

RADIAN GROUP INC  
Form 10-Q  
May 05, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-11356

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**Radian Group Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**(215) 231-1000**

**23-2691170**  
(I.R.S. Employer  
Identification No.)

**19103**  
(Zip Code)

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(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 82,408,140 shares of common stock, \$0.001 par value per share, outstanding on May 1, 2006.

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**Radian Group Inc.**

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**Forward Looking Statements Safe Harbor Provisions**

All statements in this report that address events, developments or results that we expect or anticipate may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. In most cases, forward-looking statements may be identified by words such as may, will, should, expect, intend, plan, goal, contemplate, believe, estimate, predict, project, potential, continue or the negative or words and other similar expressions. These statements are made on the basis of management's current views and assumptions with respect to future events. The forward-looking statements, as well as our prospects as a whole, are subject to risks and uncertainties, including the following:

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

economic changes or catastrophic events in geographic regions where our mortgage insurance or financial guaranty insurance in force is more concentrated;

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

increased severity or frequency of losses associated with certain of our products that are riskier than traditional mortgage insurance or financial guaranty insurance policies;

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

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

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

changes in the charters or business practices of Fannie Mae and Freddie Mac, the largest purchasers of mortgage loans that we insure;

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

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the application of existing federal or state consumer, lending, insurance and other applicable laws and regulations, or unfavorable changes in these laws and regulations or the way they are interpreted;

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

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gains and losses on these contracts (See Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies. );

increases in claim frequency as our mortgage insurance policies age; and

vulnerability to the performance of our strategic investments.

For more information regarding these risks and uncertainties as well as certain additional risks that we face, you should refer to the risks discussed in other documents that we file with the SEC, including the risk factors detailed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005. We caution you not to place undue reliance on these forward-looking statements, which are current only as of the date on which we filed this report. We do not intend to, and we disclaim any duty or obligation to, update or revise any forward-looking statements made in this report to reflect new information or future events or for any other reason.

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

<b>(In thousands, except share and per-share amounts)</b>	<b>March 31 2006</b>	<b>December 31 2005</b>
<b>Assets</b>		
Investments		
Fixed maturities held to maturity at amortized cost (fair value \$121,584 and \$130,227)	\$ 118,267	\$ 125,935
Fixed maturities available for sale at fair value (amortized cost \$4,588,887 and \$4,493,789)	4,678,657	4,608,460
Trading securities at fair value (cost \$79,812 and \$68,078)	115,786	89,440
Equity securities at fair value (cost \$226,113 and \$258,768)	292,331	325,117
Short-term investments	430,504	361,937
Other invested assets	2,616	2,825
<b>Total investments</b>	<b>5,638,161</b>	<b>5,513,714</b>
Cash	16,916	7,847
Investment in affiliates	436,685	446,151
Deferred policy acquisition costs	209,524	208,325
Prepaid federal income taxes	639,704	585,514
Provisional losses recoverable	11,905	25,388
Accrued investment income	59,438	60,124
Accounts and notes receivable	49,943	59,136
Property and equipment, at cost (less accumulated depreciation of \$69,362 and \$61,285)	47,966	52,062
Other assets	300,352	272,349
<b>Total assets</b>	<b>\$ 7,410,594</b>	<b>\$ 7,230,610</b>
<b>Liabilities and Stockholders' Equity</b>		
Unearned premiums	\$ 874,733	\$ 849,360
Reserve for losses and loss adjustment expenses	791,690	801,002
Long-term debt	747,540	747,466
Deferred federal income taxes	1,008,119	961,993
Accounts payable and accrued expenses	217,292	207,909
<b>Total liabilities</b>	<b>3,639,374</b>	<b>3,567,730</b>
<b>Commitments and Contingencies (Note 13)</b>		
<b>Stockholders' equity</b>		
Common stock: par value \$.001 per share; 200,000,000 shares authorized; 97,440,198 and 97,373,169 shares issued at March 31, 2006 and December 31, 2005, respectively; 82,440,466 and 83,032,456 shares outstanding at March 31, 2006 and December 31, 2005, respectively	97	97
Treasury stock: 14,999,732 and 14,340,713 shares in 2006 and 2005, respectively	(737,068)	(688,048)
Additional paid-in capital	1,328,135	1,318,910
Deferred compensation		(1,843)
Retained earnings	3,075,683	2,913,649
Accumulated other comprehensive income	104,373	120,115
<b>Total stockholders' equity</b>	<b>3,771,220</b>	<b>3,662,880</b>

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Total liabilities and stockholders' equity	\$ 7,410,594	\$ 7,230,610
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See notes to unaudited condensed consolidated financial statements.



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

(In thousands, except per-share amounts)	Three Months Ended March 31	
	2006	2005
Revenues:		
Premiums written:		
Direct	\$ 282,779	\$ 255,385
Assumed	24,275	(16,010)
Ceded	(27,449)	(24,535)
Net premiums written	279,605	214,840
(Increase) decrease in unearned premiums	(25,908)	32,185
Net premiums earned	253,697	247,025
Net investment income	54,260	50,862
Net gains on securities	22,854	11,526
Change in fair value of derivative instruments	17,630	(8,960)
Other income	5,211	6,108
<b>Total revenues</b>	<b>353,652</b>	<b>306,561</b>
Expenses:		
Provision for losses	78,634	109,500
Policy acquisition costs	27,364	29,356
Other operating expenses	60,277	51,670
Interest expense	11,840	8,958
<b>Total expenses</b>	<b>178,115</b>	<b>199,484</b>
Equity in net income of affiliates	58,340	51,296
Pretax income	233,877	158,373
Provision for income taxes	70,179	42,761
<b>Net income</b>	<b>\$ 163,698</b>	<b>\$ 115,612</b>
Basic net income per share	\$ 1.97	\$ 1.29
Diluted net income per share	\$ 1.96	\$ 1.24
Average number of common shares outstanding basic	82,937	89,488
Average number of common and common equivalent shares outstanding diluted	83,707	94,258
Dividends per share	\$ 0.02	\$ 0.02

See notes to unaudited condensed consolidated financial statements.



**Table of Contents****Radian Group Inc.****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDERS EQUITY****(UNAUDITED)**

(In thousands)	Common		Additional Paid-in Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Stock	Treasury Stock				Foreign Currency Adjustment	Unrealized Holding Gains (Losses)	
Balance, January 1, 2006	\$ 97	\$ (688,048)	\$ 1,318,910	\$ (1,843)	\$ 2,913,649	\$ 2,135	\$ 117,980	\$ 3,662,880
Comprehensive income:								
Net income					163,698			163,698
Unrealized foreign currency translation adjustment, net of tax of \$274						540		540
Unrealized holding losses arising during the period, net of tax benefit of \$1,131							(2,099)	
Less: Reclassification adjustment for net gains included in net income, net of tax of \$7,637							(14,183)	
Net unrealized loss on investments, net of tax benefit of \$8,768							(16,282)	(16,282)
Comprehensive income								147,956
Issuance of common stock under incentive plans		11,215	8,887					20,102
Issuance of restricted stock			(1,109)					(1,109)
Amortization of restricted stock			311					311
Reclassification of deferred compensation (a)			(1,843)	1,843				
Stock-based compensation expense-options			2,979					