MBIA INC
Form 10-Q
August 08, 2007
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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 Quarter 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 1-9583

MBIA INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-1185706**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
113 King Street, Armonk, New York	**10504**
(Address of principal executive offices)	**(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 x 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 x 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 x

As of July 30, 2007, 125,581,825 shares of Common Stock, par value $1 per share, were outstanding.

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands except per share amounts)

	June 30, 2007	December 31, 2006
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $30,384,811 and $27,327,315)(2007 includes hybrid financial instruments at fair value $678,963)	$ 30,398,657	$ 27,755,667
Investments held-to-maturity, at amortized cost (fair value $5,345,917 and $5,187,766)	5,368,999	5,213,464
Investment agreement portfolio pledged as collateral, at fair value (amortized cost $551,253 and $176,179)	541,266	175,834
Short-term investments, at amortized cost (which approximates fair value)	2,879,689	2,960,646
Other investments	919,700	971,707
Total investments	40,108,311	37,077,318
Cash and cash equivalents	418,332	269,277
Accrued investment income	565,490	526,468
Deferred acquisition costs	459,942	449,556
Prepaid reinsurance premiums	337,052	363,140
Reinsurance recoverable on unpaid losses	48,078	46,941
Goodwill	79,406	79,406
Property and equipment, at cost (less accumulated depreciation of $127,903 and $124,919)	99,240	105,950
Receivable for investments sold	102,030	77,593
Derivative assets	710,528	521,278
Other assets	225,425	246,103
Total assets	**$ 43,153,834**	**$ 39,763,030**
Liabilities and Shareholders Equity		
Liabilities:		
Deferred premium revenue	$ 3,096,434	$ 3,129,620
Loss and loss adjustment expense reserves	520,080	537,037
Investment agreements	13,361,280	12,482,976
Commercial paper	714,591	745,996
Medium-term notes (2007 includes hybrid financial instruments at fair value $364,196)	13,799,029	10,951,378
Variable interest entity floating rate notes	1,381,603	1,451,928
Securities sold under agreements to repurchase	524,101	169,432
Short-term debt	13,383	40,898
Long-term debt	1,214,134	1,215,289
Current income taxes	43,629	6,970
Deferred income taxes, net	398,451	476,189
Deferred fee revenue	14,991	14,862
Payable for investments purchased	231,187	319,640
Derivative liabilities	528,295	400,318
Other liabilities	528,812	616,243
Total liabilities	**36,370,000**	**32,558,776**

Commitments and contingencies (See Note 8)

Shareholders 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 160,169,947 and 158,330,220	160,170	158,330
Additional paid-in capital	1,627,913	1,533,102
Retained earnings	6,719,357	6,399,333
Accumulated other comprehensive income, net of deferred income tax of $93,178 and $172,798	164,630	321,293
Treasury stock, at cost (shares 33,625,513 and 23,494,806)	(1,888,236)	(1,207,804)
Total shareholders equity	**6,783,834**	**7,204,254**
Total liabilities and shareholders equity	**$ 43,153,834**	**$ 39,763,030**

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(In thousands except per share amounts)

	Three months ended June 30 2007	Three months ended June 30 2006	Six months ended June 30 2007	Six months ended June 30 2006
Insurance				
Revenues:				
Gross premiums written	$ 247,562	$ 251,476	$ 465,188	$ 424,348
Ceded premiums	(26,525)	(27,166)	(47,894)	(51,071)
Net premiums written	221,037	224,310	417,294	373,277
Scheduled premiums earned	174,732	169,130	345,433	336,845
Refunding premiums earned	45,935	47,606	85,732	85,790
Premiums earned (net of ceded premiums of $36,982, $37,086, $73,443 and $74,064)	220,667	216,736	431,165	422,635
Net investment income	146,185	144,636	292,291	283,752
Fees and reimbursements	4,634	4,019	14,802	12,193
Net realized gains (losses)	31,052	15,415	32,044	8,371
Net gains (losses) on financial instruments at fair value and foreign exchange	(14,058)	1,305	(12,211)	6,062
Total insurance revenues	388,480	382,111	758,091	733,013
Expenses:				
Losses and loss adjustment	20,968	20,295	41,452	40,421
Amortization of deferred acquisition costs	17,433	17,122	34,062	33,388
Operating	35,043	35,684	67,612	72,224
Interest expense	20,711	18,786	42,447	31,704
Total insurance expenses	94,155	91,887	185,573	177,737
Insurance income	294,325	290,224	572,518	555,276
Investment management services				
Revenues	390,330	294,299	752,409	552,505
Net realized gains (losses)	(6,097)	(295)	4,024	5,233
Net gains (losses) on financial instruments at fair value and foreign exchange	6,412	6,258	(11,617)	3,308
Total investment management services revenues	390,645	300,262	744,816	561,046
Interest expense	341,514	249,921	656,009	466,668
Expenses	22,795	18,461	45,458	36,051
Total investment management services expenses	364,309	268,382	701,467	502,719
Investment management services income	26,336	31,880	43,349	58,327
Corporate				

Net investment income	7,739	3,508	13,729	7,072
Insurance recoveries	3,000		6,400	
Net realized gains (losses)	(9,437)	841	(8,495)	1,467
Net gains (losses) on financial instruments at fair value and foreign exchange	(303)	138	(166)	138
Interest expense	20,182	20,170	40,361	40,301
Corporate expenses	8,461	3,360	16,916	5,668
Corporate loss	(27,644)	(19,043)	(45,809)	(37,292)
Income from continuing operations before income taxes	293,017	303,061	570,058	576,311
Provision for income taxes	81,186	83,138	159,616	158,185
Income from continuing operations	211,831	219,923	410,442	418,126
Income (loss) from discontinued operations, net of tax		1,439		2,230
Net income	**$ 211,831**	**$ 221,362**	**$ 410,442**	**$ 420,356**
Income from continuing operations per common share:				
Basic	$ 1.66	$ 1.66	$ 3.17	$ 3.15
Diluted	$ 1.61	$ 1.61	$ 3.07	$ 3.06
Net income per common share:				
Basic	$ 1.66	$ 1.67	$ 3.17	$ 3.17
Diluted	$ 1.61	$ 1.62	$ 3.07	$ 3.08
Weighted average number of common shares outstanding:				
Basic	127,386,668	132,765,468	129,667,141	132,741,516
Diluted	131,460,764	136,634,382	133,785,874	136,658,183
Gross revenues from operations	780,124	686,860	1,514,375	1,302,736
Gross expenses from operations	487,107	383,799	944,317	726,425

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 six months ended June 30, 2007

(In thousands except per share amounts)

	Common Stock				Accumulated Other Comprehensive Income (Loss)	Treasury Stock		
	Shares	Amount	Additional Paid-in Capital	Retained Earnings		Shares	Amount	Total Shareholders Equity
Balance, December 31, 2006	158,330	$ 158,330	$ 1,533,102	$ 6,399,333	$ 321,293	(23,495)	$ (1,207,804)	$ 7,204,254
SFAS 155 transition adjustment				(1,928)				(1,928)
Comprehensive income:								
Net income				410,442				410,442
Other comprehensive income (loss):								
Change in unrealized appreciation of investments net of change in deferred income taxes of $142,230					(273,975)			(273,975)
Change in fair value of derivative instruments net of change in deferred income taxes of $60,750					112,822			112,822
Change in foreign currency translation net of change in deferred income taxes of $1,860					4,490			4,490
Other comprehensive income (loss)								(156,663)
Comprehensive income								253,779
Treasury shares acquired, net						(8,974)	(599,974)	(599,974)
Stock-based compensation	1,840	1,840	94,811			(1,157)	(80,458)	16,193
Dividends (declared per common share $0.680, paid per common share $0.650)				(88,490)				(88,490)
Balance, June 30, 2007	160,170	$ 160,170	$ 1,627,913	$ 6,719,357	$ 164,630	(33,626)	$ (1,888,236)	$ 6,783,834

	2007
Disclosure of reclassification amount:	
Change in unrealized appreciation of investments arising during the period, net of taxes	$ (259,120)
Reclassification adjustment, net of taxes	(14,855)

Change in net unrealized appreciation, net of taxes	$ (273,975)

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

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MBIA INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Six months ended June 30 2007	2006
Cash flows from operating activities of continuing operations:		
Net income	$ 410,442	$ 420,356
Income from discontinued operations, net of tax		(2,230)
Income from continuing operations	410,442	418,126
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Amortization of bond discount (premium), net	6,726	22,489
Increase in accrued investment income	(39,022)	(50,773)
Increase in deferred acquisition costs	(10,386)	(6,909)
Decrease in prepaid reinsurance premiums	26,088	21,910
(Increase) decrease in reinsurance recoverable on unpaid losses	(1,137)	14,493
Depreciation	5,078	6,648
Decrease in deferred premium revenue	(33,186)	(62,114)
Decrease in loss and loss adjustment expense reserves	(16,957)	(13,209)
Increase in accrued interest payable	64,918	59,232
Decrease in accrued expenses	(17,728)	(44,138)
Decrease in penalties and disgorgement accrual	(75,000)	
Amortization of medium-term notes and commercial paper (premium) discount, net	(9,424)	(8,841)
Net realized (gains) losses on sale of investments	(27,573)	(15,071)
Net (gains) losses on financial instruments at fair value and foreign exchange	23,994	(9,508)
Current income tax provision	36,659	51,970
Deferred income tax provision (benefit)	1,405	(25,644)
Share-based compensation	11,389	7,090
Decrease (increase) in salvage and subrogation	20,730	(2,308)
Other, net	29,212	(8,337)
Total adjustments to net income	(4,214)	(63,020)
Net cash provided by operating activities of continuing operations	406,228	355,106
Cash flows from investing activities of continuing operations:		
Purchase of fixed-maturity securities	(16,921,551)	(9,762,390)
Sale of fixed-maturity securities	13,088,956	7,169,146
Redemption of fixed-maturity securities	44,383	152,521
Purchase of held-to-maturity investments	(667,144)	(53,438)
Redemptions of held-to-maturity investments	335,983	1,272,876
Net sale (purchase) of short-term investments	655,797	(150,533)
Net (purchase) sale of other investments	(5,963)	153,393
(Increase) decrease in receivable for investments sold	(24,437)	679
(Decrease) increase in payable for investments purchased	(88,453)	29,385
Capital expenditures	(2,524)	(4,394)
Disposals of capital assets	4,175	373
Other, investing	2,375	
Net cash used by investing activities of continuing operations	(3,578,403)	(1,192,382)

Cash flows from financing activities of continuing operations:		
Proceeds from issuance of investment agreements	4,257,717	3,231,687
Payments for drawdowns of investment agreements	(3,382,029)	(2,301,845)
Decrease in commercial paper	(50,922)	(126,835)
Issuance of medium-term notes	4,473,280	1,878,722
Principal paydown of medium-term notes	(1,521,777)	(1,536,928)
Principal paydown of variable interest entity floating rate notes	(67,634)	(54,490)
Securities sold under agreements to repurchase, net	354,669	(138,189)
Dividends paid	(86,748)	(79,300)
Capital issuance costs	(2,549)	(1,201)
Net repayment of short-term debt	(27,515)	(17,847)
Payments for derivatives	(4,284)	(20,453)
Purchase of treasury stock	(674,738)	(14,468)
Exercise of stock options	47,796	10,751
Excess tax benefit on share-based payment	7,431	536
Other, financing	(1,467)	(955)
Net cash provided by financing activities of continuing operations	3,321,230	829,185
Discontinued operations:		
Net cash provided by operating activities		246
Net cash provided by investing activities		175
Net cash used by financing activities		(2,148)
Net cash used by discontinued operations		(1,727)
Net increase (decrease) in cash and cash equivalents	149,055	(9,818)
Cash and cash equivalents - beginning of period	269,277	221,710
Cash and cash equivalents - end of period	$ 418,332	$ 211,892
Supplemental cash flow disclosures:		
Income taxes paid	$ 114,984	$ 132,373
Interest paid:		
Investment agreements	$ 304,431	$ 242,505
Commercial paper	19,268	20,308
Medium-term notes	299,201	188,262
Variable interest entity floating rate notes	35,903	25,312
Securities sold under agreements to repurchase	7,993	22,279
Other borrowings and deposits	1,691	3,800
Long-term debt	39,122	39,285
Non cash items:		
Share-based compensation	$ 11,389	$ 7,090
Dividends declared but not paid	43,558	41,763

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

NOTE 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (GAAP). These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for MBIA Inc. and Subsidiaries (MBIA or the Company). The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company s financial position and results of operations.

The results of operations for the six months ended June 30, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007. The December 31, 2006 balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. The consolidated financial statements include the accounts of MBIA Inc., its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest. All significant intercompany balances have been eliminated and business segment results are presented net of all material intersegment transactions. Certain amounts have been reclassified in prior years financial statements to conform to the current presentation. This includes the reclassification of amounts related to MBIA s discontinued operations, which had no effect on net income, total assets, total liabilities or shareholders equity as previously reported.

NOTE 2: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109. FIN 48 requires that the Company determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. FIN 48 also provides guidance on the derecognition, classification and disclosure of tax positions. MBIA adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company s consolidated financial statements. See Note 7: Income Taxes for disclosures required by FIN 48.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. (SFAS) 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that would otherwise require bifurcation. The fair value designation may be applied on an instrument-by-instrument basis; however, the election to apply fair value accounting is irrevocable. MBIA adopted the provisions of SFAS 155 on January 1, 2007 and applied SFAS 155 fair value measurement to certain structured investments and a medium-term note liability. The effect of adopting SFAS 155 resulted in a $1.9 million after-tax ($3.0 million pre-tax) decrease to opening retained earnings as of January 1, 2007, representing the difference between the fair values of the hybrid financial instruments and the reported carrying values as of December 31, 2006. The decrease in retained earnings includes after-tax gross gains of $0.3 million ($0.5 million pre-tax) and after-tax gross losses of $2.2 million ($3.5 million pre-tax). For the six months ended June 30, 2007, changes in the fair value of hybrid financial instruments resulted in a net pre-tax loss of $0.5 million, which is included in Net gains (losses) on financial instruments at fair value and foreign exchange on the Company s consolidated statement of income.

Standards to be Adopted in Future Periods

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF Issue No. 06-11 requires that the tax benefit with respect to dividends or dividend equivalents for non-vested restricted shares or restricted share units that are paid to employees be recorded as an increase to additional paid-in capital. MBIA currently records such tax benefit as a reduction of income tax expense. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007, with early adoption permitted. MBIA is currently evaluating the impact of EITF Issue No. 06-11 on the Company s financial statements and expects to adopt the provisions of EITF Issue

No. 06-11 in the fourth quarter of 2007.

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MBIA Inc. and Subsidiaries

In April 2007, the FASB issued FASB Staff Position (FSP) FIN 39-1, Amendment of FASB Interpretation No. 39. FSP FIN 39-1 permits a reporting entity that is a party to a master netting agreement to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments that have been offset under the same master netting agreement. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007 and is required to be applied retrospectively for all financial statements presented unless it is impracticable to do so. MBIA is currently evaluating the impact of adopting FSP FIN 39-1 on the Company s financial statements.

On April 18, 2007, the FASB issued an Exposure Draft (ED) entitled Accounting for Financial Guarantee Insurance Contracts , an interpretation of SFAS 60, Accounting and Reporting by Insurance Enterprises. The ED clarifies how SFAS 60 applies to financial guarantee insurance contracts issued by insurance enterprises, including the methodologies to account for premium revenue and claim liabilities, as well as related disclosures. The proposals contained in the ED are not considered final accounting guidance until the FASB completes its due process procedures and issues a final statement, which could differ from the ED. Under the ED, MBIA would be required to recognize premium revenue only in proportion to contractual payments (principal and interest) made by the issuer of the insured financial obligation. The proposed recognition approach for a claim liability would require MBIA to recognize a claim liability when there is an expectation that a claim loss will exceed the unearned premium revenue (liability) on a policy basis based on the present value of expected cash flows. Additionally, the ED would require MBIA to provide expanded disclosures relating to factors affecting the recognition and measurement of financial guarantee contracts.

Following a 60 day comment period, the FASB has stated that they will hold a discussion forum with interested parties. The final statement is expected to be issued in the first quarter of 2008. The cumulative effect of initially applying the final statement will be recorded as an adjustment to the opening balance of retained earnings for that fiscal year. MBIA is in the process of evaluating how the exposure draft will impact its financial statements and has provided comments on the ED to the FASB. Until final guidance is issued by the FASB and is effective, MBIA will continue to apply its existing policies with respect to the establishment of both case basis and unallocated loss reserves and the recognition of premium revenue. A further description of the Company s loss reserving and premium recognition policies are included in Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 provides the Company an irrevocable option to measure eligible financial assets and liabilities at fair value, with changes in fair value recorded in earnings, that otherwise are not permitted to be accounted for at fair value under other accounting standards. The option is applied, on a contract-by-contract basis, to an entire contract and not only to specific risks, specific cash flows or other portions of that contract. Upfront costs and fees related to a contract for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. MBIA is currently evaluating the provisions of SFAS 159 and their potential impact on the Company s financial statements. MBIA will adopt the provisions of SFAS 159 beginning January 1, 2008.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 requires that fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. SFAS 157 also clarifies that an issuer s credit standing should be considered when measuring liabilities at fair value. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. MBIA is currently evaluating the provisions of SFAS 157 and their potential impact on the Company s financial statements. MBIA will adopt the provisions of SFAS 157 beginning January 1, 2008.

NOTE 3: Dividends Declared

Dividends declared by the Company during the six months ended June 30, 2007 were $88.5 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

NOTE 4: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options and other items outstanding during the period that could potentially result in the issuance of common stock. For the three and six months ended June 30, 2007 there were 357,131 and 351,778 stock options outstanding, respectively, and for the three and six months ended June 30, 2006, there were 1,753,611 and 1,765,924 stock options outstanding, respectively, that were not included in the diluted earnings per share calculation because they were antidilutive.

The following table presents the computation of basic and diluted earnings per share for the three and six months ended June 30, 2007 and 2006:

	2nd Quarter		Year-to-date	
In thousands except per share amounts	**2007**	**2006**	**2007**	**2006**
Income from continuing operations, net of tax	$ 211,831	$ 219,923	$ 410,442	$ 418,126
Income (loss) from discontinued operations, net of tax		1,439		2,230
Net income	$ 211,831	$ 221,362	$ 410,442	$ 420,356
Basic weighted-average shares	127,386,668	132,765,468	129,667,141	132,741,516
Effect of common stock equivalents:				
Stock options	1,751,375	1,732,793	1,879,594	1,780,546
Restricted stock and units	2,322,721	2,136,121	2,239,139	2,136,121
Diluted weighted-average shares	131,460,764	136,634,382	133,785,874	136,658,183
Basic EPS:				
Income from continuing operations	$ 1.66	$ 1.66	$ 3.17	$ 3.15
Income (loss) from discontinued operations		0.01		0.02
Net income	$ 1.66	$ 1.67	$ 3.17	$ 3.17
Diluted EPS:				
Income from continuing operations	$ 1.61	$ 1.61	$ 3.07	$ 3.06
Income (loss) from discontinued operations		0.01		0.02
Net income	$ 1.61	$ 1.62	$ 3.07	$ 3.08

NOTE 5: Business Segments

MBIA manages its activities primarily through two principal business operations: insurance and investment management services. The Company s reportable segments within its business operations are determined based on the way management assesses the performance and resource requirements of such operations.

The insurance operations is a reportable segment and provides an unconditional and irrevocable guarantee of the payment of principal of, and interest or other amounts owing on, insured obligations when due or, in the event that MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise, upon such acceleration by MBIA Corp. MBIA issues financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, bonds backed by publicly or privately funded public-purpose projects, bonds issued by sovereign and sub-sovereign entities, obligations collateralized by diverse pools of corporate loans and pools of corporate and asset-backed bonds, and bonds backed by other revenue sources such as corporate franchise revenues, both in the new issue and secondary markets. Additionally, MBIA insures credit default swaps primarily on pools of collateral, which it considers part of its core financial guarantee business. This segment includes all activities related to global credit enhancement services provided principally by MBIA Insurance Corporation and its subsidiaries (MBIA Corp.).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

The Company s investment management services operations provide an array of products and services to the public, not-for-profit and corporate sectors. Such products and services are provided primarily through wholly owned subsidiaries of MBIA Asset Management, LLC (MBIA Asset Management) and include cash management, discretionary asset management and fund administration services and investment agreement, medium-term note and commercial paper programs related to funding assets for third-party clients and for investment purposes. The investment management services operations reportable segments consist of: asset/liability products, which include investment agreements and medium-term notes (MTNs) not related to the conduit program; advisory services, which consist of third-party and related-party fee-based asset management; and conduits.

The asset/liability products segment principally consists of the activities of MBIA Investment Management Corp. (IMC), MBIA Global Funding, LLC (GFL) and Euro Asset Acquisition Limited (EAAL). IMC, along with MBIA Inc., provides customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. It also provides customized products for funds that are invested as part of asset-backed or structured product transactions. GFL raises funds through the issuance of MTNs with varying maturities, which are, in turn, guaranteed by MBIA Corp. GFL lends the proceeds of these MTN issuances to MBIA Inc. (GFL Loans). MBIA Inc. invests the proceeds of investment agreements and GFL Loans in eligible investments, which consist of investment grade securities with a minimum average double-A credit quality rating. MBIA Inc. primarily purchases domestic securities, which are pledged to MBIA Corp. as security for its guarantees on investment agreements and MTNs. Additionally, MBIA Inc. loans a portion of the proceeds from investment agreements and MTNs to EAAL. EAAL primarily purchases foreign assets as permitted under the Company s investment guidelines.

The advisory services segment primarily consists of the operations of MBIA Municipal Investors Service Corporation (MBIA-MISC), MBIA Capital Management Corp. (CMC) and MBIA Asset Management UK (AM-UK). MBIA-MISC provides investment management programs, including pooled investments products and customized asset management services. In addition, MBIA-MISC provides portfolio accounting and reporting for state and local governments, including school districts. MBIA-MISC is a Securities and Exchange Commission (SEC)-registered investment adviser. CMC provides fee-based asset management services to the Company, its affiliates and third-party institutional clients. CMC is a SEC-registered investment advisor and National Association of Securities Dealers member firm. AM-UK provides fee-based asset management services to the Company s foreign insurance affiliates and EAAL, and to third-party institutional clients and investment structures. AM-UK is registered with the Financial Services Authority in the United Kingdom (U.K.).

The Company s conduit segment administers three multi-seller conduit financing vehicles through MBIA Asset Finance, LLC. The conduits provide funding for multiple customers through special purpose vehicles that issue primarily commercial paper and medium-term notes.

The Company s corporate operations are a reportable segment and include revenues and expenses that arise from general corporate activities, such as net investment income, net gains and losses, interest expense on MBIA Inc. debt and general corporate expenses.

In December 2006, MBIA completed the sale of Capital Asset Holdings GP, Inc. and certain affiliated entities (Capital Asset) and MBIA MuniServices Company and certain of its wholly owned subsidiaries (MuniServices). The sale of Capital Asset also included three variable interest entities (VIEs) established in connection with MBIA-insured securitizations of Capital Asset tax liens, which were consolidated within the Company s insurance operations in accordance with FIN 46(R), Consolidation of Variable Interest Entities (Revised). MBIA s municipal services segment consisted of the activities of MuniServices and Capital Asset. As a result of the sale of MuniServices and Capital Asset, the Company no longer reports municipal services operations and the assets, liabilities, revenues and expenses of these entities have been reported within discontinued operations for all periods presented prior to their sale in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets. See Note 15: Discontinued Operations in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for information relating to the Company s discontinued operations.

Reportable segment results are presented net of material intersegment transactions. The following tables summarize the Company s operations for the three and six months ended June 30, 2007 and 2006:

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MBIA Inc. and Subsidiaries

In thousands	Three months ended June 30, 2007 Insurance	Investment Management Services	Corporate	Total
Revenues[1]	$ 371,486	$ 390,330	$ 10,739	$ 772,555
Net realized gains (losses)	31,052	(6,097)	(9,437)	15,518
Net gains (losses) on financial instruments at fair value and foreign exchange	(14,058)	6,412	(303)	(7,949)
Total revenues	388,480	390,645	999	780,124
Interest expense	20,711	341,514	20,182	382,407
Operating expenses	73,444	22,795	8,461	104,700
Total expenses	94,155	364,309	28,643	487,107
Income (loss) before taxes	$ 294,325	$ 26,336	$ (27,644)	$ 293,017
Identifiable assets	$ 12,590,435	$ 29,825,359	$ 738,040	$ 43,153,834

In thousands	Three months ended June 30, 2006 Insurance	Investment Management Services	Corporate	Total
Revenues[1]	$ 365,391	$ 294,299	$ 3,508	$ 663,198
Net realized gains (losses)	15,415	(295)	841	15,961
Net gains (losses) on financial instruments at fair value and foreign exchange	1,305	6,258	138	7,701
Total revenues	382,111	300,262	4,487	686,860
Interest expense	18,786	249,921	20,170	288,877
Operating expenses	73,101	18,461	3,360	94,922
Total expenses	91,887	268,382	23,530	383,799
Income (loss) before taxes	$ 290,224	$ 31,880	$ (19,043)	$ 303,061
Identifiable assets[2]	$ 13,046,718	$ 22,105,626	$ 455,943	$ 35,608,287

(1) Represents the sum of net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2) At June 30, 2006, identifiable assets exclude $23.3 million related to the Company s discontinued operations.

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	Six months ended June 30, 2007			
In thousands	Insurance	Investment Management Services	Corporate	Total
Revenues[1]	$ 738,258	$ 752,409	$ 20,129	$ 1,510,796
Net realized gains (losses)	32,044	4,024	(8,495)	27,573
Net gains (losses) on financial instruments at fair value and foreign exchange	(12,211)	(11,617)	(166)	(23,994)
Total revenues	758,091	744,816	11,468	1,514,375
Interest expense	42,447	656,009	40,361	738,817
Operating expenses	143,126	45,458	16,916	205,500
Total expenses	185,573	701,467	57,277	944,317
Income (loss) before taxes	$ 572,518	$ 43,349	$ (45,809)	$ 570,058
Identifiable assets	$ 12,590,435	$ 29,825,359	$ 738,040	$ 43,153,834

	Six months ended June 30, 2006			
In thousands	Insurance	Investment Management Services	Corporate	Total
Revenues[1]	$ 718,580	$ 552,505	$ 7,072	$ 1,278,157
Net realized gains (losses)	8,371	5,233	1,467	15,071
Net gains (losses) on financial instruments at fair value and foreign exchange	6,062	3,308	138	9,508
Total revenues	733,013	561,046	8,677	1,302,736
Interest expense	31,704	466,668	40,301	538,673
Operating expenses	146,033	36,051	5,668	187,752
Total expenses	177,737	502,719	45,969	726,425
Income (loss) before taxes	$ 555,276	$ 58,327	$ (37,292)	$ 576,311
Identifiable assets[2]	$ 13,046,718	$ 22,105,626	$ 455,943	$ 35,608,287

(1) Represents the sum of net premiums earned, net investment income, insurance-related fees and reimbursements, investment management fees and other fees.

(2) At June 30, 2006, identifiable assets exclude $23.3 million related to the Company s discontinued operations.

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MBIA Inc. and Subsidiaries

The following tables summarize the segments within the investment management services operations for the three and six months ended June 30, 2007 and 2006:

	Three months ended June 30, 2007				
In thousands	**Asset/Liability Products**	**Advisory Services**	**Conduits**	**Eliminations**	**Total Investment Management Services**
Revenues[1]	$ 324,646	$ 18,278	$ 55,389	$ (7,983)	$ 390,330
Net realized gains (losses)	(5,842)	(6)	(249)		(6,097)
Net gains (losses) on financial instruments at fair value and foreign exchange	5,242	(39)	1,209		6,412
Total revenues	324,046	18,233	56,349	(7,983)	390,645
Interest expense	291,302		51,449	(1,237)	341,514
Operating expenses	14,556	12,746	2,058	(6,565)	22,795
Total expenses	305,858	12,746	53,507	(7,802)	364,309
Income (loss) before taxes	$ 18,188	$ 5,487	$ 2,842	$ (181)	$ 26,336
Identifiable assets	$ 25,416,187	$ 43,858	$ 4,647,067	$ (281,753)	$ 29,825,359

	Three months ended June 30, 2006				
In thousands	**Asset/Liability Products**	**Advisory Services**	**Conduits**	**Eliminations**	**Total Investment Management Services**
Revenues[1]	$ 233,674	$ 16,407	$ 51,921	$ (7,703)	$ 294,299
Net realized gains (losses)	(284)	(11)			(295)
Net gains (losses) on financial instruments at fair value and foreign exchange	7,394	(96)	(1,040)		6,258
Total revenues	240,784	16,300	50,881	(7,703)	300,262
Interest expense	205,339		47,268	(2,686)	249,921
Operating expenses	11,018	9,897	2,525	(4,979)	18,461
Total expenses	216,357	9,897	49,793	(7,665)	268,382
Income (loss) before taxes	$ 24,427	$ 6,403	$ 1,088	$ (38)	$ 31,880
Identifiable assets	$ 18,728,808	$ 79,322	$ 3,559,085	$ (261,589)	$ 22,105,626

(1) Represents the sum of interest income, investment management services fees and other fees.

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MBIA Inc. and Subsidiaries

In thousands	Six months ended June 30, 2007 Asset/Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues[1]	$ 618,822	$ 37,277	$ 112,077	$ (15,767)	$ 752,409
Net realized gains (losses)	4,275	(2)	(249)		4,024
Net gains (losses) on financial instruments at fair value and foreign exchange	(10,557)	(40)	(1,020)		(11,617)
Total revenues	612,540	37,235	110,808	(15,767)	744,816
Interest expense	555,034		103,538	(2,563)	656,009
Operating expenses	26,505	27,244	4,179	(12,470)	45,458
Total expenses	581,539	27,244	107,717	(15,033)	701,467
Income (loss) before taxes	$ 31,001	$ 9,991	$ 3,091	$ (734)	$ 43,349
Identifiable assets	$ 25,416,187	$ 43,858	$ 4,647,067	$ (281,753)	$ 29,825,359

In thousands	Six months ended June 30, 2006 Asset/Liability Products	Advisory Services	Conduits	Eliminations	Total Investment Management Services
Revenues[1]	$ 432,862	$ 30,782	$ 103,907	$ (15,046)	$ 552,505
Net realized gains (losses)	5,232	1			5,233
Net gains (losses) on financial instruments at fair value and foreign exchange	1,888	(112)	1,532		3,308
Total revenues	439,982	30,671	105,439	(15,046)	561,046
Interest expense	379,273		92,805	(5,410)	466,668
Operating expenses	20,853	19,901	4,857	(9,560)	36,051
Total expenses	400,126	19,901	97,662	(14,970)	502,719
Income (loss) before taxes	$ 39,856	$ 10,770	$ 7,777	$ (76)	$ 58,327
Identifiable assets	$ 18,728,808	$ 79,322	$ 3,559,085	$ (261,589)	$ 22,105,626

(1) Represents the sum of interest income, investment management services fees and other fees.

A significant portion of premiums reported within the insurance segment is generated outside the United States. The following table summarizes net premiums earned by geographic location of risk for the three and six months ended June 30, 2007 and 2006:

In thousands	2nd Quarter 2007	2nd Quarter 2006	Year-to-date 2007	Year-to-date 2006

Net premiums earned:				
United States	$ 159,929	$ 154,756	$ 316,176	$ 301,263
Non-United States	60,738	61,980	114,989	121,372
Total	$ 220,667	$ 216,736	$ 431,165	$ 422,635

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MBIA Inc. and Subsidiaries

NOTE 6: Loss and Loss Adjustment Expense Reserves (LAE)

MBIA establishes two types of loss and LAE reserves for non-derivative financial guarantees: case basis reserves and an unallocated loss reserve. See Note 2: Significant Accounting Policies in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for information regarding the Company s loss reserving policy. A summary of the case basis and unallocated activity and the components of the liability for loss and LAE reserves are presented in the following table:

In thousands	**2Q 2007**	**1Q 2007**
Case basis loss and LAE reserves:		
Beginning balance	$ 333,906	$ 323,718
Less: reinsurance recoverable	47,625	46,941
Net beginning balance	286,281	276,777
Case basis transfers from unallocated loss reserve related to:		
Current year	6,047	2,602
Prior years	11,298	31,120
Total	17,345	33,722
Net paid (recovered) related to:		
Current year	343	(337)
Prior years	34,505	24,555
Total net paid	34,848	24,218
Net ending balance	268,778	286,281
Plus: reinsurance recoverable	48,078	47,625
Case basis loss and LAE reserve ending balance	316,856	333,906
Unallocated loss reserve:		
Beginning balance	199,867	213,319
Losses and LAE incurred(1)	20,968	20,484
Channel Re elimination(2)	(266)	(214)
Transfers from case basis and LAE reserves	(17,345)	(33,722)
Unallocated loss reserve ending balance	203,224	199,867
Total	$ 520,080	$ 533,773

(1) Represents the Company s provision for losses calculated as 12% of scheduled net earned premium.

(2) Represents the amount of losses and LAE incurred that have been eliminated in proportion to MBIA s ownership interest in Channel Reinsurance Ltd. (Channel Re), which is carried on an equity-method accounting basis.

During the six months ended June 30, 2007, total net case basis activity transferred from the Company s unallocated loss reserve was $51 million. Net case basis activity primarily consisted of incurred activity related to the Student Loan Finance Corporation (SFC) settlement and loss reserves for a multi-sector CDO and insured obligations within the home equity loan sector. Partially offsetting these loss reserves were reversals of previously established case basis reserves within the aircraft enhanced equipment trust certificates (EETCs) sector. The unallocated loss reserve approximated $203 million at June 30, 2007, which represents the Company s estimate of losses associated with credit deterioration that has occurred in the Company s insured portfolio but has not been specifically identified and is available for future case-specific activity. The Company recorded $41 million in losses and loss adjustment expenses in the six months ended June 30, 2007 based on 12% of scheduled net earned premium.

NOTE 7: Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company s financial statements. Prior to the adoption of FIN 48, the Company classified interest and/or penalties related to income taxes as a component of income from continuing operations. In connection with the adoption of FIN 48, the Company has elected to classify interest and penalties as components of income taxes. The total amount accrued for interest and penalties was $4.2 million at the date of adoption, and the interest and penalties recognized during the first six months of 2007 amounted to $1.9 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MBIA Inc. and Subsidiaries

MBIA s major tax jurisdictions include the United States (U.S.), the U.K. and France. MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. Federal income tax returns have been examined through 2003. Currently, the Company is under an examination for the 2004 and 2005 years by the U.S. Internal Revenue Service. The U.K. tax matters have been substantially concluded through 2002. The French tax authority has concluded the examination through 2003 with the issue on the recognition of premium income for tax purposes pending resolution.

The total amount of unrecognized tax benefits at the date of adoption of FIN 48 was $28.8 million, which was included in the tax reserves. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was approximately $3.0 million as of June 30, 2007.

In April 2005, the French tax authority commenced an examination of the Company s French tax return for 2002 and 2003. Upon completion of the audit, the Company received a notice of assessment in which the French tax authority has accelerated the way in which the Company recognizes earned premium for tax purposes, contrary to the French statutory method. The Company has protested and has filed for an appeal with respect to the assessment and the Company s position is currently under review. Due to the uncertainty surrounding the outcome of the examination, the Company accrued the potential tax liability relating to the French tax audit for all open tax years through 2006 prior to the adoption of FIN 48. The total amount accrued with respect to the uncertain tax position is approximately $26.5 million and the related interest and penalties are approximately $4.2 million. It is reasonably possible that the French tax authority will rule in the Company s favor within the next 12 months at which time the entire amount accrued, including the interest and penalties, will be reversed.

NOTE 8: Commitments and Contingencies

In the normal course of operating its businesses, the Company may be involved in various legal proceedings.

In July 2002, MBIA Corp. filed suit against Royal Indemnity Company (Royal) in the United States District Court for the District of Delaware, to enforce insurance policies that Royal issued on certain vocational student loan transactions that MBIA Corp. insured. To date, claims in the amount of approximately $355 million have been made under the Royal policies with respect to loans that have defaulted. MBIA Corp. expects that there will be additional claims made under the policies with respect to student loans that may default in the future. Royal had filed an action seeking a declaration that it is not obligated to pay on its policies. In October 2003, the court granted MBIA Corp. s motion for summary judgment and ordered Royal to pay all claims under its policies. Royal appealed the order, and, in connection with the appeal, pledged $403 million of investment grade collateral to MBIA Corp. to secure the entire amount of the judgment, with interest, and agreed to post additional security for future claims and interest.

On October 3, 2005, the U.S. Court of Appeals for the Third Circuit upheld the decision of the United States District Court for the District of Delaware insofar as it enforced the Royal insurance policies, but remanded the case to the District Court for a determination of whether the Royal policies cover all losses claimed under the policies. In particular, the Court of Appeals directed the District Court to consider whether the Royal policies would cover losses resulting from the misappropriation of student payments rather than from defaults by students. MBIA Corp. believes that the Royal policies would cover losses even if they result from misappropriation of student payments, but in any event it appears that all or substantially all of the claims made under the Royal policies relate to defaults by students rather than misappropriation of funds. Therefore, MBIA Corp. expected Royal to be required to pay all or substantially all of the claims made under its policies and to be reimbursed for any payments MBIA Corp. made under its policies.

Royal filed a petition with the Third Circuit requesting that the case be reheard, which was denied in April 2006. In April 2006, Royal filed a motion with the District Court seeking a release of the collateral it pledged in connection with its appeal of the District Court judgment against it in 2003.

On April 2, 2007, MBIA announced that MBIA Corp. reached an agreement with Royal to settle the outstanding litigation. The amount paid by Royal under the terms of the settlement was sufficient to repay the approximately $362 million of outstanding par amount of the bonds insured by MBIA as well as to reimburse MBIA for a portion of the claims that MBIA has paid to date under its insurance policies. As a result of the settlement, MBIA incurred approximately $20 million in losses in the first quarter of 2007. The loss represents a reduction to MBIA s expected recoveries for claims it has paid to date under its policies and will be covered by MBIA s unallocated loss reserves.

The District Court in Delaware entered a final judgment in the case implementing the settlement on March 30, 2007. The approximately $362 million of outstanding par amount of the bonds insured by MBIA were repaid in full during the second quarter of 2007.

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In November 2004, the Company received identical document subpoenas from the SEC and the New York Attorney General s Office (NYAG) requesting information with respect to non-traditional or loss mitigation insurance products developed, offered or sold by the Company to third parties from January 1, 1998 to the present. While the subpoenas did not identify any specific transaction, subsequent conversations with the SEC and the NYAG revealed that the investigation included the arrangements entered into by MBIA Corp. in 1998 in connection with the bankruptcy of the Delaware Valley Obligated Group, an entity that is part of Allegheny Health, Education and Research Foundation (AHERF).

On March 9, 2005, the Company received a subpoena from the U.S. Attorney s Office for the Southern District of New York (U.S. Attorney) seeking information related to the agreements it entered into in connection with the AHERF loss. Thereafter, the Company has received additional subpoenas, substantively identical to each other, and additional informal requests, from the SEC and the NYAG for documents and other information.

On August 19, 2005, the Company received a Wells Notice from the SEC indicating that the staff of the SEC is considering recommending that the SEC bring a civil injunctive action against the Company alleging violations of federal securities laws arising from MBIA s action to retroactively reinsure losses it incurred from the AHERF bonds MBIA had guaranteed, including, but not limited to, its entering into excess of loss agreements and quota share agreements with three separate counterparties.

On January 29, 2007, the Company announced that it and its principal operating subsidiary MBIA Corp. (together with MBIA, the Companies) had concluded civil settlements with the SEC, the NYAG, and the New York State Insurance Department (NYSID) with respect to transactions entered into by the Companies in 1998 following defaults on insured bonds issued by AHERF.

The terms of the settlements, under which the Companies neither admit nor deny wrongdoing, include:

A restatement, which was completed and reported in MBIA s third quarter 2005 earnings release, of the Company s GAAP and statutory financial results for 1998 and subsequent years related to the agreements with AXA Re Finance S.A. and Muenchener Rueckversicherungs-Gesellshaft, as discussed in Note 2: Restatement Of Consolidated Financial Statements in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the 2005 10-K) in Part II, Item 8 and Restatement of Consolidated Financial Statements in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 in the 2005 10-K;