

MBIA INC
Form 10-Q
May 08, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended March 31, 2006

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut
(State of Incorporation)

06-1185706
(I.R.S. Employer

113 King Street, Armonk, New York
(Address of principal executive offices)

Identification No.)
10504
(Zip Code)

Registrant's telephone number, including area code: (914) 273-4545

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 26, 2006, 134,728,243 shares of Common Stock, par value \$1 per share, were outstanding.

Table of Contents

INDEX

| | PAGE |
|--|-------------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) MBIA Inc. and Subsidiaries | |
| <u>Consolidated Balance Sheets - March 31, 2006 and December 31, 2005</u> | 3 |
| <u>Consolidated Statements of Income - Three months ended March 31, 2006 and 2005</u> | 4 |
| <u>Consolidated Statement of Changes in Shareholders' Equity - Three months ended March 31, 2006</u> | 5 |
| <u>Consolidated Statements of Cash Flows - Three months ended March 31, 2006 and 2005</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7 - 17 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18 - 34 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 35 |
| Item 4. <u>Controls and Procedures</u> | 35 |
| PART II <u>OTHER INFORMATION, AS APPLICABLE</u> | |
| Item 1. <u>Legal Proceedings</u> | 35 - 38 |
| Item 1A. <u>Risk Factors</u> | 38 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 38 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 38 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 38 |
| Item 5. <u>Other Information</u> | 38 |
| Item 6. <u>Exhibits</u> | 39 |
| <u>SIGNATURES</u> | 40 |

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In thousands except per share amounts)

| | March 31, 2006 | December 31, 2005 |
|--|----------------------|----------------------|
| Assets | | |
| Investments: | | |
| Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$24,264,883 and \$23,189,684) | \$ 24,470,935 | \$ 23,747,204 |
| Investments held-to-maturity, at amortized cost (fair value \$5,237,107 and \$5,734,335) | 5,271,708 | 5,765,182 |
| Investment agreement portfolio pledged as collateral, at fair value (amortized cost \$1,104,941 and \$712,054) | 1,088,281 | 729,072 |
| Short-term investments, at amortized cost (which approximates fair value) | 2,184,720 | 1,678,281 |
| Other investments | 267,009 | 234,927 |
| Total investments | 33,282,653 | 32,154,666 |
| Cash and cash equivalents | 222,936 | 233,046 |
| Accrued investment income | 418,643 | 396,048 |
| Deferred acquisition costs | 429,842 | 427,111 |
| Prepaid reinsurance premiums | 394,608 | 407,614 |
| Reinsurance recoverable on unpaid losses | 59,324 | 58,965 |
| Goodwill | 79,406 | 79,406 |
| Property and equipment, at cost (less accumulated depreciation of \$124,326 and \$121,165) | 107,438 | 109,275 |
| Receivable for investments sold | 82,611 | 74,787 |
| Derivative assets | 429,575 | 326,867 |
| Other assets | 209,157 | 293,609 |
| Total assets | \$ 35,716,193 | \$ 34,561,394 |
| Liabilities and Shareholders Equity | | |
| Liabilities: | | |
| Deferred premium revenue | \$ 3,116,502 | \$ 3,185,200 |
| Loss and loss adjustment expense reserves | 730,352 | 721,502 |
| Investment agreements | 11,149,718 | 10,806,277 |
| Commercial paper | 872,526 | 859,997 |
| Medium-term notes | 7,508,714 | 7,542,416 |
| Variable interest entity floating rate notes | 1,248,194 | 1,280,160 |
| Securities sold under agreements to repurchase | 1,031,325 | 646,343 |
| Short-term debt | 58,745 | 58,745 |
| Long-term debt | 1,211,356 | 1,210,405 |
| Current income taxes | 9,968 | |
| Deferred income taxes, net | 475,646 | 569,536 |
| Deferred fee revenue | 18,399 | 20,379 |
| Payable for investments purchased | 754,573 | 83,369 |
| Derivative liabilities | 420,725 | 384,611 |
| Other liabilities | 507,987 | 600,810 |
| Total liabilities | 29,114,730 | 27,969,750 |

Commitments and contingencies (See Note 8)

Shareholders Equity:

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| | | |
|---|----------------------|----------------------|
| Preferred stock, par value \$1 per share; authorized shares 10,000,000; issued and outstanding none | | |
| Common stock, par value \$1 per share; authorized shares 400,000,000; issued shares 157,452,712 and 156,601,779 | 157,453 | 156,602 |
| Additional paid-in capital | 1,530,811 | 1,479,447 |
| Retained earnings | 5,904,405 | 5,747,171 |
| Accumulated other comprehensive income, net of deferred income tax of \$140,828 and \$238,881 | 243,548 | 399,381 |
| Unearned compensation restricted stock | (76,647) | (43,857) |
| Treasury stock, at cost 22,734,548 and 22,554,528 shares | (1,158,107) | (1,147,100) |
| Total shareholders equity | 6,601,463 | 6,591,644 |
| Total liabilities and shareholders equity | \$ 35,716,193 | \$ 34,561,394 |

The accompanying notes are an integral part of the consolidated financial statements.

(3)

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(In thousands except per share amounts)

| | Three months ended March 31 | |
|---|------------------------------------|-------------|
| | 2006 | 2005 |
| Insurance | | |
| Revenues: | | |
| Gross premiums written | \$ 172,872 | \$ 282,619 |
| Ceded premiums | (23,905) | (32,126) |
| Net premiums written | 148,967 | 250,493 |
| Scheduled premiums earned | 167,715 | 173,760 |
| Refunding premiums earned | 38,184 | 37,085 |
| Premiums earned (net of ceded premiums of \$36,978 and \$40,808) | 205,899 | 210,845 |
| Net investment income | 140,012 | 123,450 |
| Fees and reimbursements | 8,174 | 6,425 |
| Net realized gains (losses) | (7,012) | 211 |
| Net gains (losses) on derivative instruments and foreign exchange | 4,757 | (6,072) |
| Total insurance revenues | 351,830 | 334,859 |
| Expenses: | | |
| Losses and loss adjustment | 20,126 | 20,851 |
| Amortization of deferred acquisition costs | 16,266 | 16,657 |
| Operating | 36,727 | 29,166 |
| Interest expense | 12,918 | 5,400 |
| Total insurance expenses | 86,037 | 72,074 |
| Insurance income | 265,793 | 262,785 |
| Investment management services | | |
| Revenues | 258,206 | 186,235 |
| Net realized gains (losses) | 5,528 | 3,194 |
| Net gains (losses) on derivative instruments and foreign exchange | (2,950) | 27,421 |
| Total investment management services revenues | 260,784 | 216,850 |
| Interest expense | 216,747 | 149,418 |
| Expenses | 17,590 | 14,377 |
| Total investment management services expenses | 234,337 | 163,795 |
| Investment management services income | 26,447 | 53,055 |
| Municipal services | | |
| Revenues | 5,611 | 5,536 |
| Net realized gains (losses) | | (85) |
| Net gains (losses) on derivative instruments and foreign exchange | 29 | 130 |
| Total municipal services revenues | 5,640 | 5,581 |

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| | | |
|---|-------------------|-------------------|
| Expenses | 5,125 | 5,405 |
| Municipal services income | 515 | 176 |
| Corporate | | |
| Net investment income | 3,564 | 7,927 |
| Net realized gains (losses) | 626 | (1,608) |
| Interest expense | 20,131 | 22,021 |
| Corporate expenses | 2,302 | 3,681 |
| Corporate loss | (18,243) | (19,383) |
| Income before income taxes | 274,512 | 296,633 |
| Provision for income taxes | 75,518 | 83,826 |
| Net income | \$ 198,994 | \$ 212,807 |
| Net income per common share: | | |
| Basic | \$ 1.50 | \$ 1.55 |
| Diluted | \$ 1.46 | \$ 1.52 |
| Weighted average number of common shares outstanding: | | |
| Basic | 132,717,298 | 137,258,739 |
| Diluted | 136,547,417 | 140,442,217 |
| Gross revenues from operations | 622,444 | 563,609 |
| Gross expenses from operations | 347,932 | 266,976 |

The accompanying notes are an integral part of the consolidated financial statements.

(4)

Table of Contents**MBIA INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)****For the three months ended March 31, 2006**

(In thousands except per share amounts)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Unearned Compensation- Restricted Stock | Treasury Stock | | Total Shareholders Equity |
|---|--------------|------------|----------------------------------|----------------------|---|--|----------------|----------------|---------------------------------|
| | Shares | Amount | | | | | Shares | Amount | |
| Balance, January 1, 2006 | 156,602 | \$ 156,602 | \$ 1,479,447 | \$ 5,747,171 | \$ 399,381 | \$ (43,857) | (22,555) | \$ (1,147,100) | \$ 6,591,644 |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | 198,994 | | | | | 198,994 |
| Other comprehensive income (loss): | | | | | | | | | |
| Change in unrealized appreciation of investments net of change in deferred income taxes of \$(141,572) | | | | | (239,825) | | | | (239,825) |
| Change in fair value of derivative instruments net of change in deferred income taxes of \$43,502 | | | | | 80,790 | | | | 80,790 |
| Change in foreign currency translation net of change in deferred income taxes of \$17 | | | | | | | | | |