

RADIAN GROUP INC
Form 10-Q
August 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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 1-11356

Radian Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1601 Market Street, Philadelphia, PA
(Address of principal executive offices)

(215) 231-1000

23-2691170
(I.R.S. Employer

Identification No.)

19103
(Zip Code)

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(Registrant's telephone number, including area code)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 80,408,329 shares of common stock, \$0.001 par value per share, outstanding on July 31, 2007.

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Forward Looking Statements Safe Harbor Provisions

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as may, will, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, continue or the negative or words and other similar expressions. These statements are made on the basis of management's current views and assumptions with respect to future events. Any forward-looking statement is not a guarantee of future performance and actual results could differ materially from those contained in the forward looking information. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

actual or perceived changes in general financial and political conditions, such as extended national or regional economic recessions, changes in housing demand or mortgage originations, changes in housing values, population trends and changes in household formation patterns, changes in unemployment rates, changes or volatility in interest rates or consumer confidence, changes in credit spreads, changes in the way investors perceive the strength of private mortgage insurers or financial guaranty providers, investor concern over the credit quality and specific risks faced by the particular businesses, municipalities or pools of assets covered by our insurance;

actual or perceived economic changes or catastrophic events in geographic regions (both domestic and international) where our mortgage insurance or financial guaranty insurance in force is more concentrated;

the loss of a customer for whom we write a significant amount of mortgage insurance or financial guaranty insurance or the influence of large customers;

the aging of our mortgage insurance portfolio, which could cause losses to increase, and changes in severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

changes in persistency rates of our mortgage insurance policies caused by changes in refinancing activity, appreciating or depreciating home values and changes in the mortgage insurance cancellation requirements of mortgage lenders and investors;

downgrades or threatened downgrades of, or other ratings actions with respect to, our credit ratings or the insurance financial strength ratings assigned by the major rating agencies to any of our rated insurance subsidiaries at any time, which actions have occurred in the past;

heightened competition for our mortgage insurance business from others such as the Federal Housing Administration and the Veterans Administration or other private mortgage insurers, from alternative products such as 80-10-10 loans or other forms of simultaneous second loan structures used by mortgage lenders, from investors using forms of credit enhancement other than mortgage insurance as a partial or complete substitution for private mortgage insurance and from mortgage lenders that demand increased participation in revenue sharing arrangements such as captive reinsurance arrangements;

changes in the charters or business practices of Federal National Mortgage Association and Federal Home Loan Mortgage Corp., the largest purchasers of mortgage loans that we insure;

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heightened competition for financial guaranty business from other financial guaranty insurers, from other forms of credit enhancement such as letters of credit, guaranties and credit default swaps provided by foreign and domestic banks and other financial institutions and from alternative structures that may permit insurers to securitize assets more cost-effectively without the need for the types of credit enhancement we offer, or result in our having to reduce the premium we charge for our products;

the application of existing federal or state consumer, lending, insurance and other applicable laws and regulations, or changes in these laws and regulations or the way they are interpreted; including, without

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limitation: (i) the possibility of private lawsuits or investigations by state insurance departments and state attorneys general alleging that services offered by the mortgage insurance industry, such as captive reinsurance, pool insurance and contract underwriting, are violative of the Real Estate Settlement Procedures Act and/or similar state regulations (particularly in light of public reports that some state insurance departments are investigating captive reinsurance arrangements used in the mortgage insurance industry), or (ii) legislative and regulatory changes affecting demand for private mortgage insurance or financial guaranty insurance;

the possibility that we may fail to estimate accurately the likelihood, magnitude and timing of losses in connection with establishing loss reserves for our mortgage insurance or financial guaranty businesses or to estimate accurately the fair value amounts of derivative financial guaranty contracts in determining gains and losses on these contracts;

changes in accounting guidance from the Securities and Exchange Commission (SEC) or the Financial Accounting Standards Board (in particular changes regarding income recognition and the treatment of loss reserves in both the mortgage insurance and financial guaranty industries);

our ability to profitably grow our insurance businesses in international markets, which depends on a number of factors such as foreign governments' monetary policies and regulatory requirements, foreign currency exchange rate fluctuations, and our ability to develop and market products appropriate to foreign markets;

legal and other limitations on the amount of dividends we may receive from our subsidiaries;

the amount of the impairment charge related to our interest in Credit-Based Asset Servicing and Securitization LLC (C-BASS), which has not yet been determined and may be influenced by: changes in the market for subprime mortgages and the amount, timing and severity of market dislocations occurring in the subprime market; the amount, timing and severity of any future margin calls that C-BASS may receive; C-BASS's ability to obtain sufficient and timely financing to support its liquidity position; and the ability of Radian and MGIC Investment Corporation (MGIC) to sell part or all of their interests in C-BASS and the amount that may be received in connection with any such sale;

changes in the availability of affordable or adequate reinsurance for our other than prime risk; and

risks and uncertainties associated with our proposed merger with MGIC, including, without limitation: the ability to complete the transaction on the proposed terms and schedule; the risk that the two companies and their businesses will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; litigation relating to the merger; customer attrition and disruption from the transaction making it more difficult to maintain relationships with customers, employees or other business relationships; the possibility that revenues following the merger may be lower than expected; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; the risk that potential sales of assets in connection with the merger may negatively impact the financial performance of the combined company; any ratings actions with respect to our credit ratings or the insurance financial strength ratings assigned by the major ratings agencies to any of our rated insurance subsidiaries in the event the merger is not completed; and the possibility that the merger may not be completed, whether due to the failure to receive the requisite regulatory approvals or otherwise, which may have an adverse effect on our customers, employees and other business relationships, and may have a materially adverse impact on our financial results and prospects.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the risks discussed in other documents that we file with the SEC, including the risk factors detailed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006 and in our joint proxy statement/prospectus for our 2007 annual meeting. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Radian Group Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	June 30	December 31
(\$ in thousands)	2007	2006
Assets		
Investments		
Fixed maturities held to maturity at amortized cost (fair value \$76,399 and \$86,817)	\$ 74,599	\$ 84,314
Fixed maturities available for sale at fair value (amortized cost \$4,546,973 and \$4,818,050)	4,587,667	4,975,773
Trading securities at fair value (cost \$36,335 and \$87,009)	39,344	128,202
Equity securities at fair value (cost \$215,548 and \$222,444)	306,413	298,235
Hybrid securities at fair value (amortized cost \$538,553)	595,424	
Short-term investments	289,752	238,677
Other invested assets (cost \$23,597 and \$15,727)	26,778	20,126
Total investments	5,919,977	5,745,327
Cash	108,838	57,901
Investment in affiliates	639,571	618,841
Deferred policy acquisition costs	232,548	221,769
Prepaid federal income taxes	860,135	808,740
Provisional losses recoverable		12,479
Accrued investment income	63,020	62,823
Accounts and notes receivable (less allowance of \$580 and \$1,179)	64,027	55,672
Property and equipment, at cost (less accumulated depreciation of \$76,157 and \$69,314)	29,846	33,937
Other assets	200,123	311,182
Total assets	\$ 8,118,085	\$ 7,928,671
Liabilities and Stockholders' Equity		
Unearned premiums	\$ 987,788	\$ 943,687
Reserve for losses and loss adjustment expenses	909,371	842,283
Long-term debt	747,929	747,770
Current income taxes payable, net	220,951	
Deferred income taxes payable, net	888,667	1,129,740
Accounts payable and accrued expenses	220,661	197,634
Total liabilities	3,975,367	3,861,114
Commitments and Contingencies (Note 15)		
Stockholders' equity		
Common stock: par value \$.001 per share; 200,000,000 shares authorized; 97,631,763 and 97,625,407 shares issued at June 30, 2007 and December 31, 2006, respectively; 80,393,796 and 79,401,691 shares outstanding at June 30, 2007 and December 31, 2006, respectively	97	97
Treasury stock: 17,237,967 and 18,223,716 shares at June 30, 2007 and December 31, 2006, respectively	(890,521)	(931,012)
Additional paid-in capital	1,326,538	1,347,205
Retained earnings	3,609,259	3,489,290
Accumulated other comprehensive income	97,345	161,977

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Total stockholders' equity	4,142,718	4,067,557
Total liabilities and stockholders' equity	\$ 8,118,085	\$ 7,928,671

See notes to unaudited condensed consolidated financial statements.

Table of Contents**Radian Group Inc.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(In thousands, except per-share amounts)	Three Months Ended		Six Months Ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
Revenues:				
Premiums written:				
Direct	\$ 277,683	\$ 299,462	\$ 566,826	\$ 582,241
Assumed	27,241	35,830	51,975	60,105
Ceded	(37,368)	(36,417)	(73,611)	(63,866)
Net premiums written	267,556	298,875	545,190	578,480
Increase in unearned premiums	(12,672)	(39,789)	(41,171)	(65,697)
Net premiums earned	254,884	259,086	504,019	512,783
Net investment income	62,650	59,678	123,646	113,938
Net gains on securities	25,694	5,324	39,439	28,178
Change in fair value of derivative instruments	(103,120)	(25,287)	(89,331)	(7,657)
Other income	3,102	5,778	6,920	10,989
Total revenues	243,210	304,579	584,693	658,231
Expenses:				
Provision for losses	173,962	84,860	281,004	163,494
Policy acquisition costs	24,198	26,820	52,452	54,184
Other operating expenses	57,608	58,099	115,303	118,376
Interest expense	12,360	12,538	25,416	24,378
Total expenses	268,128	182,317	474,175	360,432
Equity in net income of affiliates	49,507	72,038	72,279	130,378
Pretax income	24,589	194,300	182,797	428,177
Income tax provision	3,506	46,155	48,247	116,334
Net income	\$ 21,083	\$ 148,145	\$ 134,550	\$ 311,843
Basic net income per share	\$ 0.26	\$ 1.81	\$ 1.70	\$ 3.79
Diluted net income per share	\$ 0.26	\$ 1.79	\$ 1.68	\$ 3.75
Average number of common shares outstanding basic	79,627	81,921	79,295	82,355
Average number of common and common equivalent shares outstanding diluted	80,545	82,756	80,279	83,100
Dividends declared per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04

See notes to unaudited condensed consolidated financial statements.

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Radian Group Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

(UNAUDITED)

						Accumulated Other	Other	Total
						Comprehensive Income		
			Additional			(Loss)		
	Common	Treasury	Paid-in	Deferred	Retained	Foreign	Unrealized	
	Stock	Stock	Capital	Compensation	Earnings	Currency	Holding	
						Translation	Gains	
(In thousands)						Adjustment	(Losses)	