
MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Assurant Second Quarter 2009 Financial Results Conference Call. During the presentation listeners are in a listen-only mode. Instructions for posing questions will be given following the presentation. As a reminder, today's conference is being recorded.

I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President, Investor Relations. Please go ahead, Ms. Kivett.

Melissa Kivett, Senior Vice President, Investor Relations

Thanks, Alicia. Welcome to Assurant 2009 second quarter earnings conference call. Joining me with prepared remarks are Rob Pollock, our President and Chief Executive Officer of Assurant, Mike Peninger, our Chief Financial Officer, Gene Mergelmeyer, our President and Chief Executive Officer of Assurant Specialty Property, and Chris Pagano, our Chief Investment Officer and Treasurer. Prepared remarks today will last about 25 minutes, and then we'll open the call to questions.

Yesterday, we issued a news release announcing our second quarter 2009 financial results. This news release as well as corresponding supplementary financial information is available on our website at assurant.com. Some of the statements we make today may contain forward-looking information, and our actual results may differ materially from those projected in the forward-looking statements.

We caution you about relying on these forward-looking statements and direct you to consider the discussions, risks and uncertainties associated with our business and results of operations contained in our 2008 Form 10-K and subsequently filed Forms 10-Q and 8-K, all of which you can find on our website. The company undertakes no obligation to update or revise any forward-looking statements.

Additionally, the presentation will contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the two, please refer to yesterday's earnings release and the supplementary financial information that's on our website.

Now, I'll turn the call over to Rob.

Robert B. Pollock, President and Chief Executive Officer

Thanks, Melissa, and good morning, everyone. The second quarter of 2009 was difficult for us, and we are especially disappointed by the operating results at Assurant Health. We understand the problems and are taking actions to return the segment to profitability as soon as possible.

In addition, we are implementing actions in all of our businesses to improve performance, while meeting the needs of our clients. We certainly understand concerns about the quarter's performance. We share your concern, and in a moment, I will address what happened.

But before I do, I want to mention that in evaluating the numbers, don't forget that our financial position is stronger despite the unprecedented pressures in the economy and other negative factors.

During the first six months, we've achieved annualized operating return on equity of 10.5%, and our fully diluted book value per share has increased over 16% since year-end. Now, what's the underlying story behind the quarter?

Let me begin with Assurant Health. Higher utilization of medical services continued to negatively affect our results. This was driven by three primary factors. First, people are visiting the doctor more often. We believe this is likely related to a fear of losing health insurance.

Second, doctors are increasing the number of tests or services performed when patients visit. This may be related to reductions in reimbursement for Medicare. Third, we've experienced an increase in large dollar claims during the second quarter.

This may be related to continued improvements in technology, as well as hospitals' need for revenue. While these factors are tied to the economy and consumer behavior in the marketplace, we should have recognized these trends sooner.

In our other businesses, the year-over-year changes reflect a decidedly different economic environment in 2009 than in 2008. In Solutions, we're dealing with client bankruptcies, a dramatic slowdown in consumer spending, and high unemployment in the United Kingdom.

In Benefits, small employers are struggling to stay in business, resulting in fewer additions to staff, reductions in employer-paid benefits and higher utilization of benefits where employees fear losing their coverage. In Specialty Property, we've gone from an environment of bidding to acquire clients to dealing with servicers being consolidated and requiring more support from us.

With that as a backdrop, what are we doing, and what is our view of the terrain ahead? Overall, we're implementing cost savings initiatives that will reduce future expenses by about \$20 million pre-tax on an annualized basis. The timing of these savings varies by business, but will begin in the second half of this year and be fully implemented in 2010.

Now, let's talk in greater detail about each of the businesses. I'll start with Assurant Health. We have targeted some specific benefit plans for pricing and design changes. Additionally, in response to the marketplace factors I mentioned earlier, our pricing will now reflect increased utilization of medical services, and we're negotiating provider arrangements to deliver more affordable services for our customers. Assurant Health remains an active participant in the national debate over healthcare reform.

CEO, Don Hamm continues to lead the AHIP task force on individual health insurance, and has worked extensively with other key stake holders inside and outside of Congress on the design and funding mechanisms for reform of the healthcare system.

Concerns about funding are causing policy makers to reassess the timing and direction of reform, and we expect the extensive dialogue will continue throughout the remainder of this year.

We are reviewing the impact of a number of possible scenarios for the final reform package, and will adjust our business model to allow us to compete in the new environment. We remain confident that individual medical insurance will play an important role in any new design.

At Assurant Solutions, we remain optimistic about the growth opportunities in the wireless and original equipment manufacturer warranty markets. We are seeing improvement in our domestic combined ratios.

During the quarter, unemployment claims in the UK negatively affected our international combined ratio. We believe this should begin to improve during the remainder of the year from actions we've put in place.

At Assurant Employee Benefits we saw improvement in disability experience during the quarter. Our voluntary sales continue to gain traction as they increase for the quarter and year-to-date.

Gene Mergelmeyer is here today and will update you on – further on results on Specialty Property, but I'll offer a few broad comments. We continue to support a stabilizing mortgage market. The sheer number of changes underway in the market is a positive indicator. But the pace of decline in revenues from real estate owned properties has been faster than we expected.

Now, let me move to our investment portfolio and balance sheet. Two areas of strength. This quarter's investment income is lower compared to 2008 in part because we continue to focus on shorter duration, more liquid investments. We believe that this approach gives us the flexible to earn better risk adjusted returns going forward. With recovery in the credit markets this quarter, we were able to redeploy some of the portfolio's cash in the higher yielding assets.

Our capital position is solid. We began 2009 with about \$230 million of capital at the holding company. And it is increased to \$250 million at the end of the second quarter. This excludes the proceeds we will receive from the legal settlement of 85 million. Dividends from our business units are weighted toward the second half of the year, allowing us to evaluate any changes to best capital model, portfolio results, storm activity and operating earnings.

At this point, we believe the best changes will be minimal, which should allow us to dividend the majority of Specialty Property's earnings this year. Our capital deployment priorities remain unchanged. First, we want to use our capital to support organic growth. Second, we look for acquisitions to support our businesses. And our third priority is to return capital to shareholders. We increased our dividend during the quarter, but we did not buyback shares even though we view them as attractive at their current prices.

Given the continued improvements in the credit markets since quarter end, we are very close to the level where we would buyback shares. The amount of repurchase will be influenced as we enter storm season.

In summary, despite the economic headwinds, our focus is on adapting more quickly, improving operationally, and taking actions to capitalize on the opportunities when they are available. With that mid-year overview in mind, let's now dive deeper into the results of each of our four businesses. I'll begin by turning it over to Gene Mergelmeyer to talk in greater detail about Assurant's Specialty Property. Gene?

Gene Mergelmeyer, President and Chief Executive Officer, Assurant Specialty Property

Thanks, Rob, and good morning, everyone. At Assurant Specialty Property, we continue to have a strong business model that is producing very good returns. We're focused on continuing to improve our efficiency and support our clients during this period of extraordinary change in the mortgage market.

Our net operating income was \$91.2 million for the quarter, and 195.9 million for the first six months of 2009, both very good results, but admittedly not as spectacular as the first part of 2008. The decrease in our earnings is primarily tied to slowing revenue. So I'd like to spend some time today and give you some insight into the trends of our top line.

Net earned premium decreased in the quarter and the first six months of 2009. The loss of sub prime clients that we previously announced, additional loan reductions and the decrease in real estate owned business, resulted in the decline of our premiums, despite an increase in some of

placement rates and the growth of our average insured values. We expect the premium levels to continue to moderate in the long run.

While loan consolidation has been slow in the first six months of 2009, but we do believe that that trend will continue going forward. First, and the biggest revenue driver was the number of loans tracked, continues to decline particularly in the sub prime space. This reflects both loan losses that we previously disclosed on some of the high placement sub prime loans we lost to the industry consolidation and the reduction in industry loan volumes resulting from virtually no new originations. During the quarter, we did add 50,000 prime loans through consolidation that will slowly begin producing some premium in the third quarter.

We look forward to producing premium from the previously announced 300 sub prime loans *[Editor's Note: After the call management corrected this number. It should be 300,000 loans.]* that we won through an RFP process, with a small portion of the premium appearing in the third quarter and the full start of production in the fourth quarter. Premium will be added on new uninsured properties and as in-force policies expire.

Unfortunately, we were notified that our contract with the Merrill Lynch account will be cancelled effective December 31, 2009 as they consolidate the business within Bank of America. This includes 230,000 sub prime loans, and premium on OREO properties. We just received the notice and have no further details on the loss of the loan volume.

The second main driver in revenue is a number of real estate owned properties in both the market and our client inventory is shrinking. OREO premium decreased from a high of 23% of gross earned premium in the third and fourth quarters of 2008 to 16% in the second quarter of 2009. This is a function of real estate owned properties being sold and outpacing those moving out of foreclosure due in part to various state, federal, and client initiatives.

Actions have varied widely among clients. Certain clients have done some book OREO sales, while other clients continue under foreclosure moratorium, during the entire quarter. OREO has declined as a result of properties related to loan portfolios lost due to industry consolidation as well. We believe we have likely seen the top of the OREO premium. But production going forward, could be somewhat variable as market factors affect foreclosures and property sales.

The third driver is catastrophic reinsurance premium that have been substantially higher in 2009, with \$10.7 million of additional expense in the quarter, and \$23.6 million of additional expense for the first six months. These costs have increased due to three main factors. We purchased additional coverage, commensurate with our exposure. We decided not to participate in the elective Florida hurricane CAT Fund the tickle fund. And we absorbed an overall increase in industry rates. All this was done to build a very comprehensive catastrophic coverage.

As premiums continued to moderate to more normalized levels, we will look to be freeing capital supporting the business. In 2008, we were able to free about 70% of our net operating income. This year, we're striving to increase that percentage. Current market conditions demand that we adjust our expenses to a more moderate premium level. Our second quarter results include \$3.8 million of pre-tax expenses related to the consolidation of some of our operations. This is expected to yield \$5 million in annual expense savings, starting in 2010. We continue to work on additional technology and work flow initiatives designed to continue to increase efficiency for the benefit of 2010 and beyond.

During the second quarter of 2009, the loss ratio increased as a result of higher than normal frequency of smaller-scale weather events, particularly wind and hail. The ratio was also impacted by the increase in the catastrophe premiums.

In summary, although our business has moderated, as we knew it ultimately would, we are focused on managing expenses, capital, and continuing to produce strong results. Our disciplined risk management and continued alignment with market leaders positions us well to benefit as the mortgage market slowly returns to long-term health.

Now I'd like to turn things over to Mike Peninger. Mike?

Michael J. Peninger, Executive Vice President and Chief Financial Officer

Thanks, Gene. Despite a fast changing environment, you and your team at Specialty Property continue to produce strong returns on equity and are taking the necessary steps to maintain your market leading position as the mortgage industry evolves and loan portfolios are consolidated.

Now let me turn to the results for the rest of the company beginning with Assurant Health. We're very disappointed to report a net operating loss for the quarter and minimal net operating income for the first six months. We noted in our first quarter earnings call that we based our March 31 reserves on the assumption that fourth quarter 2008 claim cost increases were a temporary aberration and utilization rates would return to prior levels. Unfortunately, this has not proven to be the case.

The higher trends experienced in the fourth quarter continued into 2009 and have remained at levels which are significantly above historical norms. We now believe it is prudent to assume that these higher utilization patterns will persist and we've calculated our June 30 reserves based on that assumption.

In addition, we strengthen the reserves we are holding at June 30 for claims incurred prior to the second quarter by \$9 million after-tax. With this strengthening, we believe that our June 30 reserves adequately provide for our incurred, but unreported, claims, but the changes in utilization patterns of cost have been significant, so we'll be closely analyzing third quarter development to ensure that this is the case.

In addition to adjusting reserves, we're taking targeted pricing actions across our book of business to properly reflect the increased claim cost we are seeing. We started implementing price increases in certain portions of the block late in 2008, but it is clear with the benefit of hindsight that we underestimated the speed and magnitude of cost increases in a number of areas.

In general, we've been hurt by richer benefit plans and by extended rate guarantees for certain plan designs so we are concentrating corrective action on those areas.

We are also reflecting changes in medical practice patterns in our base pricing. We're seeing more tests and procedures being performed for certain diagnoses and a shift toward more expensive testing. We believe that these trends are likely to continue.

Given these steps, we anticipate that Assurant Health will be modestly profitable in late 2009 or early 2010. However, the full extent of our actions will not be realized across our book of business until late in 2010. We continue to monitor emerging experience, and will make further pricing or plan design changes as appropriate.

Net earned premiums at Assurant Health were down 4% for the quarter and the year. The decreases were driven by higher lapses of both individual and small group policies and lower average premiums for members as consumers choose more affordable plans.

Individual medical sales were up versus the second quarter of 2008 as we continued to benefit from our broad distribution, expanded product portfolio, and increasing numbers of employees leaving

employer provided plans. Future sales will be impacted by the economic environment as well as our relative competitive position in the market.

Despite a disappointing first half of 2009, Assurant Health remains focused on providing affordable health care options for consumers participating in the healthcare dialogue and taking the necessary steps to return to profitability.

Now let's move to Assurant Solutions. Net operating income at Solutions was down 14% for the quarter and 27% for the six months. Part of the decrease for the quarter is due to higher than normal income tax expense driven by changes in the mix of domestic and international profits. Pre-tax results for the quarter were down 5% versus the second quarter of 2008.

The domestic combined ratio continues to improve, reaching its lowest level since the first quarter of 2008, driven primarily by the integration of our 2008 acquisitions of the GE Warranty Management Group and Signal Holdings. Both have helped to improve domestic loss experience as we integrate our offerings to provide better service to our clients and customers.

The international combined ratio increased by 20 basis points for the quarter and 260 basis points for the six months, driven primarily by continued unfavorable loss experience and unemployment coverage in the United Kingdom due to the high unemployment rates and duration of unemployment there.

Experience on a previously discussed unemployment product sold through a direct Internet distribution channel continued to be poor. However, we have exited this product and transferred all policies to another carrier effective June 1 of 2009. Our remaining risk on the product is confined to claims for unemployment, which began prior to that date and we believe our reserves are adequate for those claims.

Like other Assurant businesses, Solutions has taken steps to reduce expense run rates. Second quarter results reflect \$3.6 million of pre-tax restructuring charges in our domestic service contract operations. We believe those actions will reduce our expense run-rates by about \$10 million per year.

Turning next to revenue. Net earned premiums decreased 5% for the quarter and six months. The decreases are mostly attributable to the previously announced change in accounting for pre-need policies and unfavorable changes in foreign exchange rates. Absent these two items, net earned premiums increased 5% versus the second quarter of 2008.

Domestic service contract gross written premiums are down 38% for the quarter, reflecting the Circuit City bankruptcy and the slow-down in consumer spending, partially offset by growth in other clients. We continue to see positive sales trends in our pre-need business.

We recorded \$29 million in gross written premiums from writing the Ford Payment Protection -- Ford Advantage Plan, which was launched and concluded during the second quarter. About \$7 million of this premium was earned during the quarter, and the remainder will be earned over the next few quarters.

International gross written premiums for the quarter were down 9% versus 2008 primarily due to the unfavorable impact of foreign exchange and the recessionary environment. We did see growth in gross written premiums in several countries, and we were particularly pleased to begin to add premiums from our new credit insurance client, the Royal Bank of Canada.

Overall, Solutions continues to work creatively to maintain sales momentum in a challenging environment for consumer spending, while applying its risk management tools to improve experience in the U.K. as rapidly as possible.

Now let's move to Assurant Employee Benefits. Net operating income was down 35% and 45% for the quarter and six-month period respectively. The decline for the quarter was driven primarily by lower investment income and a \$2.3 million pre-tax restructuring charge. This restructuring will lead to about \$5 million per year of ongoing expense savings beginning in 2010.

Six months results were lower in the first half of 2009 due to lower investment income and higher disability loss ratios. Disability incidence rates, however, have remained stable in 2009, and claim recovery rates improved during the second quarter.

Net earned premiums were down 4% and 5% for the quarter and six months, respectively. Premiums are down and all product lines reflecting shrinking payrolls and other economic pressures on small employers.

The employment picture will continue to pose a challenge to the top-line growth in the Benefits business. New hires and salary increases by our customers are important drivers of organic growth and net earned premiums. The trends have been hampered by the current economic environment as have overall new sales.

In this environment, we benefit from our voluntary product offerings. We've significantly increased our focus on voluntary products, and are seeing increasing sales and substantial jumps in quote activity.

Turning next to our corporate and other results, corporate and other investment income declined \$3.7 million for the quarter and \$5.8 million for the six months due to lower short-term interest rates. Net income for the quarter reflected an \$85 million after-tax benefit from a previously announced settlement of litigation.

Net income also includes a \$13 million benefit for the quarter and an \$8 million loss for the six months from changes in our tax valuation allowance. This valuation allowance fluctuates for many reasons, and changes from period-to-period can be expected going forward.

Our investment portfolio benefited from improvements in the credit markets during the quarter. Second quarter net realized losses were \$4 million after tax. The lowest quarterly total since 2007. This included other than temporary impairments of \$2.8 million after tax.

Our portfolios net unrealized loss position improved by nearly \$450 million pre-tax from December 31, 2008. Our commercial mortgage portfolio continues to perform well with no delinquencies through the second quarter. We continue to apply our disciplined approach to portfolio management and have been able to begin deploying our excess cash as credit markets improve.

Our balance sheet remains solid. Stock holders equity, excluding and including AOCI increased to 4.68 and \$4.36 billion, respectively, in the quarter. We have no debt maturing until 2014. Asset leverage of 2.9 to 1, and a 17.3% debt-to-equity ratio. Book value, per diluted share, excluding AOCI increased to \$39.38 up 6% from year-end.

In summary, our operating results for the second quarter were less than we had hoped for. Each of our businesses has already taken corrective measures and will continue to do so as appropriate. Despite the challenges presented by the difficult economy, we believe that our Specialty strategy remains sound and that we are well-positioned for long-term success.

Now, I'll turn things back to Rob to open the floor for questions.

Robert B. Pollock, President and Chief Executive Officer

Thanks Mike. Operator, we're ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The question-and-answer session will be conducted electronically. [Operator Instructions]. We'll go to John Nadel of Sterne Agee.

<Q – John Nadel>: Hey, good morning everybody.

<A – Robert Pollock>: Good morning John.

<Q – John Nadel>: Rob, I guess the place I would like to start is the thoughts on sort of excess capital, your progression that you have sort of historically talked about forever, supporting organic growth, accretive acquisitions, capital management. Is there anything right now on the M&A front that could possibly be better on a relative basis than buying back your stock?

<A – Robert Pollock>: It would have to be very compelling, John. But let's put that in a broader context of the strength of our capital position.

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: And then let's also have a few comments we can make related to Chris and his team's view of the investment outlook, where we are today versus where we were a little time back. So, clearly, we had indicated in the past that we wanted to see a credit market recovery. Before we made considerations for share re-purchase; and we are seeing that recovery -- as I mentioned we've seen additional recovery subsequent to quarter-end. So that's certainly one big consideration. Another is just our -- our ability to get give dividends out and our view of things, and I'm going to have to turn things over to Chris for him to make a few comments.

<Q – John Nadel>: Yeah. If you could also touch on your comments on the investor, that would be great.

<A – Christopher Pagano>: Sure.

<A – Robert Pollock>: Sure.

<A – Christopher Pagano>: Hi John.

<Q – John Nadel>: Hi Chris.

<A – Christopher Pagano>: Just a couple things and again we think about dividends, it starts with earnings obviously, and clearly there is some earnings pressure relative to 2008. But the next issue becomes how to get those earnings up in the form of dividends to the holding company. They are the two main drivers, and we saw this play out in 2008, where the growth charge related to Specialty Property; and then, of course, the portfolio results. And last year, the portfolio results in particular were a significant drag, and significant hindering factor with regard to our ability to get operating company earnings up to the holding company in the form of dividends. Clearly, the recovery in the credit markets has mitigated that, removed that to some extent as an issue. The actions we took in the portfolio last year to reduce the risk going forward will certainly help us going forward, and you're seeing our realized losses drop off significantly. And then also the unrealized loss position improve.

So on top of that, as we mentioned we're seeing the growth in property relative to the industry as moderating. Gene mentioned we got 70% of our net operating income up last year, we think, having met with A.M. Best a couple weeks ago, and although the charges are not finalized, we feel pretty comfortable, that we'll be able to get even more -- an even greater percentage of the profits and property up to the holding company.

So, earnings under pressure, ability to get at those earnings, though, significantly improved versus last year. We feel good about the ability to grow the holding company capital position through the end of 2009.

<Q – John Nadel>: So, then Rob, let me come back to you. I know you guys have been talking about wanting to see markets get back to the mid-year 2008 level sort of before the real devastation, I guess, we can call it, right?

<A – Robert Pollock>: Right.

<Q – John Nadel>: But your investment portfolio is, at least in my opinion, far better positioned relative to the broader credit market, I think. And so, I wonder if that's -- is that the right -- not to necessarily question your judgment, but is that the right way to think about it, that credit markets have to get back to where you were then?

<A – Robert Pollock>: Well, I think a couple things, John. First let's start with, we recognize the share price is attractive, okay. And there is no doubt about it. On the other hand, what did we see happen over the course of a couple quarters last year? A total focus from thinking we had a lot of excess capital to a question of did we have enough. I think we're through those waters. We want to be mindful, however, that although there's been quite a recovery in the credit markets, as Chris tells me, perhaps things are a little ahead of themselves, perhaps they're not. Could we have things go the other way? Possible. Saying all that, though, as I mentioned, we're about there.

<Q – John Nadel>: Okay.

<A – Robert Pollock>: And we'll be mindful of things, and we also are mindful that we're entering storm season, and --

<Q – John Nadel>: Yeah. I definitely appreciate that. I mean, I'm not -- I don't think I'm trying to encourage you guys to spend \$100 million or \$200 million on buybacks right in front of the potential of something entering the gulf.

So then to switch to Health for a moment, and then I'll get back in the queue, you mentioned sort of a return to modest profitability maybe in the later part of this year, early part of next year, and seeing the impact of pricing, work its way through the book, by the end of 2010. Assuming you achieve the pricing implementation according to your plans currently, what does the ROE return to for this business when you get it fully through the book?

<A – Robert Pollock>: Yeah, we want to be in that 25 to 30% range, John.

<Q – John Nadel>: Okay. All right. So no real change, just a matter of getting this implemented and getting it worked through.

<A – Robert Pollock>: Remember, we're putting lots of actions in place.

<Q – John Nadel>: Yeah.

<A – Robert Pollock>: We have to deal with things. We're committed to the healthcare business. We think it is a specialty business, that it's performed very well for us over the long-term; and when I look at things, we picked up on these trends quickly. I think the magnitude of the changes were a little more than we thought.

<Q – John Nadel>: Yeah. Okay. Thank you.

Operator: We'll go to Adam Klauber of Fox-Pitt [Cochran Caronia Waller].

<A – Robert Pollock>: Good morning Adam.

<Q – Adam Klauber>: Good morning, everyone. A couple questions. On the Specialty Property, even if you x-ed out some bad weather, it looks like the loss ratio was up 300 basis points. What do you think is driving that?

<A – Robert Pollock>: Yes. Well I think there's a couple of different things, and I'll turn it over to Gene, but one of the things, remember, when you calculate the ratio, is Cat premiums are a bigger portion, bringing down the net earned number, which is certainly a part of the impact, Adam, and I'll let Gene give you a little more detail on some of the other things.

<A – Gene Mergelmeyer>: Sure, Adam. I think the Cat premium is at about a percentage. We also – again, it was an active weather period, even though they were smaller storms. Comparable with last year, the ISO storms were about the same; but elevated from previous years we've seen, where we actually really saw the increases; and again, it was mostly wind and hail. It was small storms. It actually tended to be more in our voluntary products, like mobile home and some of our voluntary homeowners, from some of the wind and hail activity in the south.

<Q – Adam Klauber>: So, how much in total do you think the storm's weather added to the loss ratio this quarter?

<A – Gene Mergelmeyer>: Really, when we looked at it, it was almost the entire increase.

<Q – Adam Klauber>: So you think, so three...

<A – Robert Pollock>: Yes. I think, Adam, another one. Gene is also – we talked about creditor placed, but he's been working on other adjacencies in his business, and he has other things, kind of legacy businesses in there, like the mobile home. So as creditor place becomes a little bit smaller portion than the total, those other businesses don't operate with quite the same business model that we see in creditor place homeowners.

<Q – Adam Klauber>: Okay. Is there an element, as REO and sub-prime runs off, are those higher profit segments of the business? Does that impact in the loss ratio?

<A – Gene Mergelmeyer>: No. That really hasn't had any real impact on the loss ratio. We typically had comparable combined ratios across both the REO and the regular hazard placed business. It can vary by individual clients, and so you can get some variability, based on adding or losing portfolios.

<A – Robert Pollock>: And really, you do need, as Gene said, you need to look at the combined ratio, too, because they have a different mix of claims and expenses.

<Q – Adam Klauber>: Right. Okay. On the health, I assume it takes roughly a year with the rate increases; and is there any seasonality, where some parts of the book renew more heavily, so you can get them in earlier, or is it really more of a year to get...

<A – Michael Peninger>: Yes. On individual it is pretty evenly distributed in the group business. And even though these are small groups, there's a bit of a skewing toward the first part of the year, because a lot of companies do things on a calendar year basis. But, individual is pretty evenly distributed.

<Q – Adam Klauber>: Okay. And what do you think that's going to do to the growth rate?

<A – Robert Pollock>: Are you talking about the health business, Adam?

<Q – Adam Klauber>: Yes, sorry.

<A – Robert Pollock>: No. That's all right. I look at it and say, health is such a dynamic marketplace right now. We've seen our sales pick up in really some of our offerings that consumers are targeting on what they can afford to pay. I don't know that that's a sell that's going to be particularly impacted.

On the other hand, there's other sells that can be and as we make changes, others make changes. What we're very good at and have spent a lot of time on is the consumer segmentation, and I think our insights there will put us in a position to continue to bring new products to market.

<A – Gene Mergelmeyer>: Yes. Let me just amplify on that a little bit. We have a lot of different plan designs, ranging from very comprehensive and quite expensive plans to much for affordable plans. So as I said earlier, we've seen some poor experience on the more comprehensive plans, so those price increases are likely to be more. So, we're going to – essentially the less expensive plans will be a relatively more attractive price, although, they're still going up, too.

So we've got a lot of ability to give a consumer a lot of different offerings so they can pick where they want to be in the budget, and we've been through these kinds of things before, where we've had to kind of morph plan designs, and so – I think we have demonstrated, over a period of time that we know how to make this kind of a ship.

<Q – Adam Klauber>: Okay. Thanks a lot.

<A – Gene Mergelmeyer>: Sure.

Operator: We'll go next to Ed Spehar with Merrill Lynch.

<A – Robert Pollock>: Good morning, Ed.

<Q – Edward Spehar>: Good morning, everyone. Can you hear me okay?

<A – Robert Pollock>: We can.

<Q – Edward Spehar>: Okay. I had a few questions. First I wanted to get some clarification on the response to John's question about share buyback. How did you say -- given where the stock is trading now, share buyback is a preference relative to an acquisition, unless there was something that was just beyond anything we've ever seen before?

<A – Robert Pollock>: I guess, Ed, the way we think about it is we have a way to look at share buyback, and we have a way to evaluate acquisitions, okay. At these levels, the share buyback is very compelling. And, of course, we compared the two, and we also understand that the share buyback involves a little risk. And so that is a consideration that if you were to do something different, you'd have to bring that into account.

<Q – Edward Spehar>: Okay. I guess it certainly does seem like it would be very hard to come up with something better than this right now. The other question I had was on the health business. I think, Mike, when you were characterizing the first quarter results, I think they were down, I can't remember exactly, but maybe \$20 million year-over-year -- 15, \$20 million. And you identified the incidents issue as the driver. And, I guess what I'm trying to understand is, you've always been conservative in reserving, and when you look at a reserve increase this quarter, obviously the Health earnings – the Health results were poor, but a \$9 million reserve increase doesn't sound like

a big number. And so I was wondering how you can -- if you can give us some comfort on that this is not just the first of a couple or more reserve increases in this business.

<A – Michael Peninger>: Yeah, I guess what I think about, Ed, when I think about the reserves, is the bulk of your reserves are for the most recent quarter of incurrals. So in this case, claims that were incurred for services in the second quarter. And we've been moving -- in response to the experience we've been moving our estimates of the most recent experience up, so that -- when we talked about our strengthening, we're really kind of bulking up what I would say is the reserves for prior periods.

So in this case, for claims incurred in the first quarter, and it's very small, still left for 2008. So we've added them into there. But we've also added -- I didn't characterize it as strengthening, per se, but we have ratcheted up our estimates of the second quarter's incurrals. So I think when we look at the overall level of reserves now, we feel that we're not going to continue to have unfavorable development that would flow through future quarters' earnings.

<Q – Edward Spehar>: Is it too much of an oversimplification to say that if you lost 10 million in health and you had been earning about 30 million, that \$40 million is roughly the issue here, with 10 million of it being reserve strengthening, and 30 million being at current period adverse development -- adverse claims?

<A – Michael Peninger>: It's something like that. I mean, we -- yes. I'd say that's -- if you look at our experience in the -- like, in the runoffs that we publish as an exhibit in our 10-K, we've had consistently very favorable development there. I think last year we were in the -- somewhere north of 50 million of favorable development. We're not going to see anywhere near that this year.

<A – Robert Pollock>: We're likely to not see any.

<A – Michael Peninger>: Right.

<Q – Edward Spehar>: Okay. And then just real quickly, I know that it's been your policy not to give earnings guidance, and I don't know that I'm necessarily looking for earnings guidance in the traditional sense. But I guess, there are obviously a lot of things going on in the Specialty Property business, and you have the ability, given accounts you're losing and accounts you're gaining, and how we might see the penetration rates migrate back to a normal level versus what we've seen historically. Is there any way to give us some sense of how low the earnings go, even if it's not in this year or the next year or the following year, but any sense based on what you know that might be helpful to help to try to quantify how far the earnings go down before they start to go up again? I understand it's a difficult question, and I'm not really asking you to do my job. I guess I am a little bit, but...

<A – Robert Pollock>: I think a good way to think about this, Ed, is that if we start with the capital behind the business, okay, the capital behind the business is going to go down as premium moderates, as Gene said. Okay? So, if you look at what our penetration rate is today and reduce that to levels we saw -- and I think we've published for earlier time periods, you can get an idea of what the revenues would be. You can get -- that will have, then, an idea of the capital that might be freed in the business, and I think we feel very comfortable that we can produce excellent ROEs on the equity that would remain in the business. Now I'd also point out, Gene is working on adjacencies to build out. So we are not sitting still to the decline in revenue that might be attributed to creditor-placed homeowners. We're trying to find other specialty niches within his area.

<Q – Edward Spehar>: But should we -- when we think about this -- and we can obviously do that math. And I just, I wonder, when we think about the return to normal penetration rates, should we model it along the lines of the same time period it took us to get to sort of very high penetration rates?

<A – Gene Mergelmeyer>: Well, as I look at it, Ed, there's a number of factors that come into play, so this is not going to turn around overnight. So as we look at some of the historical growth drivers around things like loan penetration and average insured value. You saw the Wall Street Journal headline yesterday that said house prices rise across the U.S. That's not going to change delinquencies and foreclosure activities, certainly in the short term and we do see those continuing to rise.

The biggest decline has really been around just some of the portfolio movement, and then REO has been kind of the wildcard. We imagine that REO has hit top levels and, but that's going to still to be volatile as it moves forward just because of things – the foreclosure activity. There's still the Option ARM loans out there. So we still think there's quite a bit of considerable run in this. As we highlighted on Investor Day, we've had historically good results, and we believe strongly that we'll continue to deliver those.

<A – Robert Pollock>: And I just think, Ed, that – again, let's remember. When we went public, Health was driving our earnings. Gene has been out in front with tremendous results. We're expecting, with the actions we've taken and some of the things we have going on that we're going to see other businesses in a position to improve their earnings.

<Q – Edward Spehar>: Okay. Thank you very much.

Operator: We'll go next to Mark Hughes of SunTrust.

<A – Robert Pollock>: Good morning, Mark.

<Q – Mark Hughes>: Good morning. How are you?

<A – Robert Pollock>: Good.

<Q – Mark Hughes>: In the consumer warranty business, just looking at the existing clients, what have you seen with respect to buying patterns as we've progressed through the recession? Consumer spending has obviously been pretty choppy. How about warranty attachment rates? Any observations there?

<A – Robert Pollock>: It varies on a client-by-client basis, Mark. I would say, historically we've seen a pickup that would replace, say, 15 or 20% of the loss. I think that that maybe has not been quite as good in this turn-down. On the other hand, we're seeing a number of clients that we're working with who have been able to actually increase their sales with some of the things we've done around the performance management area on the sales side in Craig's area. I think that's a testament to the value of the products we're providing. We're – the wireless area, which we're very excited about, is actually continuing to see an increase in units sold there. We're excited about the opportunities offered by that.

And then the OEM side, where we get a chance to, actually, be in a in a position to sell a renewal, we're seeing some early positive signs in that area as people are holding their products longer. So tougher on the retail side; but some other things that we think where we've positioned ourselves to capitalize on, that could really help us.

<Q – Mark Hughes>: Any more elaboration on that wireless business? I think the market share opportunity was very attractive there. Any insight you can provide about how that's progressing?

<A – Robert Pollock>: Well, again, there's a small number of large players, which really hits on one of the things we're good at, which is working with large partners and things. So we have put together our proposal and value proposition that's uniquely geared toward each of these people,

remembering that these things are quite often on large – long-term contracts, so it's a timing issue in terms of being prepared to capitalize when contracts expire.

<Q – Mark Hughes>: Thank you.

Operator: We'll go to Rob Poli at Salmon Capital

<A – Robert Pollock>: Good morning, Rob

<Q>: Good morning, how are you?

<A – Robert Pollock>: Good.

<Q>: I just had another follow-up question on dividends from the sub, especially in the Specialty Property and Casualty business. And you alluded it to a little bit when you were talking about penetration rates going back to maybe a more normalized level and what amount of capital is needed.

I guess, in your prepared remarks, you talked about perhaps getting closer to 100% percent of the statutory earnings up to the holdco, but what about the prospects of maybe a special dividend? How do you just think about the capitalization of that business, and will you ask, I know you can't tell me if you're going to get, because you don't know if you're going to get an extraordinary dividend, but will you at least ask for an extraordinary dividend and what amount could that be?

<A – Robert Pollock>: Yeah, a couple things, Rob. I mean, first there is the amount that we list as ordinary dividend capacity. Of course, that's a nice guidemark for people. That's not really what we ever do. We always go in and ask based on what we think is an appropriate capitalization level of each of the statutory entities. So again -- and I'll let Chris, maybe, elaborate on this a little bit further, but we had a vest charge that was putting us in the position to not get any of the capital out, and we're getting some movement there, and, Chris, you want to just make a few comments?

<A – Christopher Pagano>: Yes. Just to go back, a little bit of history, 2007, the cause of the growth in that business, we took none of the earnings up in the form of dividends. Last year, we had the dialogue with Best in the first half of '08. We were able to discuss with them how to measure growth in this business; and as a result we were able to dividend up, as Gene mentioned, about 60 or 70% of the earnings into -- up to the holding company. Now, some of that -- again, the portfolio comes into play there, particularly on the unrealized loss side for the P&C. So that was a bit of a drag last year.

So now you fast forward to 2009. We've had our discussions with A.M. Best. There've been a couple of changes to their formulas, but very minor. The big drivers are going to be growth -- again the growth charge, being essentially the same, but overall growth declining relative to the industry. So that's a positive for our ability to get at the capital. So again, we think -- and again, this applies to all of the operating companies.

We think absent the portfolio impact, and then in particular for property, the slow down in the growth allows us to get at more of the earnings in the form of dividends and, therefore, capital at the holding company; and again, our long-term goal, our capital management philosophy is anything we can get up to the holding company we try and get up to the holding company, because it's there, where we have maximum flexibility in terms of redeploying the capital.

<Q>: Right. But then there's the earnings that you generate in, say, 2009, and then there's just the overall capitalization of the business. So, as you look forward and try to think about how much premiums are going to write in 2010, 2011, how are you thinking about just how that business is

capitalized today? Is it over-capitalized? How much is it over-capitalized and how much do you think you can get out?

<A – Robert Pollock>: Good question. The way I think about it Rob, is that Best is not going to allow us to take it out until the business moderates. Okay. As it does moderate, we will get some of the excess capital out with the lag. We've used rules of thumb.

I'll just throw one out -- 40 to 45% of net written premiums is kind of the governor on capital requirements within Best. There are a lot of things that then adjust to that, okay, over time. So the difference between that ratio -- and I just don't have the numbers in front of me, but -- and the actual capital we have in the business is money we think we can ultimately get out.

<A – Michael Peninger>: And that's on a statutory basis. There are some GAAP adjustments involved in that, but --

<Q>: And what is that number? I think it was close to what, 400 million, around there? Does that sound right or is it lower or higher?

<A – Michael Peninger>: You're talking about the GAAP adjustment?

<Q>: No, that stock number, that 40 -- I think you said 40% of premiums is what you have to capitalize the business --

<A – Robert Pollock>: 40 to 45%. Again, Rob, I just don't have it with me. But why don't we get back to you on that.

<Q>: Thanks.

<A – Robert Pollock>: Sure.

Operator: We'll go next to Terry Shu of Pioneer Investments.

<A – Robert Pollock>: Good morning Terry.

<Q – Terry Shu>: Good morning. I have two questions. First, on the health side, for your line, the deterioration has been really quite substantial. I used to follow the managed care companies. I don't anymore, but I remember following the trends well, and they've seen some tick up in utilization as well, but not to the same extent as your individual or small group health line. Can you maybe explain a little bit why it's been so severe for your book?

<A – Robert Pollock>: Sure. I think that if you put the big managed health care companies on a spectrum, they start with being 100% on the risk; and as you move into -- through a series of products, they may be sharing risk and they may be just administering products, so when they see - they're just not having the same first-dollar impact that a 100% fully insured plan where we're all on the risk, participates. I think that's the biggest contributor, Terry.

<Q – Terry Shu>: Okay. Because I just -- I've been sort of looking at their trends, and they're kind of -- they always talk about their medical loss ratio, MLR. Just hasn't picked up as much, and I just thought maybe it's more -- maybe it's the small group or the individual book that has seen the greater impact.

<A – Robert Pollock>: I don't think it's anything inherent. I think it's more the very different nature of the business.

<Q – Terry Shu>: Okay. The other question is, back on Specialty Property. You've mentioned a few times that you are kind of re-sizing the business or the expense base and that premiums are moderating. I guess it's more like declining rather than moderating. So I've been working hard trying to do a trajectory for the next couple of years, really plotting out the loans tracked, prime and subprime and forecasting placement rates and such.

Is that the right way to do it, that the subprime loans tracked will keep on declining? You gave some data points on RFP – was it, 300,000, and then the loss – the Merrill Lynch loss, the 200,000 plus? That's more because of the server consolidation or new business; but just generally speaking, looking at the number of subprime loans out there, is it the right assumption that that population is coming down? I just don't know how to conceptualize it.

<A – Robert Pollock>: Okay. Well, Terry, I think the big thing to think about, first, is let's consider outstanding mortgage loans and inventories. Right?

<Q – Terry Shu>: Right.

<A – Robert Pollock>: So if you think about them as an inventory, new originations increases the inventory.

<Q – Terry Shu>: Right.

<A – Robert Pollock>: And foreclosures and payoffs...

<Q – Terry Shu>: Right.

<A – Robert Pollock>: Reduce the inventory. Okay. So we don't think there's a lot of new subprime originations going on.

<Q – Terry Shu>: And is that a permanent thing? I would think so, or...

<A – Robert Pollock>: Well, certainly it's a near-term issue, as banks have tightened their funding limits. Gene, do you have a few comments?

<A – Gene Mergelmeyer>: Yeah. I really do think you're thinking about it right. You know, we've tried to be very diligent in providing with the loan portfolio changes that have had big impact, but outside of those movements, it really is a declining book...

<Q – Terry Shu>: Right.

<A – Gene Mergelmeyer>: And in the near term, we continue to see that declining. There's some interesting phenomenon going on, some of the loans we are sticking now, to the extent they've been modified and to the extent that now they've had some principal reductions, there is some likelihood that they may stay in place for a little bit longer. We're seeing some of that trend as we move forward. But whether or not we can make any firm conclusions on it, we're just going have to see. I think you're thinking about it right.

<Q – Terry Shu>: After going through that exercise, the numbers kind of dropped out for me. Is that – were the homeowners gross premiums written, just kind of declined through 2010 before stabilizing. And I don't know whether my numbers are even close, but that's about the only way to do it, right, to plot out with the population, and then I held the penetration rate constant by segment. So clearly, the pressures are going to be there, because your – the portfolio shifts from more subprime to more prime, or the penetration rate is substantially lower. Is that right?

<A – Robert Pollock>: You're thinking about it the right way.

<Q – Terry Shu>: But I gather you don't have any forecast, or – you try to model it. Can you give us some guidance?

<A – Robert Pollock>: Yes. I – remember how our motto works here is we get notified in arrears that a policy is getting placed. So, I think, if you think about the economic factors that are going on here, one is the inventory. A second is the economy. And, unemployment is something that certainly could drive placement.

<Q – Terry Shu>: Right.

<A – Gene Mergelmeyer>: I think one of the other things you may want to do is go back to the Investor Day presentation, where we really tried hard to look at the different factors that influence our business. And there were some things we highlighted that will affect our premium, in the macroeconomic environment. So that may be helpful.

<Q – Terry Shu>: Right.

<A – Gene Mergelmeyer>: In the near term, we're again focused on what we can control. So...

<Q – Terry Shu>: Right.

<A – Gene Mergelmeyer>: We've been preparing for the additional 300,000 loans. We're excited about it. Quite frankly, we're focused on a flawless implementation of those, and then we still believe we're positioned for the long run, and we've got a good business model, still excited about it.

<Q – Terry Shu>: Right. So suffice it to say that we can really only look out near-term, and longer term you just have to kind of build a conceptual model.

<A – Robert Pollock>: I think that's right, Terry.

<A – Gene Mergelmeyer>: Yeah, Terry. Yeah.

<Q – Terry Shu>: All right. Thanks so much.

<A – Robert Pollock>: Sure.

Operator: Our last question is coming from John Nadel of Sterne, Agee.

<A – Robert Pollock>: Good morning, John.

<Q – John Nadel>: Good morning. I've to refocus, sorry. The follow-up that I wanted to get at was a little bit along the lines of Rob Poli's question, Rob. I understand your guidance or your commentary around the 40 to 45%, but you've had this growth charge built in there for some period of time now. It appears at least – maybe this is a two-part question.

Gene, you talked about some of the trends, I think, in response to Ed. Is this business permanently shrinking now, and if it's permanently shrinking now, we can certainly debate the pace. And if it's permanently shrinking now, then doesn't it make all the sense in the world that you would be able to go take that growth charge out?

<A – Robert Pollock>: Okay. So let's just think about the process with Best. Best will pull together calendar-year information on the industry, and will look at what's happened to overall growth in the

homeowner's lines, John, and then they're going to compare how our growth was versus the industry's. I don't think they'll do that until next year. Chris, am I thinking about that right?

<A – Christopher Pagano>: Yeah, I think – and, again, keep in mind this is growth relative to the industry, one-year and three-year numbers. So you've got a little bit of a lagged effect coming in there. But in general terms, I think conceptually you're thinking about it right, in that as growth moderates and/or declines, again, relative to the industry, the availability – the ability for us to take out capital from property equal to and is potentially beyond the earnings on the given year. And that probability increases as we go forward.

So it's – but the constraint again goes back to A.M. Best and their models and those change from year-to-year. For example, this year, we – Best elected not to give full credit for the Florida Hurricane Cat Fund Reinsurance Participation. They decided that somewhere less I think it's 87.5% of the insurance, just because of some of the issues that Florida is facing.

Those are things that change from year-to-year. The main driver, though, is the growth charge. We've had the dialogue. We think we're in the right – a good place with Best in terms of understanding that, and it will just be a function of growth in this business relative to the industry going forward.

<A – Robert Pollock>: Yes. And I'll go back – again, I think Chris said this very well. We – our goal is aligned to release the capital and move it to the corporate line as quickly as we can for maximum flexibility. So we are definitely focused on doing that, and will continue to do that moving forward, and the good news is we think we'll get more of properties earning out this year than last, and we'll do our best to get what we can.

<Q – John Nadel>: So, then, let me ask you this in follow-up. So I think it's crystallized, right, that there's a lag involved here, and, whatever that timeframe is, whether it's three, six, nine months, whatever it might be, there is a lag involved here as A.M. Best gets the industry data and proves out that the growth charge is no longer a necessity here. So...

<A – Robert Pollock>: Right. And let me point it out, John, it's a function of two things. The one-year, which we obviously see that, but they also look at the three-year, so...

<Q – John Nadel>: Yeah. But – yeah, so let me ask you this Rob. So if you guys have the data, you guys know your business, you guys know how the number of tracked loans is moving and the other key items. And notwithstanding the fact that A.M. Best is going to come back at some later point and affirm what you guys already know, is there some way that you guys can accelerate, whether it's through a commercial paper or some other method?

Not necessarily to get all aggressive here, but, again, recognizing where your stock is relative to the book value, relative to the growth in that book value, by the time A.M. Best gets around to proving what you guys already know, who knows where the stock is? I suspect it will still end up being very attractive, but aren't you losing out on an opportunity as you wait for a third party to affirm a trend that you already see happening? And given your financial flexibility that the cat and otherwise, isn't there a way that the company can essentially accelerate that?

<A – Robert Pollock>: Eloquent argument on where we think we are, John. And again, let's just put it in the context of...

<Q – John Nadel>: The environment we just came out.

<A – Robert Pollock>: Yeah. We just came out of something that was quite different. But we are focused on getting the capital freed as quickly as we can. Again, we think we've got compelling, enduring, long-term value at this company, and we'd love to capitalize on that.

<Q – John Nadel>: Okay.

<A – Robert Pollock>: So our capital position much stronger than it was six months ago, remember how quickly that moved last year. We got to take all that into account.

<Q – John Nadel>: Okay. Understood. Okay. Thank you.

Robert B. Pollock, President and Chief Executive Officer

Sure. In concluding, the business environment is as challenging as any we have seen in years. But our experience and expertise in specialty insurance businesses, where we've delivered strong operating performance historically, add to my confidence we can and will regain our stride. We look forward to updating everyone on our third quarter call.

Operator: This does conclude Assurant's second quarter 2009 call. Please note that a replay will be available as of 12 PM Eastern Time. You may now disconnect.

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