

MBIA INC
Form 10-Q
August 09, 2011
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 June 30, 2011

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)

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Connecticut
(State of incorporation)

06-1185706
(I.R.S. Employer

Identification No.)

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

10504
(Zip Code)

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of August 2, 2011, 196,787,861 shares of Common Stock, par value \$1 per share, were outstanding.

Table of Contents

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. Financial Statements MBIA Inc. and Subsidiaries (Unaudited)	
<u>Consolidated Balance Sheets June 30, 2011 and December 31, 2010 (Unaudited)</u>	1
<u>Consolidated Statements of Operations Three and six months ended June 30, 2011 and 2010 (Unaudited)</u>	2
<u>Consolidated Statement of Changes in Shareholders' Equity Six months ended June 30, 2011 (Unaudited)</u>	3
<u>Consolidated Statements of Cash Flows Six months ended June 30, 2011 and 2010 (Unaudited)</u>	4
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	5-83
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	84-143
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	144
Item 4. <u>Controls and Procedures</u>	144
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	145-146
Item 1A. <u>Risk Factors</u>	147
Item 1B. <u>Unresolved Staff Comments</u>	147
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	147
Item 3. <u>Defaults Upon Senior Securities</u>	147
Item 4. <u>(Removed and Reserved)</u>	147
Item 5. <u>Other Information</u>	147
Item 6. <u>Exhibits</u>	148
<u>SIGNATURES</u>	149

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MBIA INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In millions except share and per share amounts)

	June 30, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$8,468 and \$9,679)	\$ 8,155	\$ 9,092
Fixed-maturity securities at fair value	183	25
Investments pledged as collateral, at fair value (amortized cost \$582 and \$548)	599	552
Short-term investments held as available-for-sale, at fair value (amortized cost \$1,761 and \$2,073)	1,754	2,070
Other investments (includes investments at fair value of \$158 and \$186)	160	188
Total	10,851	11,927
Cash and cash equivalents	626	366
Accrued investment income	91	95
Premiums receivable	1,429	1,589
Deferred acquisition costs	375	412
Prepaid reinsurance premiums	94	97
Insurance loss recoverable	2,658	2,531
Reinsurance recoverable on paid and unpaid losses	20	15
Goodwill	31	31
Property and equipment, at cost (less accumulated depreciation of \$136 and \$135)	70	71
Receivable for investments sold	76	8
Derivative assets	3	4
Current income taxes	-	41
Deferred income taxes, net	1,574	908
Other assets	45	46
Assets of consolidated variable interest entities:		
Cash	735	764
Investments held-to-maturity, at amortized cost (fair value \$3,703 and \$3,760)	3,934	4,039
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$279 and \$338)	280	339
Fixed-maturity securities at fair value	4,835	5,241
Loans receivable at fair value	2,320	2,183
Loan repurchase commitments	905	835
Derivative assets	680	699
Other assets	36	38
Total assets	\$ 31,668	\$ 32,279
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 3,801	\$ 4,145

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Loss and loss adjustment expense reserves	865	1,129
Reinsurance premiums payable	69	71
Investment agreements	1,632	2,005
Medium-term notes (includes financial instruments carried at fair value \$206 and \$116)	1,763	1,740
Securities sold under agreements to repurchase	387	471
Short-term debt	-	65
Long-term debt	1,843	1,851
Current income taxes	23	-
Deferred fee revenue	9	10
Payable for settlement of derivatives and investments purchased	235	2
Derivative liabilities	5,934	4,617
Other liabilities	232	272
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value \$6,539 and \$6,680)	10,449	10,590
Long-term debt	360	360
Derivative liabilities	2,160	2,104
Other liabilities	1	1
Total liabilities	29,763	29,433
Commitments and contingencies (See Note 13)		
Equity:		
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 274,922,351 and 274,719,578	275	275
Additional paid-in capital	3,066	3,064
Retained earnings	986	2,124
Accumulated other comprehensive loss, net of deferred tax of \$122 and \$229	(195)	(406)
Treasury stock, at cost 78,141,872 and 74,973,978 shares	(2,251)	(2,225)
Total shareholders' equity of MBIA Inc.	1,881	2,832
Preferred stock of subsidiary and noncontrolling interest	24	14
Total equity	1,905	2,846
Total liabilities and equity	\$ 31,668	\$ 32,279

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

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

(In millions except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Premiums earned:				
Scheduled premiums earned	\$ 116	\$ 131	\$ 243	\$ 263
Refunding premiums earned	33	25	43	50
Premiums earned (net of ceded premiums of \$3, \$11, \$6 and \$20)	149	156	286	313
Net investment income	95	107	209	229
Fees and reimbursements	11	11	25	133
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(191)	(64)	(546)	(98)
Unrealized gains (losses) on insured derivatives	116	1,538	(1,307)	(674)
Net change in fair value of insured derivatives	(75)	1,474	(1,853)	(772)
Net gains (losses) on financial instruments at fair value and foreign exchange	(103)	(2)	(127)	(48)
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	(6)	(22)	(13)	(187)
Other-than-temporary impairments recognized in accumulated other comprehensive loss	(14)	9	(20)	144
Net investment losses related to other-than-temporary impairments	(20)	(13)	(33)	(43)
Net gains (losses) on extinguishment of debt	-	18	26	18
Other net realized gains (losses)	-	19	5	19
Revenues of consolidated variable interest entities:				
Net investment income	16	13	34	28
Net gains (losses) on financial instruments at fair value and foreign exchange	22	291	(85)	414
Net gains (losses) on extinguishment of debt	-	3	-	4
Other net realized gains (losses)	3	-	3	(74)
Total revenues	98	2,077	(1,510)	221
Expenses:				
Losses and loss adjustment	50	(73)	14	142
Amortization of deferred acquisition costs	23	14	39	37
Operating	75	69	150	131
Interest	75	81	150	165
Expenses of consolidated variable interest entities:				
Operating	7	4	17	10
Interest	15	14	30	27
Total expenses	245	109	400	512
Income (loss) before income taxes	(147)	1,968	(1,910)	(291)
Provision (benefit) for income taxes	(284)	673	(772)	(106)
Net income (loss)	\$ 137	\$ 1,295	\$ (1,138)	\$ (185)

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Net income (loss) per common share:

Basic	\$	0.69	\$	6.34	\$	(5.70)	\$	(0.90)
Diluted	\$	0.68	\$	6.32	\$	(5.70)	\$	(0.90)

Weighted average number of common shares outstanding:

Basic	199,295,797	204,377,833	199,602,865	204,639,226
Diluted	200,064,679	204,921,673	199,602,865	204,639,226

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

Table of Contents

MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

For The Six Months Ended June 30, 2011

(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary and Noncontrolling Interest	
	Shares	Amount				Shares	Amount		Shares	Amount
Balance, December 31, 2010	274,719,578	\$ 275	\$ 3,064	\$ 2,124	\$ (406)	(74,973,978)	\$ (2,225)	\$ 2,832	1,426	\$ 14
Comprehensive income (loss):										
Net income (loss)	-	-	-	(1,138)	-	-	-	(1,138)	-	-
Other comprehensive income (loss):										
Change in unrealized gains and losses on investments net of tax of \$93	-	-	-	-	217	-	-	217	-	-
Portion of other-than-temporary impairment losses recognized in other comprehensive loss, net of tax of \$13	-	-	-	-	24	-	-	24	-	-
Change in fair value of derivative instruments net of tax of \$4	-	-	-	-	6	-	-	6	-	-
Change in foreign currency translation net of tax of \$5	-	-	-	-	(36)	-	-	(36)	-	-
Other comprehensive income (loss)								211		
Total comprehensive income (loss)								(927)		
Share-based compensation net of tax of \$4	202,773	-	2	-	-	(146,172)	(1)	1	-	-
Treasury shares acquired under share repurchase program	-	-	-	-	-	(3,021,722)	(25)	(25)	-	-
Preferred shares of subsidiary acquired	-	-	-	-	-	-	-	-	(41)	(1)
Change in noncontrolling interest in subsidiary	-	-	-	-	-	-	-	-	-	11
Balance, June 30, 2011	274,922,351	\$ 275	\$ 3,066	\$ 986	\$ (195)	(78,141,872)	\$ (2,251)	\$ 1,881	1,385	\$ 24

2011

Disclosure of reclassification amount:

Change in unrealized gains and losses and other-than-temporary

impairments on investments arising during the period, net of taxes

\$ 251

Reclassification adjustment, net of taxes

(10)

Change in net unrealized gains and losses and

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other-than-temporary impairment losses,
net of taxes

\$ 241

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

3

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

(In millions)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (1,138)	\$ (185)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Amortization of bond (premiums) discounts, net	(11)	(11)
Decrease in accrued investment income	4	4
Decrease in premiums receivable	170	165
Decrease in deferred acquisition costs	37	41
Decrease in unearned premium revenue	(361)	(354)
Decrease in prepaid reinsurance premiums	4	69
Decrease in reinsurance premiums payable	(2)	(41)
Decrease in loss and loss adjustment expense reserves	(265)	(164)
Increase in reinsurance recoverable on paid and unpaid losses	(5)	(12)
Increase in insurance loss recoverable	(126)	(249)
Increase (decrease) in payable to reinsurers on recoveries	4	(29)
Depreciation	4	4
(Decrease) increase in accrued interest payable	(8)	5
Decrease in accounts receivable	3	9
Decrease in accrued expenses	(11)	(11)
Decrease in deferred fee revenue	(1)	(1)
Amortization of medium-term notes (premiums) discounts, net	(6)	4
Net investment losses related to other-than-temporary impairments	33	43
Realized losses and other settlements on insured derivatives	215	-
Unrealized losses on insured derivatives	1,307	674
Net losses (gains) on financial instruments at fair value and foreign exchange	212	(366)
Other net realized (gains) losses	(8)	55
Increase in current income taxes	60	530
Deferred income tax benefit	(777)	(208)
Gains on extinguishment of debt	(26)	(22)
Share-based compensation	6	1
Other operating	5	(119)
Total adjustments to net income (loss)	457	17
Net cash provided (used) by operating activities	(681)	(168)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(3,551)	(3,921)
Sale and redemption of fixed-maturity securities		