S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

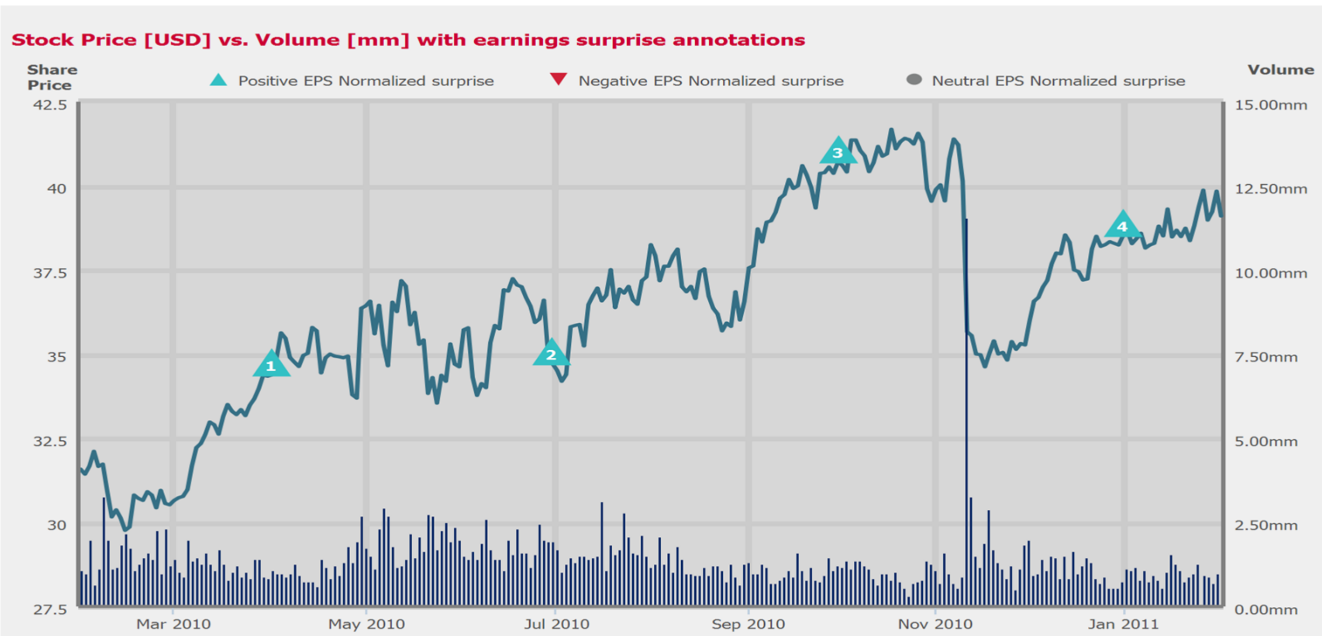
FQ1 2011 Earnings Call Transcripts

Thursday, April 28, 2011 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.23	1.37	▲11.38	1.28	4.92	5.37
Revenue (mm)	2083.78	2036.67	▲(2.26 %)	2050.71	8311.00	8132.89

Currency: USD
Consensus as of Apr-28-2011 12:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	1.04	1.32	▲25.71 %
FQ2 2010	1.16	1.35	▲16.38 %
FQ3 2010	1.15	1.27	▲10.43 %
FQ4 2010	0.99	1.08	▲9.09 %

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Call Participants

EXECUTIVES

Christopher John Pagano
Executive VP & Chief Risk Officer

Melissa Kivett

Mike Peninger

Rob Pollock

ANALYSTS

Ed Spehar
BofA Merrill Lynch

Jeffrey Schuman
KBW

John Nadel
Sterne Agee

Mark Finkelstein
Macquarie

Mark Hughes
SunTrust

Presentation

Operator

Welcome to the Assurant first quarter 2011 financial results conference call. [Operator instructions.] It is now my pleasure to turn the conference over to Ms. Melissa Kivett, senior vice president, investor relations. Please go ahead.

Melissa Kivett

Thanks operator. Welcome to Assurant's first quarter 2011 earnings conference call. Joining me with prepared remarks are Rob Pollock, president and chief executive officer of Assurant, and Mike Peninger, our chief financial officer. Prepared remarks will last about 20 minutes and then we'll open up the call to questions. Chris Pagano, our Chief Investment Officer and Treasurer, is also here for questions.

Yesterday, we issued a news release announcing our first quarter 2011financial results. The news release, as well as corresponding supplemental financial information, is available on our website at assurant.com.

Some of the statements we make during today's call may contain forward-looking information. Our actual results may differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those projected in any forward-looking statements can be found in our 2010 Form 10-K, which can be accessed from our website.

The company undertakes no obligation to update or revise any forward-looking statement. 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 posted on our website at assurant.com.

Now I’ll turn the call over to Rob.

Rob Pollock

Thanks, Melissa, and good morning everyone. Our first quarter results are consistent with our commitments made during our investor day last month. Though overall growth remains a challenge, we were encouraged by sales results in several of our targeted areas. We continue to provide products and services that offer value to our customers.

For the quarter, our annualized operating return on equity was 12.5% and our diluted book value per share, excluding accumulated other comprehensive income increased 3% since year end.

Turning toward the businesses, I’ll begin with Assurant Solutions, which is off to a good start this year with profits up by $9 million versus the first quarter of last year. We are starting to see the payback from Solutions’ risk management improvements implemented during the past few years.

The addition of new clients sets the stage for longer-term revenue growth at Solutions. However, 2011 revenues will be similar to 2010 levels because of the runoff of Circuit City business and the continued decline in the U.S. credit insurance business.

Pre-need had another good quarter in both sales and profitability as our partnership with SCI continues to help grow this business.

Assurant Solutions products and services revolve around asset protection, peace of mind, and ease of doing business - a winning value proposition. Looking ahead, we believe Solutions is on track to produce a sustainable double-digit return on equity in 2012.

Let's turn next to Assurant Specialty Property, which had another strong quarter. We continue to see market contraction in the number of mortgage loans outstanding. Our results were essentially flat compared to last year after adjusting both periods for disclosed items.

New clients added in 2010 helped to sustain the number of loans we track, which helped maintain gross and premiums. Process improvements are controlling expenses even as the business adds new clients and tracks more loans.

Adjacent products including renter's insurance contributed nicely to overall results. This is an area we are targeting for growth and we are encouraged by the results. Net earned premiums in our other product categories were up 5% from the prior year.

We realize there are many changes being contemplated for the lending and mortgage servicing industries. Assurant Specialty Property complies with the regulations applicable to our business and will continue to do so.

We believe lender-placed insurance, which provides required coverage without any underwriting of individual properties, remains an important backstop for homeowners and lenders. Assurant Specialty Property is well-positioned to serve this market by providing great customer service supported by a sophisticated tracking platform. During 2011, we expect continued good performance at Specialty Property.

Weather activity will be the major variable impacting earnings. The recent April storm activity has created hardships for individuals we insure. I am proud to say our employees have responded quickly and we are making claim payments to policyholders in their time of need.

Longer-term, we anticipate placement rates for our lender-placed products will return to lower levels and we are managing our business accordingly. We believe this transition will take several years.

Next I'll turn to Assurant Health. First quarter sales results and expense reductions demonstrate early progress in adapting to the new healthcare landscape. Both are key to transforming this business. We recognize, however, we are in the early innings, and must remain vigilant to achieve success.

This quarter we accrued a new obligation for premium rebates in our financial statements to comply with the minimum loss ratio requirements of healthcare reform. The sales of our new product portfolio increased sequentially.

Our products were designed through extensive consumer research. We now have a new suite of products which offer customers affordable choices. We are encouraged by the early positive sales trends, which indicate that customers and distribution partners are seeing value in the products we offer.

The [other] key to transformation is reducing expenses. We have made progress in the quarter on both a sequential and year-over-year comparison basis. While our goals are simple, the task remains challenging. We must continue to generate new sales and drive expense efficiencies throughout 2011 and beyond. A better customer experience and a simplified business model will help us achieve these goals.

We continue to expect breakeven results for full-year 2011. Over the long-term, we remain confident in our commitment to achieving a 4% after-tax margin. For Assurant employee benefits, results for the quarter were disappointing. As we mentioned at investor day, in the first quarter disability claim recovery rates slowed, and we lowered the reserve discount rate for new claims.

In addition, we also expensed higher group life mortality. Our dental results continue to improve, and our sales activity picked up during the first quarter. We experienced meaningful sales growth in our voluntary and supplemental products, which are important drivers of long-term growth. We expect the remaining quarter results in 2011 will have better earnings than the first quarter, despite a lower discount rate for LTD reserves and lower reinvestment yields.

Now I will turn to our capital management activities. We ended the quarter with $585 million of capital, without taking dividends from our operating companies. For the full year, we still anticipate that dividends will be equal to operating earnings.

In the first quarter, we returned nearly $190 million to shareholders. We paid our quarterly dividend and we repurchased stock at a discount to book value. We continue to see buybacks as an appropriate use of our capital.

We will remain disciplined in deploying our capital for long-term profitable growth. Now, Mike will walk you through the operating results for each business. Mike?

Mike Peninger

Thanks Rob. I'll start with Assurant Solutions for first quarter 2011. Net operating income increased by 32% versus the first quarter of 2010. Underwriting improvement in the UK and good performance from our pre-need life insurance operations contributed to the increase in net operating income.

Domestically, net earned premiums declined for the quarter due primarily to the continued runoff of Circuit City and domestic credit insurance. Presidents from these key sources were approximately $50 million lower compared to the first quarter of 2010 and in line with our expectations.

As we mentioned on our fourth quarter earnings call, full-year Circuit City and credit premiums are expected to decline by about $170 million compared to 2010. Domestic service continued presence increased in the wireless, retail, and automotive channels during the quarter.

Domestic combined ratio was 96.1% for the quarter. We expect it to move higher during the year as Circuit City winds down, but our long-term target remains at 98%. As we mentioned at investor day, we expect to achieve approximately $10 million of expense reduction this year that will help mitigate the impact of the runoff lines of business over time.

Internationally, we saw an increase of approximately 5% in net earned premiums versus the first quarter of 2010 driven premium by clients in Latin America. Sales momentum continued as gross written premiums rose 3% due to both existing and new client sales growth.

The international combined ratio decreased 260 basis points from the first quarter of 2010, driven by better European loss experience. Sequentially, the international combined ratio grew by 70 basis points as increased expenditures were necessary to support the growth in Latin America. Remember that in the service contract business, there's a lag effect. We generally incur expenses to establish new clients before we benefit from the resulting production.

We remain on track for a 200- to 600-basis point improvement over the course of 2011 and the international combined ratio compared to the fourth quarter of 2010. As was the case last year, the pace of the improvement will vary by quarter. Our long-term target for this ratio remains at 95%.

Pre-need life insurance net operating income increased by $3 million versus the first quarter of 2010, approximately $2 million of the increase was due to the relative change in the value of the CPI cap versus last year. We have a strong business model in pre-need, and are pleased with the 12% increase in sales during the first quarter.

Turning now to Assurant Specialty Property, net operating income was approximately $103 million including just over $7 million of after-tax adverse claim reserve development from the previously reported Arizona hailstorms in the fourth quarter of 2010. We had no reportable catastrophes in the first quarter of last year.

The addition of new clients and loan portfolios during 2010 and an increase in the overall placement rate to 2.35% continued to sustain revenue in our lender pleased business. First quarter net earned premiums, however, declined, primarily due to additional seeding activity to clients and increase catastrophe reinsurance premiums. The drop was partially offset by a 5% increase in other premiums, primarily driven by growth in our renters' insurance product.

Operational improvements, along with reduced commissions caused by increases in client-seeded premiums, lowered expense ratio for the quarter. On an adjusted basis, we were pleased with the year-over-year combined ratio comparison. The current period includes $11.4 million of catastrophe-related losses versus none in 2010, and 2010 premiums included a $13.6 million benefit from an unearned premium reserve review.

Turning to catastrophe reinsurance, we have already placed about 75% of the 2011 program. We expect the pricing for the remaining 25% to be in line with last year. We'll issue a comprehensive update in June comprehensive update in June detailing our complete 2011 reinsurance program.

Several regions of the country have experienced very high storm activity in April. While still very early, our preliminary estimate is that reportable catastrophe losses from these events will be at least $15 million pre-tax, which will be reflected in our second quarter results. We'll update this estimate as necessary as new information becomes available.

I'll now turn to Assurant Health. It's important to note that prior results for Health are not directly comparable to current results due to changes associated with healthcare reform, most notably the required accruals for premium rebates.

First quarter net operating income was $7 million, results include a reimbursement of approximately $4.8 million after-tax from a pharmacy services provider related to 2009 and 2010 activity. The higher tax rate for the quarter resulted from changes in allowable deductions under healthcare reform.

Net earned premiums for the quarter were $426.2 million net of a rebate liability of $22.4 million. We estimate that the full-year rebate liability will be in the $80-90 million range. We reduced expenses by 15%, or $21 million, from a year ago, and the business continues to drive expenses down further.

At Assurant Employee Benefits, net operating income decreased to $6.5 million. The drop was primarily due to the less-favorable life and disability experience versus prior quarters, and the impact of lowering the reserve interest rate.

Improved dental results partially offset the decline. Disability experience reflected lower claimant recovery rates over most of our block. Incident rates remain relative stable overall, though we did see increases in a block of assumed reinsurance business. We will be closely watching future experience as it unfolds, and will take corrective action as needed.

As we mentioned at our investor day, we lowered the reserve interest rate assumption to 4.75% for new long-term disability claims as of January 1, 2011. The interest rate for claim incurred prior to 2011 remains at 5.25%. The 50 basis point reduction had a $1.3 million after-tax on first quarter income and is expected to have a $5 million after-tax impact for the year.

First quarter net earned premiums were down compared to first quarter 2010 and are expected to be down for all of 2011. Premium persistency is being adversely impacted by the pricing actions on the disability reinsurance business I mentioned earlier. Premiums were also adversely impacted by lower sales last year. Sequentially, net earned premium is down less than 1%.

While earnings were disappointing at Employee Benefits, growth initiatives to expand the products suite and improve persistency are gaining traction. Sales for the quarter improve 12% including a 22% increase in voluntary sales.

Turning to the corporate segment, losses improved versus the prior year, primarily due to changes in tax liabilities. Corporate results vary from quarter to quarter, but we expect the full-year loss to be approximately $55 million after-tax.

In the first quarter, we repurchased 4.4 million shares for about $173 million, representing more than 4% of the shares outstanding at year end 2010. In the second quarter, through April 21, we repurchased an additional 1.1 million shares for approximately $42 million. The number of shares we brought back last quarter and last year clearly indicate our willingness to return capital to shareholders.

In the current environment, we believe further buybacks are appropriate. However, the pace at which we will repurchase shares during the next two quarters could moderate due to the storm seasons and timing of dividends from the operating companies. In addition, rating agency views on capital requirements are always a factor we consider.

And with that, I'll turn the call back to Rob.

Rob Pollock

Thanks Mike. Our specialty businesses continue to demonstrate their ability to adapt to changing market conditions. Before we take questions, let me summarize our 2011 priorities. One, create new revenue streams. Second, find additional operating efficiencies and develop enhanced products and services valued by our customers. Third, leverage our risk management expertise in all we do. And fourth, continue to manage our capital in a disciplined manner.

We believe this will lead to long-term profitable growth and value for our shareholders. Now I would like to open the call for questions. Operator, first question please.

Question and Answer

Operator

Thank you. [Operator instructions.] Our first question comes from Mark Finkelstein with Macquarie.

Mark Finkelstein
Macquarie

I've got couple things. One, I guess just the international Solutions combined ratios, as you alluded to, picked up 70 bps sequentially. I think you kind of qualified it as higher expenses in Latin America I guess. Two questions. One, can you just discuss how you think that the combined ratios are going to trend for the year? This has been an area where, with improvements in the UK, you expected it to trend down, and it has trended down. How should we think about that? And then just two, maybe just talk about what actually happened in the quarter. Was it kind of an up-front payment on Telefonica that's more one-time in nature? Or was it just general putting money into the unit?

Rob Pollock

Sure. Couple things. So if we start with how it will come, we wish it came just linearly, but it didn't. Saying all that, we continue to see improvement in our loss experience in Europe and it's tracking as we'd planned, so we felt quite good about that, and we think it will continue to improve over the course of the year. We're quite confident in that. That's part of what's going to lead to the improvement. Second is we've looked to the expenses we're talking about. Actually, we have landed a number of new clients in Latin America over the last several years and I think as Mike pointed out, service contract revenue and particularly you've got to put people on, you've got to help make sure that the contracts are sold in the stores, and you get written premium before you get earned premium. And that's what's going on there. It's all in the course of how we do things, so that's kind of what contributed to things.

Mike Peninger

No, I think that's right. It's difficult to have a smooth quarterly pattern in this business, so we still are focused on that 200-600 basis point drop over the course of the year.

Mark Finkelstein
Macquarie

Okay, and then I guess secondly, on specialty property, gross premium levels declined sequentially. Loans tracked was kind of flattish, but replacement rates were up, insured values up, I guess can you just discuss what drove the sequential change. Was it geography? What drove that decrease and how should we think about it?

Rob Pollock

So I just want to make sure, you talked about the gross written, or were you on the net earned mark?

Mark Finkelstein
Macquarie

Gross earnings, sorry.

Rob Pollock

You know, on the gross earned you've got a couple of different things going on within the gross earned category. One, just relates to clients and how they're brought on over time and how cancellations move. You know, when you bring a new client on. We have seen a shift away from REO properties, but I think that largely taking place last year. And we've had changes with some new clients coming on that have slightly different characteristics perhaps than some of the ones that were with us before. But you know, all in all, the placement rate up. I think the average insured value up just a little bit there. And getting production from several of the new clients that we wrote last year is also starting to roll through our earned revenue too.

Operator

[Operator instructions.] Our next question comes from Ed Spehar with BofA Merrill Lynch.

Ed Spehar
BofA Merrill Lynch

I guess a question on share buyback, understanding that the pace could slow during storm season. Should we view as the sort of high levels of repurchases this quarter as sort of an indication of how you're going to think about buying stock as long as it's below book value? Or should we think about it more in terms of just the amount of excess capital and free cash flow that you're generating next couple of years? How much of it is opportunistic and how much of it is just because you have a lot of money that you could potentially spend?

Rob Pollock

On the capital management side, first, I'll let Chris go through some of the detail, but obviously we see the shares attractively priced. We've continued to be in the market as we can be. The big thing is having the free cash flow coming out of the businesses and the businesses have generated that free cash for extended periods of time. Chris, are there things you want to just add?

Christopher John Pagano
Executive VP & Chief Risk Officer

A couple things. Keep in mind dividends are a function of earnings. Earnings are a function of storm season, and again, storm season defined as cat wind and some of the things that we've seen already in the first and now into the second quarter. The share price is attractive, and I think your comment around the level of repurchase activity through April 21 is an indication of what we think about the share price and our willingness to return capital if we don't see any other opportunities on the growth side. So a combination of things, and the other thing to keep in mind in terms of the activity through April 21, compare it to last year for example, last year we had identified early in the year some capital initiatives that we were going to deploy to get more capital out of the business beyond earnings, so we took dividends in excess of operating earnings of about $200 million last year. You don't see that sort of number thank you. We will always try to be as capital efficient as we can at the operating segment level. But really, earnings and dividends are going to be much more closely related thy, which is why we're going to continue to be disciplined, as we have been every year, about timing the repurchase activity loosely with the dividend plan for the individual segments.

Ed Spehar
BofA Merrill Lynch

Chris, just to follow up, I think last year in the third quarter, you know obviously you did slow down the buyback, but you did have something $45 million I think of buyback. Is the pattern that we saw last year what we should potentially think about for this year? Not the amount, but just the pattern.

Christopher John Pagano
Executive VP & Chief Risk Officer

Sure, I think again, first quarter was we were more aggressive than we were first quarter last year. Again, we're going to calibrate what we're going to do in the second and third quarters, but the slowdown in the repurchase activity into storm season on a relative basis I think is, if you want to put pattern in, I think is appropriate. And then at the end of the year, whether the wind blows or not, and what the earnings pattern is going to look like will affect what we take in the fourth quarter, and give us a greater deal of comfort around repurchase. Keep in mind, unlike last year, we've already had some significant storms, and going into hurricane season, so we've got to keep that in mind as you start to calibrate. But again, that's back to dividends will be a function of earnings, earnings will be a function of storm season.

Ed Spehar
BofA Merrill Lynch

And I'm sorry, just one last one on this topic. Mike, you mentioned something about rating agency capital models, or consideration of rating agencies. Is that just a standard comment, or is there something that we should read into anything going on with the changing rating agency views?

Rob Pollock

No, don't read anything into it other than we talk to the rating agencies obviously every year. I think we're in kind of the process of those discussions now, and we just want to point out that that's always a factor, because we need to keep the companies capitalized to AM Best requirements.

Operator

Our next question comes from John Nadel with Sterne Agee.

John Nadel
Sterne Agee

Couple quick ones on health and then one on corporate. In the health division, I'm looking at the membership levels. They were up really nicely quarter-over-quarter. They were up in individual but really much more so in small group. Can you give us a sense for what's driving that? Was that some pent-up demand, or agents figuring out the new products? Can you just give a little bit more color there? That seemed promising.

Rob Pollock

We're including all of our supplemental products, the count on those members. So remember the premiums on these products are smaller.

Mike Peninger

Actually we've included these supplemental products now John and we hadn't in the past, so there's a footnote in the supplement that talks about the difference, so you're seeing a bit of an apples and oranges there.

John Nadel
Sterne Agee

Ah, got it. Missed the footnote. Okay. Then also on health, if I adjust for the pharmacy reimbursement, it looks like the medical loss ratio, or the loss ratio was about 74.5% in the quarter. I know you mentioned a couple weeks back at your investor day that maybe a mid-70s on a GAAP basis would roughly equate to that 80% requirement. Is that consistent with where you are this quarter?

Rob Pollock

I think that's how you should think about it. I haven't done the calculation, so I don't know exactly, but I think Adam said a little bit north of - I guess mid-76, 77. The other side of that, obviously, is that we've got to be able to operate all the expense within what's left. Correct? We're working on that side of things. We're working to get closer to pricing better, as I think Adam outlined at investor day. We want to price as close as we can so there are no rebates, and then we need to get expenses down and I think we're seeing progress on both sides of things.

John Nadel
Sterne Agee

And when we think about the full-year rebate Rob, of I think the comment was $80-90 million. That's really more of a function of over-earning, I guess you could call it, on the loss ratio last year? Or how do we think about that?

Mike Peninger

The rebates, John, are a function of this year's loss experience, starting with 2011. I think it's also really important that these rebate calculations are very complicated. We do literally a couple hundred of these, I think, if you think about all the states we operate in. And then you've got individual and group, you've got credibility adjustments. There's just numerous estimates that we're making here. And then we're also projecting out estimated loss experience and trying to think about pricing actions we're going to make. So over the course of the year that estimate will get better. Right now it's based on a whole lot of assumptions.

John Nadel
Sterne Agee

And is the tax rate going to continue to look like this as well?

Mike Peninger

The tax rate is being driven by - there's certain compensated-related expenses that are no longer allowed to be deductible under healthcare reform. So essentially if you think about having a deduction that deduction gets smaller and it makes a big difference in the calculation of the tax rate when Health's earnings are small like they are now. If Health were earnings a lot more the effect of that disallowed deduction would be a lot less noticeable.

John Nadel
Sterne Agee

Understood. Then final, real quick one on -

Rob Pollock

Just one other comment on that that I'd just bring up John. If you think about how we've adapted this business. Old model was we wanted the lowest combined ratio, right? Now, what we have to do is operate within the constraints of things here, and remember the reform kind of came around and got published mid-year last year, but we already had a bunch of policies on the books under the old rules, so that in essence is what's leading to a lot of the rebates, right? Now when those policies come up for renewal, we're going to refine the pricing on things to be closer to that part of the loss ratio.

John Nadel
Sterne Agee

Okay. And most of these products are 12-month products? Or is that not right?

Rob Pollock

That's correct.

John Nadel
Sterne Agee

Then last one just real quick. On corporate, I think Mike you mentioned $55 million loss expected for the full year. I just want to make sure that I'm clear. Is that corporate including interest expense and the amortization of the deferred gain?

Mike Peninger

Interest is in there, yeah.

John Nadel
Sterne Agee

So that's an all-in number? Got it. Thank you.

Operator

[Operator instructions.] Our next question comes from Mark Hughes with SunTrust.

Mark Hughes
SunTrust

On the benefit side, could you talk about the pricing and competition for new group business? How was it this quarter compared to the fourth quarter late 2010?

Rob Pollock

I don't think we've seen a big change in the competitive landscape for pricing so much. I do think we see some of the impacts of just healthcare reform working through, so we know that healthcare purchase decisions drive other decisions and I think as there's been more clarity on what's going on with healthcare itself, it's gotten people to think about shopping or considering their coverages. Last thing I'd just add in the small employer market is I just think we're seeing a few positive signs that there may be some employment growth, etc., which is just causing them to feel a little bit better about things.

Mark Hughes
SunTrust

So more RFP activity and more opportunities on the benefit side?

Rob Pollock

Yeah, I think that's probably the best way to look at it, because you know we certainly have, when for instance we've been taking action to improve our dental results. We'd already adjusted LTD pricing to reflect lower new money rated environment and so we think we're in a good position on that then maybe there's others who are making adjustments to reflect that. But that's just a speculation.

Mark Hughes
SunTrust

Right. And on the voluntary business, how much of the success there is attributable to things that you're doing internally? How much might be more pulled from distribution trying to compensate for maybe compressed commissions on the healthcare side?

Rob Pollock

Yeah, we are seeing a lot more interest in the voluntary products from brokers that traditionally haven't been there. There used to be in the business you had sort of our regular brokers that we worked with that concentrated on the traditional true group products and those brokers are increasingly focused now on voluntary products and they're becoming an important source of distribution for us. And I think they see the same trends we do, that small employers can't afford the traditional plans, and so voluntary is a real viable option. Then I think if you think about some of the things we're doing, we're adding group reps that are focused specifically on voluntary so that's where we're putting some growth efforts into that. And then we have a number of things going on in the way we're designing our products and our systems capabilities that we think is giving us a boost in this marketplace too. So we've got a product category here that's got some nice market growth potential and then we think that what we're doing gives us a bit of an additional boost.

Operator

Our next question comes from Jeffrey Schumann with KBW Research.

Jeffrey Schuman
KBW

Just kind of a fine point on the tax rate if you could help me try to understand this. If you have things that aren't fully deductible, does that suggest that in some of these corridors in the near future where earnings may be negative that maybe that taxes actually go the other way and the after-tax loss will be bigger than the pre-tax loss? Is that the right way to think about it?

Mike Peninger

It's just the way that works. You know, you've got sort of pre-tax income, you take your deductions to calculate your taxes, or your GAAP reported income, and you adjust it to your taxable income, so you're thinking about it correctly.

Jeffrey Schuman
KBW

Is there kind of a ballpark amount of nondeductible expenses that we can think about, or no?

Mike Peninger

I don't have that off the top of my head, Jeff. That's something we can look up, but right now the disallowed deductions related to compensation, that's going to be paid out several years from now, so mostly it tends to be focused on deferred compensation in which you're making a variety of estimates. We can certainly give some thought to whether we can firm that up. I'd like it to be a reasonably firm number if we're going to cover that for you.

Jeffrey Schuman
KBW

All right, thank you. You spoke about share repurchase. I don't believe I heard you speak about M&A. Mr. Colberg's been in place for a couple months now and I think he has a number of mandates, but one of them is to look for M&A opportunities. Any update there on whether the pipeline seemed encouraging or not?

Rob Pollock

You know, we have talked for a long time about M&A as one of the pillars to helping us grow. Chris is responsible for that area, and I'll let him make a few comments, but obviously Chris and Alan have just been sitting down and getting their heads together on how to think about things. But I think the bigger one to take note of is we've probably looked at quite a few things and Chris, why don't you just comment on that?

Christopher John Pagano
Executive VP & Chief Risk Officer

I think obviously we don't talk about specific deals. We are in the market sourcing deals. That means looking at them, comparing them to our requirements, whether it has a strategic fit, whether it meets our financial requirements. I think the key here is when you think about M&A and growth you've got to also put the words disciplined and profitable in the mix there, and that's what our focus is. And right now what you're seeing is our discipline and our search for profitable growth is not producing opportunities that meet our requirements and as a result we're using the deployable capital to repurchase shares, which has been a very attractive opportunity for us recently. So again, continuing to source it, feel like we've got analytical rigor and discipline that allows us to look at opportunities both in existing business lines and in lines where we aren't currently participating. And we'll continue to keep you posted as that process evolves.

Rob Pollock
Okay. I want to thank everyone for joining us today, and we look forward to updating you on our progress on our next call.