MBIA INC
Form PRE 14A
March 15, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

MBIA Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

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PRELIMINARY PROXY STATEMENT

MBIA Inc.
113 King Street
Armonk, NY 10504
914-273-4545

Joseph W. Brown
Executive Chairman
Gary C. Dunton
President & Chief Executive Officer

March , 2005

Dear Owners:

We are pleased to invite you to the annual meeting of MBIA shareholders on Thursday, May 5, 2005. The meeting will be held at our office located at 113 King Street, Armonk, New York, at 10:00 a.m.

Our formal agenda for this year s meeting is to vote on the election of Directors, to approve the Company s new Annual Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code, to approve the Company s new Omnibus Incentive Plan, to approve certain amendments to the Company s Certificate of Incorporation that are intended to enhance shareholders rights and to ratify the selection of independent auditors for 2005. After the formal agenda is completed, Gary Dunton will report to you the highlights of 2004 and discuss the outlook for our business in 2005. We will also answer any questions you may have.

Whether or not you plan to attend the meeting, your vote on these matters is important to us. Please complete, sign and return the enclosed proxy card in the envelope provided. Alternatively, you can vote your proxy by telephone or through the Internet by following the instructions on the enclosed proxy card.

We appreciate your continued support on these matters and look forward to seeing you at the meeting.

Very truly yours,

Joseph W. Brown
Chairman

Gary C. Dunton
Chief Executive Officer

MBIA INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholders:

We will hold the annual meeting of MBIA Inc. (MBIA or the Company) shareholders at the Company s offices located at 113 King Street, Armonk, New York, on Thursday May 5, 2005 at 10:00 a.m., New York time in order:

1. To elect nine directors for a term of one year, expiring at the 2006 Annual Meeting;

2. To approve the Company s new Annual Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code;

3. To approve the Company s new Omnibus Incentive Plan;

4. To approve an amendment to Section 8 of the Company s Certificate of Incorporation, which allows directors to consider several factors in evaluating tender or exchange offers or merger, acquisition or proposal offers to the Company by another party, to reduce the supermajority shareholder vote required to amend such section to a simple majority vote;

5. To approve an amendment to the Company s Certificate of Incorporation to permit shareholders to act by majority written consent, rather than by unanimous written consent;

6. To ratify the selection of PricewaterhouseCoopers LLP, certified public accountants, as independent auditors for the Company for the year 2005; and

7. To transact any other business as may properly come before the meeting.

These items are more fully described in the following pages. You may vote your shares either in person at the meeting or by mailing in the completed proxy card, provided you were a shareholder of record at the close of business on March 11, 2005. You may also vote your shares if you were a shareholder of record at the close of business on March 11, 2005 by telephone or through the Internet by following the instructions on the enclosed proxy card.

Shareholders are reminded that shares cannot be voted unless the signed proxy card is returned, or other arrangements have been made to have the shares represented at the meeting, or unless they vote their shares by telephone or Internet as described on the proxy card.

Sincerely,

RamD. Wertheim
Secretary

113 King Street

Armonk, New York 10504

March , 2005

MBIA INC.

PROXY STATEMENT

Purpose of the Proxy. This proxy statement and the enclosed proxy card are being mailed to you on or about April , 2005 because MBIA s Board of Directors is soliciting your vote at the 2005 annual meeting of shareholders. MBIA s Annual Report for the year 2004 is included in this package as well, and together this material should give you enough information to allow you to make an informed vote.

How it Works. If you owned MBIA stock at the close of business on March 11, 2005, you are entitled to vote. On that date, there were 137,630,915 shares of MBIA common stock outstanding, which is our only class of voting stock. You have one vote for each share of MBIA common stock you own.

Please fill in your proxy card and send it to us before the date of our annual meeting or vote by telephone or over the Internet. If you do not specify how your proxy is to be voted, it will be voted as recommended by the Board of Directors. You can revoke your proxy at any time before the annual meeting if, for example, you would like to vote in person at the meeting.

If you abstain from voting, or if your shares are held in the name of your broker and your broker does not vote on any of the proposals, your proxy will be counted simply to calculate the number of shares represented at the meeting. It will not be counted as a vote on any proposal.

Voting By Telephone or Via the Internet. The Company has arranged to allow you to vote your shares of common stock by telephone or via the Internet. You may also vote your shares by mail. Please see the proxy card accompanying this Proxy Statement for specific instructions on how to cast your vote by any of these methods.

In order to vote your shares by telephone or via the Internet, your vote must be received by 4:00 p.m., New York City time, on May 4, 2005. Submitting your vote by telephone or via the Internet will not affect your right to vote in person should you decide to attend the annual meeting.

The telephone and Internet voting procedures are designed to authenticate shareholders identities, to allow shareholders to give their voting instructions and to confirm that shareholders instructions have been recorded properly. We have been advised that the Internet voting procedures that have been made available to you are consistent with the requirements of applicable law. If you decide to vote your shares via the Internet, there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies that you will have to bear.

Miscellaneous. The cost to prepare and mail these proxy materials will be borne by the Company. Proxies may be solicited by mail, in person or by telephone or telegraph by directors, officers and regular employees of the Company without extra compensation and at the Company s expense. The Company will also ask bankers and brokers to solicit proxies from their customers and will reimburse them for reasonable expenses. In addition, the Company has engaged MacKenzie Partners of New York to assist in soliciting proxies for a fee of approximately $6,000 plus reasonable out-of-pocket expenses.

A copy of the Company s Annual Report on Form 10-K to the Securities and Exchange Commission is available on the Company s Website at www.mbia.com or by writing to the Corporate Communications Department, MBIA Inc., 113 King Street, Armonk, New York 10504.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors supervises the overall affairs of the Company. To assist it in carrying out these responsibilities, the Board has delegated authority to six Committees, described below. The Board of Directors met seven times during 2004. The Board of Directors has and will continue to have regularly scheduled non-management director meetings. The Company s policy on Board attendance, which is contained in the MBIA Inc. Corporate Governance Practices and can be found on the Company s website, www.mbia.com, requires that each Director attend at least 75% of all Board meetings and Committee meetings of which that Director is a member. All of the Directors met this requirement in 2004. During 2004, four Directors did not attend one meeting of the Board and another Director did not attend one Committee meeting on which that Director served. Otherwise, all Directors attended all of the Board meetings and meetings of Committees on which they served.

Board Committees

Each Board committee has a charter, which can be found on the Company s website, www.mbia.com. The committees are as follows:

The **Executive Committee**, which at year-end consisted of Messrs. Brown (Chair), Clapp, Dunton and Kearney, met twice during 2004. This Committee is authorized to exercise powers of the Board during intervals between Board meetings, subject to limitations set forth in the By-Laws of the Company.

The **Finance Committee**, which at year-end consisted of Messrs. Brown, Chaplin (Chair), Clapp, Dr. Meyer and Mr. Rolls, met twice during 2004. This Committee approves and monitors the Company s investment policies, activities and portfolio holdings, and reviews investment performance and asset allocation.

The **Risk Oversight Committee**, which at year-end consisted of Messrs. Brown, Clapp, Kearney (Chair), Dr. Meyer and Ms. Perry, met twice during 2004. This Committee monitors the underwriting process to ensure compliance with guidelines, and reviews proposed changes to underwriting policy and guidelines. It also reviews the Company s exposure guidelines for the insurance portfolio and the Company s overall portfolio analyses.

The **Compensation and Organization Committee**, which at year-end consisted of Mr. Clapp (Chair), Dr. Gaudiani, and Messrs. Kearney and Rolls, met three times during 2004. This Committee reviews and approves overall policy with respect to compensation matters. Every year, the Committee reviews the performance of the Chief Executive Officer and the Executive Chairman and makes recommendations to the Board on their compensation. The Committee approves senior officer compensation and reviews significant organizational changes and executive succession planning.

The **Audit Committee**, which at year-end consisted of Ms. Johnson, Ms. Perry and Messrs. Chaplin, Lebenthal and Rolls (Chair), met five times during 2004. Ms. Johnson and Mr. Lebenthal retired on December 31, 2004. Mr. Clapp was elected as a member of the Audit Committee effective on January 6, 2005. This Committee reviews the Company s annual and quarterly financial statements, reviews the reports of the Company s independent auditor and the performance of those auditors. The Committee also reviews the qualification of the Company s Internal Audit Department. In accordance with the Audit Committee Charter and the listing standards of the New York Stock Exchange, each of the Audit Committee members is independent. In addition, the Board has designated Mr. Rolls as the audit committee financial expert (as defined in recently adopted Securities and Exchange Commission rules) on the Audit Committee.

The **Nominating/Corporate Governance Committee**, which at year-end consisted of Mr. Chaplin, Dr. Gaudiani (Chair), Ms. Johnson, Mr. Kearney, and Ms. Perry, met five times during 2004. The Committee is responsible for MBIA s Corporate Governance Practices, which establish corporate governance guidelines and principles with respect to the role of the Board of Directors, meetings of the Board of Directors, Board structure, policy on Board attendance and committees of the Board. This Committee also makes recommendations to the Board on Director nominees and on the size and composition of the Board. It also recommends guidelines and criteria for the selection of nominees.

Process for Director Searches

Potential Board nominees are selected in light of the Board s needs at the time of recommendation. The Nominating/Corporate Governance Committee has engaged a third-party search firm to assist in identifying and evaluating potential nominees. The Committee assesses potential nominees on various criteria, such as relevant business and other skills and experience, personal character and judgment and diversity of experience. The Committee also considers the ability of potential nominees to devote significant time to Board activities. The independence and financial literacy of potential nominees, as well as their knowledge of and familiarity with the Company s businesses, are additional considerations in the Committee s selection process. Potential nominees are reviewed and evaluated first by the third-party search firm, which then forwards all nominees for review and evaluation by the Chair of the Committee and then, at the Chair s discretion, by the entire Committee, which decides whether to recommend a candidate for consideration by the full Board. Potential nominees are interviewed by each member of the Committee and by the Executive Chairman and the Chief Executive Officer.

The Committee would evaluate potential nominees suggested by shareholders on the same basis as all other potential nominees. Shareholders may recommend a potential nominee by sending a letter to the Company s Corporate Secretary at MBIA Inc., 113 King Street, Armonk, New York 10504.

Director s Compensation

Independent Directors Retainer Fees. In 2004, the Company paid Directors who are not Executive Officers an annual retainer fee of $30,000, plus an additional $2,000 for attendance at each Board and Committee meeting. The Company also paid Committee chairs an additional $1,000 per meeting for each meeting they chaired.

For 2005, the Board has approved an increase in the fees paid to Directors as follows: an increase in the annual Board retainer to $40,000, an Annual Committee Chair retainer of $15,000, an Annual Lead Director retainer of $25,000, and a Board and Committee meeting fee of $2,000 per meeting.

Under the Company s Amended and Restated Deferred Compensation and Stock Ownership Plan for Non-Employee Directors, which was approved by the Board and the shareholders in 2002, an eligible Director may elect to be paid the retainer and meeting fees paid annually either in cash on a quarterly basis with no deferral of income, or to defer receipt of all or a portion of such compensation until a time following termination of such Director s service on the Board. A Director electing to defer compensation may choose to allocate deferred amounts to either a hypothetical investment account (the Investment Account), or a hypothetical share account (the Share Account), which have been set up to credit such deferred payments.

Amounts allocated to the Investment Account are credited to a hypothetical money market account earning hypothetical interest based on the Lehman Brothers Government/Corporate Bond Index. Amounts allocated to the Director s Share Account are converted into units with each such unit representing the right to receive a share of common stock at the time or times distributions are made under the Plan. Dividends are paid as stock units each quarter. Distributions of amounts allocated to the Share Account are made in shares of common stock. No transfers are permitted between the accounts. As of year-end, all of the non-employee Directors elected to participate in this plan.

The following table represents Director account balances under the share account (deferred retainer & meeting fees) as of December 31, 2004. There are no Directors who have deferred their compensation into the hypothetical investment account and therefore, there are no account balances as of December 31, 2004.

	Hypothetical Share Account Balance as of Dec. 31, 2004	Hypothetical Share Account Value as of Dec. 31, 2004
Joseph W. Brown	12,729	$ 805,498
C. Edward Chaplin	1,911	$ 120,960
David C. Clapp	10,350	$ 654,945
Claire L. Gaudiani	11,319	$ 716,244
Freda S. Johnson	19,335	$ 1,223,510
Daniel P. Kearney	11,724	$ 741,885
James A. Lebenthal	19,152	$ 1,211,948
Laurence H. Meyer	120	$ 7,574
Debra J. Perry	435	$ 27,508
John A. Rolls	13,252	$ 838,576

Independent Directors Restricted Stock Grants. In addition to the annual cash fees payable to Directors for 2004, the Company also granted non-employee Directors an award of restricted stock with a value of $50,000 under the Restricted Stock Plan for Non-Employee Directors (the Restricted Stock Plan), which was approved by the Board and the shareholders in 2002. New directors elected to the Board also receive a one-time grant of restricted stock under the Restricted Stock Plan with a value of $75,000. Ms. Perry and Dr. Meyer received such a grant in 2004.

Shares granted to Directors under the Restricted Stock Plan are subject to restrictions on transferability. The restriction period applicable to a restricted stock award will lapse and the shares of restricted stock will become freely transferable on the earlier of: (i) the death or disability of a participating Director, (ii) a change of control in the Company as defined in the Restricted Stock Plan, (iii) the Company s failure to nominate a participating Director for re-election, (iv) the failure of the shareholders to elect a participant Director at any shareholders meeting, or (v) the tenth anniversary of the date of the restricted stock grant. Unless otherwise approved by the Compensation and Organization Committee of the Board, if a participating Director leaves the Board for any reason other than the foregoing at any time prior to the date when the restriction period lapses, all unvested shares will revert back to the Company. During the restricted period, a participating Director receives dividends with respect to, and may vote, the restricted shares.

The Compensation and Organization Committee of the Board of Directors has the discretionary authority to determine the Directors to whom restricted stock will be granted and the terms and conditions of such restricted stock, including the number of shares of restricted stock to be granted, the time or times at which the restricted stock will vest, whether any restriction shall be modified or waived after date of grant, and the rights of a participant with respect to the restricted stock following the participant s termination of service as Director.

In accordance with its authority, the Compensation and Organization Committee of the Board of Directors approved the vesting of all restricted stock held by Ms. Johnson and by Mr. Lebenthal, effective upon their retirement from the Board on December 31, 2004.

Directors Compensation Summary. MBIA s Directors compensation consists of the following components:

2005 Compensation Components	Amount
Board Retainer	$ 40,000
Committee Chair Retainer	$ 15,000
Lead Director Retainer	$ 25,000
Board & Committee Meeting Fee (per meeting)	$ 2,000
Annual Restricted Stock Grant (value at the time of grant)	$ 50,000
New Director Restricted Stock Grant (value at the time of grant)	$ 75,000

Executive Officer Directors. Messrs. Brown and Dunton, who are also Executive Officers of the Company, do not receive compensation for their services as Directors.

ENHANCEMENTS/CHANGES TO CORPORATE GOVERNANCE PRACTICES

In 2004, the Company s Nominating/Corporate Governance Committee undertook a review of, and recommended certain changes to, the Company s Corporate Governance Practices, Bylaws and Certificate of Incorporation, which were designed to further enhance these practices and enhance certain shareholder rights. The Board approved these changes in 2005. As a result, the Company s Corporate Governance Practices have been amended as follows: a) Directors who are employed full time cannot serve on more than two additional boards and other directors may not serve on more than four additional boards, not including philanthropic boards, b) Directors must participate in relevant training at least once every two years, c) each Director will be evaluated by each other Director every two years via an on-line evaluation, and d) each Director must submit a letter of resignation upon a job change to be evaluated by the Chief Executive Officer and the Nominating/Corporate Governance Committee. In addition, the Company s Bylaws were amended to limit the size of the Company s Board to 8-12 Directors, to make them consistent with the Corporate Governance Practices. The Company s revised Corporate Governance Practices reflecting these changes are attached as Exhibit A to this Proxy Statement and are posted on the Company s web site www.mbia.com under Investor Relations/Corporate Governance. In addition to the changes described above to the Corporate Governance Practices and the Bylaws, the Nominating/Corporate Governance Committee recommended, and the Board approved, two amendments to the Certificate of Incorporation, which are being submitted herein for approval by Company shareholders. The Board believes that the proposed amendments to the Certificate of Incorporation and the additional measures described above represent an enhancement of the rights of Company shareholders and an improvement in the Company s corporate governance practices.

COMPANY STANDARD OF CONDUCT

The Company has adopted a Standard of Conduct that applies to all Directors, Executive Officers and employees. The Standard of Conduct can be found on the Company s web site.

REPORT OF THE COMPENSATION AND ORGANIZATION COMMITTEE

ON EXECUTIVE COMPENSATION

To: The MBIA Inc. Board of Directors

From: The Compensation and Organization Committee:

Mr. David C. Clapp, Chair

Dr. Claire L. Gaudiani

Mr. Daniel P. Kearney

Mr. John A. Rolls

MBIA s Compensation and Organization Committee (the Committee) is made up of four independent members of the Board of Directors who are not current or former employees of the Company and are not eligible to participate in any of the programs that it administers.

This report on Executive Compensation by the Committee contains the following topics:

1. **Role of the Compensation and Organization Committee**
2. **Guiding Principles of Compensation**
3. **2004 Performance Factors**
4. **Components of Total Compensation**
5. **Compensation of the Chief Executive Officer**
6. **Compensation of the Executive Chairman**
7. **Succession Planning**
8. **Stock Ownership Guidelines**
9. **Pension Plans, Benefit Plans and Executive Perquisites**
10. **Tax Deductibility of Executive Compensation**
11. **Loans and Stock Activity**

1. <u>Role of the Compensation and Organization Committee</u>

We set the overall compensation principles of the Company and evaluate the Company s entire compensation program at least once a year. As part of our specific responsibilities (i) we review for approval the recommendations of the Chief Executive Officer, Gary Dunton (the CEO), for the aggregate level of compensation to be paid to all employees of the Company, (ii) we review the recommendations of the CEO for the individual compensation levels for members of the senior leadership team, which includes the Company s Executive Policy Committee (as used herein the term Senior Officers excludes Gary Dunton and Jay Brown), (iii) we establish and recommend to the Board the compensation level of the CEO and (iv) we establish and recommend to the Board the compensation level payable to the Executive Chairman. The Board approves the Executive Chairman s, CEO s and Senior Officers compensation levels.

2. <u>Guiding Principles of Compensation</u>

The fundamental goal of MBIA s compensation program is to attract, motivate and retain a highly skilled team of executives and employees who will deliver superior performance that builds shareholder value. The Company s compensation program is significantly linked to shareholder interests as our emphasis is on pay for performance, with individual, operational and corporate performance rewarded on a short-term and long-term basis. Specifically, the principles that guide our compensation program include:

Pay for Performance: an employee s compensation should reflect his or her individual performance and achievement of agreed upon short-term and long-term individual goals, the performance of the employee s unit and the achievement by the unit of its goals, and the performance of the Company as a whole and the achievement by the Company of its goals.

Pay Competitively: compensation should be competitive with organizations with comparable business profiles and similar financial performance.

Increase Variable Compensation and Long-Term Incentives: an employee s variable pay and long-term incentives increase as a percentage of overall compensation as the employee s overall compensation and responsibility increases.

Align Employee and Shareholder Interests: as employees and executives assume greater seniority and responsibility, their compensation should include more long-term incentives that encourage superior performance that builds long-term value for the Company and its shareholders, thereby aligning their interests with the interest of both the Company and its shareholders. The Company currently uses a combination of grants of stock options with grants of restricted stock tied to growth in modified book value (MBV) (as described under Long-Term Incentive Awards below) to align executive compensation with long-term growth in the value of the business.

3. <u>2004 Performance Factors</u>

In assessing compensation for 2004, we reviewed the long-term financial and operational objectives of the Company and the specific objectives set in the Company s 2004 Business Plan at the beginning of 2004 for each of the Company s businesses. We considered the following significant performance factors with respect to the Company s overall performance in 2004: Insurance business volume declined with adjusted direct premium for the year being below plan. The Company, however, maintained its underwriting and pricing discipline in the face of tighter credit spreads and increased competition, which contributed to the lower volumes across all of its insurance product lines. The Company s asset management business exceeded the financial objectives established in its 2004 business plan and had net increases in assets under management and operating income as compared to 2003. The municipal services business substantially met all of its objectives in the 2004 plan and had a small operating profit for 2004. Operating income per share and book value per share (excluding the effects of SFAS 115) each rose 10%, generally in accordance with plan, as a result of the increase in earned premiums reflecting prior years strong growth, higher refunding activity and growth in pretax net investment income. Operating return on equity was 13% for the year.

In addition, we noted that the credit quality of the Company s existing book of business improved from 2003, and it successfully remediated a number of troubled credits. The Company s Asset Management division was successfully repositioned to concentrate on fixed income asset management, and had a very strong year in terms of both income and assets under management. The Company developed a comprehensive capital plan, including a new share repurchase program, which it successfully began to implement in 2004. The Company strengthened its management and infrastructure, integrated several new senior members into its Executive Policy Committee, completed the planned transition of the CEO and sustained its intense focus on regulatory compliance, transparency and best practices. The Company continued to promote and support diversity and reinvest heavily in its staff through extensive training programs and performance management processes.

The Committee concluded that when both quantitative and qualitative measures are evaluated, 2004 was a successful year for the Company while operating in a challenging business environment.

4. <u>Elements of Total Compensation</u>

The three components of the Company s total compensation program are:

Annual Fixed Compensation (Annual Salary)

Annual Variable Compensation (Annual Bonus)

Long-Term Incentive Awards (Restricted Stock Awards tied to growth in Modified Book Value and Stock Options)

Total compensation for a given performance year is comprised of base salary earned during the year, any cash bonus or any bonus paid in restricted stock for the year and the value, calculated at the time of grant, of any long-term incentive awards made with respect to the year. Long-term incentive grants include (i) the present value of stock options, (ii) the current value of restricted stock (for performance years 2004 and forward) and (iii) the future target value of MBV awards (for performance years prior to 2004). Other forms of compensation that are paid in any given year include dividends that are paid on all restricted stock awards, the value of long-term incentive awards that vest and/or are paid that were granted for prior performance years (LTIP Payouts) and the value of All Other compensation (e.g., company retirement contributions) for the performance year, as reported in the Summary Compensation Table. The following table shows the elements of total compensation for the 2004 performance year and where the corresponding amounts or values can be found in the compensation tables below:

2004 Compensation Elements	Reference to Proxy Tables
Base salary	Summary Compensation Table I under Salary
Annual cash bonus	Summary Compensation Table I under Bonus
Annual restricted stock bonus	Summary Compensation Table I under Restricted Stock Awards
Stock options	Option Grants Table II under footnote (d)
LTI restricted stock	LTI Plan Table IV under footnote (f)
Other forms of compensation	Summary Compensation Table I under LTIP Payout, All Other Compensation and footnote (c) for dividends

Fixed Compensation (Salary)

We base our recommendations for the appropriate salary levels or salary increases for the CEO and the Senior Officers on the job content of each position, on competitive salaries for comparable positions, on the executive s experience and on the actual performance of each executive. In 2004 and the first quarter of 2005, several officers were promoted to Senior Officers (see Succession Planning below) and received base salary increases in connection with these promotions. The Company also grants increases from time to time as it deems necessary to remain competitive. In 2005, Mr. Dunton recommended, and the Committee and Board agreed, a salary increase for two of the eleven Senior Officers, to reflect expanded responsibilities, individual contributions and to maintain market competitiveness.

Variable Compensation (Bonus)

Senior Officer Bonuses. The annual bonus component of incentive compensation is designed to compensate our Senior Officers for their annual performance based on both the Company s performance and their individual performance for the year. Actual bonus grants can range from 0% to 200% of salary, depending on a Senior Officer s position and performance.

A Senior Officer s annual bonus is based on the Company s performance in certain areas, including return on equity, change in earnings per share, change in adjusted book value per share, relative performance to peer group companies, expense management, success in achieving the business plan and strategic goals set for each division, employee development, and the individual Senior Officer s personal contribution to the achievement of the Company s goals and of the individual s specific goals. The weight and effect of any of these factors on the compensation of each Senior Officer varies depending on the individual Officer s job responsibility.

Based on the Company s results in 2004, as described under 2004 Performance Factors above, Mr. Dunton recommended, and the Committee and Board agreed, that the aggregate bonus pool for Senior Officers for the 2004 performance year be set at approximately 75% of the maximum bonus payable based on the bonus range established at the beginning of the year, compared to 90% for the 2003 performance year. The individual bonuses paid to each of the Senior Officers were recommended by Mr. Dunton and approved by the Committee and the Board.

Bonuses for Senior Officers, except for the bonuses paid to Mr. Budnick, were paid in cash. In prior years bonuses for all Senior Officers were paid in a combination of cash and restricted stock. For 2004, Mr. Dunton recommended, and the Committee and Board approved, the payment of bonuses for Senior Officers, except for Mr. Budnick, entirely in cash due to the change from Cash MBV Awards to MBV Restricted Stock awards, as described under Long-Term Incentive Awards below.

Mr. Budnick s bonus for 2004 was paid entirely in shares of restricted stock. The actual number of shares of restricted stock granted to Mr. Budnick was determined by dividing annual bonus by 75% of the closing price of the Company s stock on the date of grant. The restricted stock vests in full four years after the grant, and is subject to accelerated vesting under certain conditions, including termination of employment without cause, death or disability or a change of control of the Company. The vesting of this restricted stock grant is not tied to any performance measures.

Other Employee Bonus Pools. Mr. Dunton recommended to the Committee the aggregate size of the Company s bonus pools for each of the insurance units, the investment management units and the MuniServices unit, excluding from these pools the bonuses paid to the Executive Chairman, the CEO and the Senior Officers.

The size of the pool for each of these units is based both on the Company s overall performance and on each unit s performance. Mr. Dunton and the Committee considered the following factors in establishing the bonus pool for each unit: return on equity, absolute return as measured by IRR on new business, growth in reported earnings, growth in adjusted book value per share, the relative performance of peer group companies and the unit s achievement of its annual goals.

For the 2004 performance year, the Committee approved an aggregate bonus pool for the Company s insurance business funded at 80% (compared to 90% for the 2003 performance year) of the maximum bonus payable to each employee based on the ranges established at the beginning of the year. The bonus pools for other business units were increased or decreased based on the performance of these units during the year. The aggregate amount of bonuses paid to all employees for 2004 was approximately $39.2 million compared to approximately $46 million for 2003.

Long-Term Incentive Awards

The Company s Long-Term Incentive Plan (the Plan) provides participants with long-term incentive awards (LTI) linked to both multiple-year financial performance and shareholder value. The Plan authorizes both the annual granting of stock options as well as the payment of compensation in the form of cash or stock that is paid at the end of a multi-year cycle based on the Company attaining certain performance goals. Awards under the Plan are typically granted to employees who have a title of Vice President or higher. The value of individual long-term incentive awards are based on a percentage target of total annual cash (salary plus bonus) compensation as well as an individual s level of responsibility. The type and nature of LTI awards granted under the Plan have changed over time to reflect the Committee s view of best practices in the area of long-term executive compensation and the Company s long-term strategy and business objectives.

From 1987 through 1995, the company used stock options as its only form of LTI. In 1995, the Company started making deferred cash awards that were tied to the growth in the adjusted book value (ABV) of the Company s stock in combination with stock option awards. In 2002, in order to more closely align the pay-out of the long-term incentive award with the Company s long-term objective of increasing return on equity and growing actual shareholders equity, the Committee adopted MBV (as defined below) as a new performance measure for all deferred cash awards made starting December 2000 and thereafter to replace the previously used measure of ABV. Since 2002, most long-term incentive awards for officers with titles of Vice President and above combined a grant of a target cash award with a three-year payout based on growth in MBV (Cash MBV Awards) and a grant of stock options.

The Company s current MBV is computed by taking the Company s GAAP book value and adjusting it to eliminate unrealized gains and losses on investments and derivatives, reversing the effects of open market

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share repurchases made since January 1, 2004, eliminating unearned compensation pertaining to restricted stock awards, adding base dividends declared during the award period and interest on dividends declared during the award period.

In 2004, in connection with its annual review of the Company s compensation plans, Mr. Dunton recommended and the Committee and the Board approved certain changes to the nature of the LTI awards. Starting with LTI awards for 2004, the Company will no longer award Cash MBV Awards as part of LTI awards. Instead of Cash MBV Awards, the Company will award restricted stock (MBV Restricted Stock) that will vest three years after the grant date and that is tied to the achievement of a specified level of growth in MBV per share over the three-year period. The Company believes that awards tied to MBV align employee and shareholder interests because long-term growth in book value, which takes into account both earnings and the performance of the Company s insured portfolio over time as well as other factors, is an effective measure of shareholder value.

In line with current shifts in senior executive compensation best practices, the Company continues to explore a shift in the mix of the components of its long-term compensation to utilize a greater percentage of restricted stock. Commencing with LTI awards for 2004, the Company shifted the mix of LTI awards. The type and mix of LTI awards for the 2004 performance year were based on title. Officers with a title of Vice President or Director were granted LTI awards solely in the form of MBV Restricted Stock and were not awarded any stock options. Officers with titles of Managing Director and Senior Officers received LTI awards divided approximately 50/50 between stock options and a grant of MBV Restricted Stock. The Company will continue to evaluate the use of stock options as part of LTI awards.

Stock Options. Stock options give employees the right to purchase shares of the Company s common stock at the closing price on the date of the grant. Except for the options granted to the CEO and to Mr. Budnick (which vest in the same manner as the options granted to the CEO as described below), each option vests over five years, and is subject to accelerated vesting upon a change of control of the Company. All options expire ten years from the date of the grant. On February 16, 2005, a total of 750,000 options were awarded to employees for the 2004 performance year. The Committee continued its long-term approach of valuing stock options using the Black-Scholes option valuation model. The Company adopted SFAS 123 and 148 in 2002 and expenses the cost of all outstanding and unvested stock options using the same valuation formulas. The Company does not accommodate option repricing or reloads and will not consider accommodating this practice in the future.

MBV Restricted Stock Awards. Starting with awards made with respect to the 2004 performance year, employees with titles of Vice President and higher were awarded grants of MBV Restricted Stock. Under the terms of the awards, the MBV Restricted Stock will vest three-years after the grant date. The number of shares of MBV Restricted Stock that will vest at the end of the three-year vesting period will depend on growth in MBV over the three-year period. If MBV grows by 30% or more over the three-year period, then 100% of the restricted stock will vest. If MBV growth over the three-year period is lower than 30%, the amount of restricted stock that will vest at the end of the three-year period will be adjusted downward in proportion to the amount by which actual growth in MBV over the three-year period is below 30%. MBV Restricted Stock is subject to accelerated vesting under certain conditions, including termination of employment without cause, death or disability or a change of control of the Company. The company awarded an aggregate of 351,895 shares of MBV Restricted Stock for the 2004 performance year.

The Committee also reviewed the performance criteria for the payment of the MBV Cash Award made in February 2002, which is being paid in the first quarter of 2005, and covers the period from 2002 through 2004. Based on such criteria, the Committee approved an award of 125% of the target payout, after taking into account the modification of the MBV formula described above.

Special Promotion-Related Awards. The Company grants one-time stock option and/or restricted stock awards to officers who are promoted to become Senior Officers. In 2004 and the first quarter of 2005, the Company granted a total of 345,000 stock options in connection with these promotions. These stock options vest in full five years after the grant and are subject to accelerated vesting under certain conditions, including death or disability and a change of control of the Company. The vesting of these stock options grants is not tied to any performance measures. In addition, the Committee recommended and the Board approved a special one time grant of 35,000 shares of restricted stock (the Special Grant) to Mr. Budnick in recognition of his promotion to President of MBIA Insurance Corp. and his substantially expanded responsibilities in that capacity. Under the restrictions applicable to the proposed Special Grant, Mr. Budnick cannot sell or pledge the stock until the earlier of (i) the first date on which MBV growth measured from January 1, 2005 equals or exceeds 50% and (ii) January 1, 2010 (such earlier date, the MBV Trigger Date), based on the applicable MBV growth measured as of such MBV Trigger Date. Under the formula, if MBV growth from January 1, 2005 through January 1, 2010 is zero, then none of the Special Grant will vest and if MBV growth is 50%, then 100% of the Special will vest, with intermediate levels of vesting to be determined by linear interpolation (e.g., MBV growth as of January 1, 2010 of 25% will yield 50% vesting, etc.). This Special grant was contingently granted under the Omnibus Incentive Plan, which is subject to shareholder approval as set forth herein.

5. Compensation of the Chief Executive Officer

Performance Requirements

Mr. Dunton became CEO on May 6, 2004. The CEO s salary and bonus are based on a number of factors related to the Company s and the CEO s performance including return on equity; change in earnings per share; change in adjusted book value per share; internal returns on insurance business written during the year; relative performance to peer group companies; the achievement of the Company s business plan goals and the CEO s achievement of his specific goals. In determining Mr. Dunton s compensation, the Committee gave approximately 70% weight to the achievement of the Company s financial goals and 30% weight to the achievement of other elements of the Company s business plan and of his own personal goals.

Special Promotion/Retention Grant of Restricted Stock

On May 6, 2004, Mr. Dunton was awarded a special grant of 125,000 shares of restricted stock (the Special Grant) in connection with his promotion to Chief Executive Officer. Under the restrictions applicable to the Special Grant, Mr. Dunton cannot sell or pledge the stock until the earlier of (i) the first date on which MBV growth measured from January 1, 2004 equals or exceeds 50% and (ii) January 1, 2009 (such earlier date, the MBV Trigger Date), based on the applicable MBV growth measured as of such MBV Trigger Date. Under the formula, if MBV growth from January 1, 2004 through January 1, 2009 is zero, then none of the Special Grant will vest and if MBV growth is 50%, then 100% of the Special Grant will vest, with intermediate levels of vesting to be determined by linear interpolation (e.g., MBV growth as of January 1, 2009 of 25% will yield 50% vesting, etc.).

Salary, Bonus and Long-Term Incentive Awards

Salary. Mr. Dunton s annual salary was increased from $600,000 to $700,000 effective on March 1, 2003 and remained in effect through May 6, 2004. On May 6, 2004, Mr. Dunton s salary was increased to $825,000, reflecting an increase in his annual salary in connection with his promotion to Chief Executive Officer. Mr. Dunton s salary for 2005 will remain at $825,000.

Bonus. The CEO can receive up to 250% of his salary as a performance-based bonus. In determining the amount of bonus to recommend for Mr. Dunton for 2004 the Committee considered the Company s financial results for 2004 and the overall performance of the Company during the year, all as described under 2004 Performance Factors above, and Mr. Dunton s role in the achievement of the results. In light of these considerations, the Committee recommended and the Board approved a bonus for Mr. Dunton of $1,443,750 for 2004, or 70% of the maximum bonus payable. Mr. Dunton s bonus was paid entirely in 32,716 shares of restricted stock which was valued at $1,925,000 on the date of grant. The actual number of shares of restricted

stock granted to Mr. Dunton was determined by dividing annual bonus by 75% of the closing price of the Company s stock on the date of grant. The restricted stock vests in full four years after the grant, and is subject to accelerated vesting under certain conditions, including termination of employment without cause, death or disability or a change of control of the Company.

Long-Term Incentive Awards. The Committee also recommended a long-term incentive award for Mr. Dunton for 2004 comprised of an MBV Restricted Stock grant, which was valued at $2,100,000 on the day of the grant, and a stock option grant for Mr. Dunton of 200,000 options, which was valued at $3,666,980 on the day of the grant. The MBV Restricted Stock granted to Mr. Dunton has the same terms as the MBV Restricted Stock described above. The stock options granted to Mr. Dunton vest in full five years after the grant and are subject to accelerated vesting under certain conditions, including death or disability and a change of control of the Company. The vesting of these stock options grants is not tied to any performance measures.

For the 2004 performance year, Mr. Dunton s total compensation, which consists of salary, bonus and the value of long-term incentives at grant (excluding his one-time May 2004 Special Grant), was $8.5 million, down 6% from his 2003 total compensation of $9.0 million.

6. Compensation of the Executive Chairman

Performance Requirements

Mr. Brown was the Company s Chief Executive Officer until May 6, 2004 and its Executive Chairman for the remainder of 2004. The Executive Chairman can receive up to 300% of his salary as a performance-based bonus. Mr. Brown s bonus in both capacities is based on a number of factors related to the Company s and his performance including return on equity; change in earnings per share; change in adjusted book value per share; internal returns on insurance business written during the year; relative performance to peer group companies; the achievement of the Company s business plan goals and the Executive Chairman s achievement of his specific goals, including the transition with Mr. Dunton. In determining Mr. Brown s compensation, the Committee gave approximately 70% weight to the achievement of the Company s financial goals and 30% weight to the achievement of other elements of the Company s business plan and of his own personal goals.

Special Grant of Restricted Stock

On May 6, 2004, Mr. Brown was awarded a special grant of 200,000 shares of restricted stock (the Special Grant) in recognition of his contributions to the Company s success for the period through December 2003 and as an inducement for his commitment to continue his employment with the Company for up to three additional years as Executive Chairman. This grant was provided in lieu of making additional LTI awards during the 2004-2007 period which he serves as Executive Chairman. Under the restrictions applicable to the Special Grant, Mr. Brown cannot sell or pledge the stock until the earlier of (i) the first date on which MBV growth measured from January 1, 2004 equals or exceeds 50% and (ii) January 1, 2009 (such earlier date, the MBV Trigger Date), but on no event before the end of Mr. Brown s employment period, based on the applicable MBV growth measured as of such MBV Trigger Date. Under the formula, if MBV growth from January 1, 2004 through January 1, 2009 is zero, then none of the Special Grant will vest and if MBV growth is 50%, then 100% of the Special will vest, with intermediate levels of vesting to be determined by linear interpolation (e.g., MBV growth as of January 1, 2009 of 25% will yield 50% vesting, etc.).

Salary and Bonus

Salary. Mr. Brown s annual salary was increased from $750,000 to $900,000 effective on January 1, 2004 and remained in effect through May 6, 2004. In connection with his becoming Executive Chairman with a reduced time commitment, Mr. Brown s annual salary was reduced to $720,000 on May 6, 2004 for the remainder of his employment as Executive Chairman. In light of the ongoing successful executive transition,

Mr. Brown requested approval from the Board of Directors to reduce his time commitment to the Company for 2005 from four to three days a week and, in connection therewith, to reduce his base salary for 2005 from $720,000 to $540,000. The Company s Board of Directors approved Mr. Brown s request in January 2005.

Bonus. The Committee noted Mr. Brown s contribution both as Chief Executive Officer and as Executive Chairman and the ongoing successful transition with Mr. Dunton. The Committee also took into account the Company s financial results for 2004 and the overall performance of the Company during the year, all as described under 2004 Performance Factors above. The Committee recommended and the Board approved a cash bonus for Mr. Brown of $1,512,000, or 70% of the maximum bonus payable.

Long-Term Incentive Awards. As noted above, under his Employment Agreement entered into on May 6, 2004 in his role as Executive Chairman, Mr. Brown will not receive any further LTI awards.

The Committee also reviewed Mr. Brown s 2001 modified book value award (the 2001 MBV Award) of $2,000,000, which will only be payable if the Company s stock trades at $70 or above for ten consecutive trading days at some point before December 31, 2006. The Committee approved the conversion of the 2001 MBV Award into 33,990 shares of restricted stock, which have a value equal to $2,000,000 based on the closing price of the stock as of the date of conversion. This restricted stock will continue to have the same restrictions applicable to the 2001 MBV award at the time of grant. Under these restrictions, Mr. Brown cannot sell or pledge the stock until the first day after a consecutive ten-day period that ends on or before December 31, 2006 and during which the stock has traded at $70 or above on each day of the ten-day period. If this price target has not been met on or before December 31, 2006, all of the restricted stock is forfeited.

All restricted stock granted to Mr. Brown is subject to immediate vesting upon the occurrence of certain events including the termination of Mr. Brown s employment without cause, Mr. Brown s death or disability or a change of control of the Company. In addition, unless any restricted stock granted to Mr. Brown has already vested, it is subject to forfeiture upon Mr. Brown s voluntary termination of employment or termination for cause.

7. <u>Senior Officer Succession Planning</u>

As part of their annual succession planning review process, the Committee and the Board reviewed succession plans for all of the Senior Officer positions with the CEO.

On May 6, 2004, the Board implemented the previously announced succession plan and appointed Mr. Dunton as CEO and Mr. Brown as Executive Chairman. Neil G. Budnick, who was the Company s Chief Financial Officer, was appointed President of MBIA Insurance Corp., responsible for new business development in the global public and structured finance markets. Mr. Nick Ferreri, who was previously managing director of global public finance in MBIA s Insured Portfolio Management Division responsible for the surveillance of all public finance transactions insured by MBIA globally, was appointed as Chief Financial Officer.

In addition, during 2004, Mr. Richard Weill, Mr. John Caouette, Mr. Thacher Brown and Mr. Bob Wheeler retired as Senior Officers of the Company. They were replaced by Mr. Mitchell Sonkin, an external hire, Mr. Christopher Weeks, who was previously managing director of CDOs and Structured Secondary Markets, Mr. Clifford Corso, who was previously the Company s Chief Investment Officer and head of fixed-income asset management, and Ms. Andrea Randolph, who was previously director of infrastructure and operations in the Information Technology Group, respectively. In addition, in February 2005, Mr. John Pizzarelli left the company as head of its Global Public Finance Division and was replaced by Mr. Tom McLoughlin, who was previously head of the transportation group within the division.

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The Committee will continue to work with the CEO to identify other appropriate candidates as needed in the future, both internal and external, to ensure continued effective succession planning, including for the CEO.

8. Stock Ownership and Stock Option Exercise Guidelines

The Company has stock ownership guidelines to help increase senior management stock ownership and more closely align senior management s interests with those of shareholders.

Under these guidelines, the CEO is expected to own Company stock with a value equal to approximately five times his annual salary, and the other Senior Officers are expected to own Company stock with a value of approximately three or four times their annual salary, depending on their job and title. This includes stock owned in retirement plans and also the value of restricted stock. The CEO and the other Senior Officers either currently own, or are expected within five years of becoming Senior Officers to own, sufficient stock to comply with the stock ownership guidelines. All of the Senior Officers listed in the Summary Compensation Table currently comply with these stock ownership guidelines.

The Company also has guidelines for the exercise of stock options and the sale of restricted stock by Senior Officers and others. Under the guidelines applicable to stock option exercises, Senior Officers are expected not to exercise stock options until the third year before the expiration of the stock options. Under the guidelines applicable to the sale of restricted stock that becomes vested, Senior Officers are expected not to sell restricted stock that becomes vested until after they comply with the applicable stock ownership guidelines (net of any sales needed to pay taxes upon vesting). All exercise and sale of stock options by Senior Officers during 2004 related to 10-year options with less than three years to expiration and no senior officer sold restricted stock except to pay taxes.