from investing activities.

5. Fair Value Disclosures

Fair Values, Inputs and Valuation Techniques for Financial Assets and Liabilities Disclosures

The fair value measurements and disclosures guidance defines fair value and establishes a framework for measuring fair value. Fair value is defined 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 this guidance, 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 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 are described below:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access.

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.

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.

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 assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011. The amounts presented below for Collateral held/pledged under securities agreements, Other investments, Cash equivalents, Other assets, Assets and Liabilities held in separate accounts and Other liabilities differ from the amounts presented in the consolidated balance sheets because only certain investments or certain assets and liabilities within these line items are measured at estimated fair value. Other investments are comprised of investments in the Assurant Investment Plan, American Security Insurance Company Investment Plan, Assurant Deferred Compensation Plan, a modified coinsurance arrangement and other derivatives. Other liabilities are comprised of investments in the Assurant Investment Plan and other derivatives. The fair value amount and the majority of the associated levels presented for Other investments and Assets held in separate accounts are received directly from third parties.

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	June 30, 2012						
Financial Assets	**Total**	**Level 1**		**Level 2**		**Level 3**	
Fixed maturity securities:							
United States Government and government agencies and authorities	$ 173,976	$ 0		$ 169,687		$ 4,289	
State, municipalities and political subdivisions	909,614	0		909,614		0	
Foreign governments	674,567	750		650,450		23,367	
Asset-backed	31,068	0		31,068		0	
Commercial mortgage-backed	81,715	0		80,892		823	
Residential mortgage-backed	843,001	0		834,466		8,535	
Corporate	8,500,482	0		8,358,605		141,877	
Equity securities:							
Common stocks	17,016	16,333		683		0	
Non-redeemable preferred stocks	382,927	0		382,926		1	
Short-term investments	504,924	389,587	b	115,337	c	0	
Collateral held/pledged under securities agreements	69,608	65,223	b	4,385	c	0	
Other investments	249,613	52,621	a	185,993	c	10,999	d
Cash equivalents	772,724	748,353	b	24,371	c	0	
Other assets	7,272	0		998	f	6,274	e
Assets held in separate accounts	1,662,404	1,448,673	a	213,731	c	0	
Total financial assets	$ 14,880,911	$ 2,721,540		$ 11,963,206		$ 196,165	
Financial Liabilities							
Other liabilities	$ 53,623	$ 51,557	a	$ 131	f	$ 1,935	f
Liabilities related to separate accounts	1,662,404	1,448,673	a	213,731	c	0	
Total financial liabilities	$ 1,716,027	$ 1,500,230		$ 213,862		$ 1,935	

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	December 31, 2011			
Financial Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturity securities:				
United States Government and government agencies and authorities	$ 157,340	$ 0	$ 152,940	$ 4,400
State, municipalities and political subdivisions	929,023	0	929,023	0
Foreign governments	723,913	1,857	699,343	22,713
Asset-backed	32,433	0	31,980	453
Commercial mortgage-backed	88,024	0	87,120	904
Residential mortgage-backed	897,219	0	895,352	1,867
Corporate	8,364,647	0	8,227,018	137,629
Equity securities:				
Common stocks	16,001	15,318	683	0
Non-redeemable preferred stocks	346,375	0	346,362	13
Short-term investments	441,383	355,732 b	85,651 c	0
Collateral held/pledged under securities agreements	70,221	56,441 b	13,780 c	0
Other investments	245,280	47,931 a	179,092 c	18,257 d
Cash equivalents	915,339	887,135 b	28,204 c	0
Other assets	9,241	0	720 f	8,521 e
Assets held in separate accounts	1,632,781	1,417,864 a	214,917 c	0
Total financial assets	$ 14,869,220	$ 2,782,278	$ 11,892,185	$ 194,757
Financial Liabilities				
Other liabilities	$ 50,754	$ 47,931 a	$ 103 f	$ 2,720 f
Liabilities related to separate accounts	1,632,781	1,417,864 a	214,917 c	0
Total financial liabilities	$ 1,683,535	$ 1,465,795	$ 215,020	$ 2,720

a. Mainly includes mutual funds.
b. Mainly includes money market funds.
c. Mainly includes fixed maturity securities.
d. Mainly includes fixed maturity securities and other derivatives.
e. Mainly includes the Consumer Price Index Cap Derivatives (CPI Caps).
f. Mainly includes other derivatives.

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There were no transfers between Level 1 and Level 2 financial assets during the period. However, there were transfers between Level 2 and Level 3 financial assets during the period, which are reflected in the Transfers in and Transfers out columns below. Transfers between Level 2 and Level 3 most commonly occur when market observable inputs that were previously available become unavailable in the current period. The remaining unpriced securities are submitted to independent brokers who provide non-binding broker quotes or are priced by other qualified sources.

The following tables summarize the change in balance sheet carrying value associated with Level 3 financial assets and liabilities carried at fair value during the three and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012						
	Balance, beginning of period	Total (losses) gains (realized/ unrealized) included in earnings	Net unrealized gains (losses) included in stockholders equity	Sales	Transfers in (1)	Transfers out (1)	Balance, end of period
Fixed Maturity Securities							
United States Government and government agencies and authorities	$ 4,293	$ (1)	$ (3)	$ 0	$ 0	$ 0	$ 4,289
Foreign governments	23,444	(1)	(76)	0	0	0	23,367
Commercial mortgage-backed	864	0	(2)	(39)	0	0	823
Residential mortgage-backed	1,844	(7)	25	(392)	7,065	0	8,535
Corporate	143,280	(87)	384	(1,700)	0	0	141,877
Equity Securities							
Non-redeemable preferred stocks	16	0	0	0	0	(15)	1
Other investments	11,624	(464)	1	(162)	0	0	10,999
Other assets	6,752	(478)	0	0	0	0	6,274
Financial Liabilities							
Other liabilities	(2,158)	223	0	0	0	0	(1,935)
Total level 3 assets and liabilities	$ 189,959	$ (815)	$ 329	$ (2,293)	$ 7,065	$ (15)	$ 194,230

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	Three Months Ended June 30, 2011							
	Balance, beginning of period	Total (losses) gains (realized/ unrealized) included in earnings	Net unrealized gains (losses) included in stockholders equity	Purchases	Sales	Transfers in (1)	Transfers out (1)	Balance, end of period
Fixed Maturity Securities								
United States Government and government agencies and authorities	$ 13,075	$ (114)	$ (25)	$ 0	$ (713)	$ 0	$ 0	$ 12,223
Foreign governments	21,401	(1)	547	0	0	0	0	21,947
Asset-backed	0	0	0	0	0	0	0	0
Commercial mortgage-backed	3,147	0	(6)	0				