

MBIA INC
Form 10-Q
November 12, 2013
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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 quarterly period ended September 30, 2013

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

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.

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 November 7, 2013, 192,247,762 shares of Common Stock, par value \$1 per share, were outstanding.

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

(In millions except share and per share amounts)

	September 30, 2013	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost \$4,516 and \$4,347)	\$ 4,505	\$ 4,485
Fixed-maturity securities at fair value	249	244
Investments pledged as collateral, at fair value (amortized cost \$407 and \$489)	347	443
Short-term investments held as available-for-sale, at fair value (amortized cost \$1,377 and \$662)	1,378	669
Other investments (includes investments at fair value of \$10 and \$12)	16	21
Total investments	6,495	5,862
Cash and cash equivalents	1,057	814
Premiums receivable	1,085	1,228
Deferred acquisition costs	270	302
Insurance loss recoverable	742	3,648
Property and equipment, at cost (less accumulated depreciation of \$87 and \$146)	37	69
Deferred income taxes, net	1,243	1,199
Other assets	247	268
Assets of consolidated variable interest entities:		
Cash	46	176
Investments held-to-maturity, at amortized cost (fair value \$2,566 and \$2,674)	2,809	2,829
Investments held as available-for-sale, at fair value (amortized cost \$156 and \$637)	156	625
Fixed-maturity securities at fair value	626	1,735
Loans receivable at fair value	1,704	1,881
Loan repurchase commitments	1,116	1,086
Other assets	-	2
Total assets	\$ 17,633	\$ 21,724
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	\$ 2,544	\$ 2,938
Loss and loss adjustment expense reserves	688	853
Investment agreements	760	944
Medium-term notes (includes financial instruments carried at fair value of \$204 and \$165)	1,554	1,598
Long-term debt	1,677	1,732
Derivative liabilities	1,370	2,934
Other liabilities	439	245
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of \$2,426 and \$3,659)	5,385	7,124

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Derivative liabilities	15	162
Total liabilities	14,432	18,530
Commitments and contingencies (See Note 14)		
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 277,804,062 and 277,405,039	278	277
Additional paid-in capital	3,113	3,076
Retained earnings	2,157	2,039
Accumulated other comprehensive income (loss), net of tax of \$30 and \$21	(50)	56
Treasury stock, at cost 85,551,418 and 81,733,530 shares	(2,318)	(2,275)
Total shareholders' equity of MBIA Inc.	3,180	3,173
Preferred stock of subsidiary and noncontrolling interest	21	21
Total equity	3,201	3,194
Total liabilities and equity	\$ 17,633	\$ 21,724

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Premiums earned:				
Scheduled premiums earned	\$ 80	\$ 85	\$ 236	\$ 291
Refunding premiums earned	24	70	112	173
Premiums earned (net of ceded premiums of \$2, \$3, \$7 and \$12)	104	155	348	464
Net investment income	42	50	118	172
Fees and reimbursements	5	20	17	47
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(28)	12	(1,548)	(420)
Unrealized gains (losses) on insured derivatives	285	(33)	1,562	1,473
Net change in fair value of insured derivatives	257	(21)	14	1,053
Net gains (losses) on financial instruments at fair value and foreign exchange	5	7	62	(18)
Investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	-	(3)	-	(58)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(5)	-	(47)
Net investment losses related to other-than-temporary impairments	-	(8)	-	(105)
Net gains (losses) on extinguishment of debt	6	-	49	-
Other net realized gains (losses)	(29)	1	(29)	7
Revenues of consolidated variable interest entities:				
Net investment income	13	17	43	51
Net gains (losses) on financial instruments at fair value and foreign exchange	17	44	128	(17)
Net gains (losses) on extinguishment of debt	-	16	-	49
Other net realized gains (losses)	-	-	1	-
Total revenues	420	281	751	1,703
Expenses:				
Losses and loss adjustment	98	171	92	330
Amortization of deferred acquisition costs	9	8	36	36
Operating	71	72	280	307
Interest	59	69	179	214
Expenses of consolidated variable interest entities:				
Operating	2	5	8	14
Interest	10	13	34	43
Total expenses	249	338	629	944
Income (loss) before income taxes	171	(57)	122	759
Provision (benefit) for income taxes	39	(64)	4	161

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Net income (loss)	\$	132	\$	7	\$	118	\$	598
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Net income (loss) per common share:

Basic	\$	0.68	\$	0.04	\$	0.61	\$	3.09
Diluted	\$	0.67	\$	0.04	\$	0.60	\$	3.07

Weighted average number of common shares outstanding:

Basic	192,711,608	193,879,994	193,440,078	193,760,654
Diluted	196,746,771	194,977,642	197,762,488	194,835,537

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

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

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 132	\$ 7	\$ 118	\$ 598
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	(15)	75	(155)	236
Provision (benefit) for income taxes	(6)	18	(55)	70
Total	(9)	57	(100)	166
Reclassification adjustments for (gains) losses included in net income (loss)	13	(8)	(6)	84
Provision (benefit) for income taxes	5	(3)	(2)	29
Total	8	(5)	(4)	55
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	8	2	15	40
Provision (benefit) for income taxes	2	1	6	14
Total	6	1	9	26
Reclassification adjustments for (gains) losses included in net income (loss)	(1)	6	(5)	52
Provision (benefit) for income taxes	(1)	2	(2)	18
Total	-	4	(3)	34
Foreign currency translation:				
Foreign currency translation gains (losses)	32	(7)	(7)	(18)
Provision (benefit) for income taxes	1	(4)	1	(3)
Total	31	(3)	(8)	(15)
Total other comprehensive income (loss)	36	54	(106)	266
Comprehensive income (loss)	\$ 168	\$ 61	\$ 12	\$ 864

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

For The Nine Months Ended September 30, 2013

(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		Total Equity
	Shares	Amount			Shares	Amount	Shares		Amount	Shares	
Balance, December 31, 2012	277,405,039	\$ 277	\$ 3,076	\$ 2,039	\$ 56	(81,733,530)	\$ (2,275)	\$ 3,173	1,315	\$ 21	\$ 3,194
Net income (loss)	-	-	-	118	-	-	-	118	-	-	118
Other comprehensive income (loss)	-	-	-	-	(106)	-	-	(106)	-	-	(106)
Share-based compensation net of tax of \$4	399,023	1	37	-	-	(3,817,888)	(43)	(5)	-	-	(5)
Balance, September 30, 2013	277,804,062	\$ 278	\$ 3,113	\$ 2,157	\$ (50)	(85,551,418)	\$ (2,318)	\$ 3,180	1,315	\$ 21	\$ 3,201

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

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

(In millions)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Premiums, fees and reimbursements received	\$ 143	\$ 223
Investment income received	326	459
Insured derivative commutations and losses paid	(453)	(463)
Financial guarantee losses and loss adjustment expenses paid	(382)	(620)
Proceeds from recoveries and reinsurance	1,797	131
Operating and employee related expenses paid	(227)	(300)
Interest paid, net of interest converted to principal	(170)	(377)
Income taxes (paid) received	(1)	(8)
Net cash provided (used) by operating activities	1,033	(955)
Cash flows from investing activities:		
Purchase of fixed-maturity securities	(2,704)	(2,032)
Sale and redemption of fixed-maturity securities	3,444	4,283
Proceeds from paydowns on variable interest entity loans	211	203
Redemptions of held-to-maturity investments	20	828
Sale (purchase) of short-term investments, net	(665)	335
Sale (purchase) of other investments, net	5	109
Consolidation (deconsolidation) of variable interest entities, net	(26)	(51)
(Payments) proceeds for derivative settlements	(51)	(266)
Collateral (to) from swap counterparty	65	(298)
Capital expenditures	(2)	(5)
Net cash provided (used) by investing activities	297	3,106
Cash flows from financing activities:		
Proceeds from investment agreements	25	52
Principal paydowns of investment agreements	(218)	(629)
Proceeds from medium-term notes	-	18
Principal paydowns of medium-term notes	(77)	(74)
Principal paydowns of variable interest entity notes	(1,001)	(1,059)
Payments for securities sold under agreements to repurchase	-	(287)
Proceeds from secured loan	50	-
Payments for retirement of debt	(3)	(364)
Change in noncontrolling interest and redemption of subsidiary preferred stock, net	-	(1)
Restricted stock awards settlements, net	-	1
Net cash provided (used) by financing activities	(1,224)	(2,343)
Effect of exchange rate changes on cash and cash equivalents	7	-
Net increase (decrease) in cash and cash equivalents	113	(192)
Cash and cash equivalents beginning of period	990	633

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Cash and cash equivalents end of period	\$	1,103	\$	441
Reconciliation of net income (loss) to net cash provided (used) by operating activities:				
Net income (loss)	\$	118	\$	598
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Change in:				
Premiums receivable		138		98
Deferred acquisition costs		32		35
Unearned premium revenue		(392)		(443)
Loss and loss adjustment expense reserves		(169)		109
Insurance loss recoverable		2,802		(270)
Accrued interest payable		82		-
Accrued expenses		54		(40)
Net investment losses related to other-than-temporary impairments		-		105
Unrealized (gains) losses on insured derivatives		(1,562)		(1,473)
Net (gains) losses on financial instruments at fair value and foreign exchange		(190)		35
Other net realized (gains) losses		28		(7)
Deferred income tax provision (benefit)		2		163
(Gains) losses on extinguishment of debt		(49)		(49)