

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

MBIA INC

CIK: **814585** | IRS No.: **061185706** | State of Incorpor.: **CT** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-09583** | Film No.: **94528062**
SIC: **6351** Surety insurance

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1994

OR

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

For the Transition Period from _____ to _____

For the Quarter Ended March 31, 1994

Commission File No. 1-9583 I.R.S. Employer Identification No. 06-1185706

MBIA INC.
A Connecticut Corporation
113 King Street, Armonk, N. Y. 10504
(914) 273-4545

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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

As of April 30, 1994 there were outstanding 41,678,144 shares of Common Stock, par value \$1 per share, of the registrant.

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(2)

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)

<TABLE>

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	March 31, 1994 ----- (Unaudited)	December 31, 1993 ----- (Audited)
ASSETS		
<S>	<C>	<C>
Investments:		
Fixed maturity securities, at amortized cost (market value \$3,015,527)	\$ ---	\$2,796,699
Fixed maturity securities held as available-for-sale at market (amortized cost \$2,949,800)	3,029,014	---
Short-term investments, at amortized cost (which approximates market value)	97,755	104,205
Other investments	17,308	104,681
	-----	-----
	3,144,077	3,005,585
Municipal investment agreement portfolio, at amortized cost	---	538,751
Municipal investment agreement portfolio, at market	675,696	---
	-----	-----
TOTAL INVESTMENTS	3,819,773	3,544,336
Cash and cash equivalents	6,220	2,492
Accrued investment income	53,541	54,794
Deferred acquisition costs	123,425	120,484
Prepaid reinsurance premiums	171,095	170,551
Goodwill (less accumulated amortization of \$32,344 and \$31,088)	115,022	116,279
Property and equipment, at cost (less accumulated depreciation of \$11,475 and \$10,734)	44,389	44,115
Receivable for investments sold	4,368	31,903
Other assets	25,540	21,359
	-----	-----
TOTAL ASSETS	\$4,363,373 =====	\$4,106,313 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deferred premium revenue	\$1,425,462	\$1,402,807
Loss and loss adjustment expense reserves	35,648	33,735
Long-term debt	298,708	298,680
Municipal investment agreements	693,570	493,014
Current income taxes payable	14,040	1,811
Deferred income taxes	130,567	107,881
Payable for investments purchased	28,420	111,279
Other liabilities	57,424	60,748
	-----	-----
TOTAL LIABILITIES	2,683,839 -----	2,509,955 -----
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--100,000,000; issued shares-- 42,077,387 and 42,074,387	42,077	42,074

Additional paid-in capital	719,453	719,281
Retained earnings	899,905	844,916
Cumulative translation adjustment	(624)	(1,218)
Unrealized appreciation of investments, net of deferred income taxes of \$23,479 and \$3,813	43,209	7,080
Treasury stock, at cost; shares--399,243 and 260,243	(24,486)	(15,775)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	1,679,534	1,596,358
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$4,363,373	\$4,106,313
	=====	=====

</TABLE>

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

(3)

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands except per share amounts)

<TABLE>

<CAPTION>

	Three months ended March 31	
	1994	1993
	-----	-----
<S>	<C>	<C>
Revenues:		
Gross premiums written	\$ 84,311	\$ 98,025
Ceded premiums	(7,798)	(8,836)
	-----	-----
Net premiums written	76,513	89,189
Increase in deferred premium revenue	(22,061)	(35,724)
	-----	-----
Premiums earned (net of ceded premiums of \$7,254 and \$8,090)	54,452	53,465
Net investment income	46,884	42,646
Net realized gains	6,370	2,339
Non-insurance revenues	2,218	1,104
Non-insurance net realized losses	(617)	---
Other income	320	759
	-----	-----
Total revenues	109,627	100,313
	-----	-----
Expenses:		
Insurance:		
Losses and loss adjustment expenses	1,925	1,537
Policy acquisition costs, net	5,959	6,163
Operating expenses	9,342	8,917
Non-insurance expenses	2,334	1,035
Interest expense	6,735	6,719
Other expenses	423	563
	-----	-----
Total expenses	26,718	24,934
	-----	-----
Income before income taxes	82,909	75,379
Provision for income taxes	17,168	15,651
	-----	-----
Income before cumulative effect of accounting changes	65,741	59,728
Cumulative effect of accounting changes	---	12,923
	-----	-----
NET INCOME	\$ 65,741	\$ 72,651
	=====	=====
Income per common share before cumulative effect of accounting change	\$ 1.56	\$ 1.41
NET INCOME PER COMMON SHARE	\$ 1.56	\$ 1.71
	=====	=====

WEIGHTED AVERAGE NUMBER OF COMMON SHARES

Total adjustments to net income	30,285	38,766
	-----	-----
Net cash provided by operating activities	96,026	111,417
	-----	-----
Cash flows from investing activities:		
Purchase of fixed maturity securities, net of payable for investments purchased	(342,288)	(224,811)
Sale of fixed maturity securities, net of receivable for investments sold	142,388	112,780
Redemption of fixed maturity securities, net of receivable for investments redeemed	40,091	42,940
Sale (purchase) of short-term investments, net	1,742	(13,160)
Sale (purchase) of other investments, net	87,956	(10,294)
Purchases for municipal investment agreement portfolio, net of payable for investments purchased	(460,578)	---
Sales from municipal investment agreement portfolio, net of receivable for investments sold	261,642	---
Capital expenditures, net of disposals	(1,008)	(2,689)
	-----	-----
Net cash used by investing activities	(270,055)	(95,234)
	-----	-----
Cash flows from financing activities:		
Dividends paid	(10,836)	(8,805)
Purchase of treasury stock	(8,886)	---
Proceeds from issuance of municipal investment agreements	277,591	---
Payments for drawdowns of municipal investment agreements	(80,546)	---
Exercise of stock options	434	2,212
	-----	-----
Net cash provided (used) by financing activities	177,757	(6,593)
	-----	-----
Net increase in cash and cash equivalents	3,728	9,590
Cash and cash equivalents - beginning of period	2,492	11,226
	-----	-----
Cash and cash equivalents - end of period	\$ 6,220	\$ 20,816
	=====	=====
Supplemental cash flow disclosures:		
Income taxes paid	\$ 1,818	\$ 895
Interest paid:		
Long-term debt	\$ 9,188	\$ 9,188
Municipal investment agreements	2,880	---

</TABLE>

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

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MBIA INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Form 10-K for the year ended December 31, 1993 for MBIA Inc. and Subsidiaries (the "Company"). The accompanying unaudited consolidated financial statements have not been audited by independent accountants in accordance with generally accepted auditing standards but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three months ended March 31, 1994 may not be indicative of the results that may be expected for the year ending December 31, 1994. The December 31, 1993 condensed

balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

2. Dividends Declared

Dividends declared by the Company during the three months ended March 31, 1994 were \$10.8 million.

3. Investments in Debt and Equity Securities

As of March 31, 1994 the Company adopted Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities." Fixed-income investments, which were previously carried at amortized cost were deemed by management to be available-for-sale and therefore are reported at market value with net unrealized gains reported in shareholders' equity. The adoption of SFAS 115 resulted in an increase of \$64.8 million in the reported value of the Company's investment portfolio and an increase in shareholders' equity of \$42.1 million. There was no income statement impact.

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MBIA INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

1994 AND 1993 - FIRST QUARTER RESULTS

MBIA Inc.'s (the "Company") 1994 first quarter net income and earnings per share were \$65.7 million and \$1.56, respectively. Excluding the effects of accounting changes, first quarter 1994 net income and earnings per share increased 10% and 11%, respectively, over first quarter 1993. The Company's 1993 results included an extraordinary net income benefit of \$12.9 million or \$0.30 per share from the adoption of mandatory accounting changes primarily related to deferred taxes. Including the accounting changes, first quarter 1994 net income and earnings per share declined 10% and 9%, respectively.

The Company also measures its performance in terms of core earnings, which exclude the effects of the relatively less predictable elements of net premiums earned from refundings and calls of previously insured issues, realized gains and accounting changes. Core earnings increased by 17% to \$1.27 per share compared with \$1.09 a year ago, reflecting the Company's continuing ability to produce consistent growth from its expanding portfolio of insured issues and investment portfolio.

According to The Bond Buyer, long-term new issue municipal bond volume was \$49.8 billion of par value in the first quarter of 1994, down from \$67.3 billion in the first quarter of 1993. For both periods, the insured portion was 37%. In the first quarter of 1994, the Company's principal operating subsidiary, Municipal Bond Investors Assurance Corporation ("MBIA Corp."), led the industry in market share, guaranteeing 35% of the insured long-term new issue municipal bond volume. In addition, the Company led the new issue insured structured finance market, with a 35% share of the market.

With the decline in overall market volume, gross premiums written by MBIA Corp. decreased 14% to \$84.3 million during the first quarter, from \$98.0 million during the first quarter of 1993. New issue and secondary market municipal and asset-backed premiums, the major components of gross premiums written, decreased 13% to \$76.8 million compared with \$87.8 million in the same period last year. Installment premiums received for policies issued in prior years, including net amounts assumed related to the installment business of the Association, were \$7.3 million and \$6.5 million for the first quarters of 1994 and 1993, respectively. Gross premiums written also included portfolio assumptions of \$0.2 million and \$3.7 million for the first

quarters of 1994 and 1993, respectively.

With the decrease in the volume of gross premiums written, premiums ceded to reinsurers declined 12% to \$7.8 million during the first quarter of 1994 compared to \$8.8 million in the same period last year. In both the first

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MBIA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

quarters of 1994 and 1993, premiums ceded as a percentage of gross premiums written were constant at 9%.

Net premium writings of \$76.5 million for 1994 also decreased 14% from \$89.2 million in the same period last year.

Typically, insurance premiums are paid in full at the time the insurance policy is issued and are earned pro rata over the period of risk. Premiums are allocated to each bond maturity based on par amount and are earned on a straight-line basis over the term of each maturity. Accordingly, the portion of net premiums earned on each policy in any given year represents a relatively small percentage of the total net premium received. The balance represents deferred premium revenue which will be earned in the future over the remaining life of the bond.

Installment premiums are not recorded as a component of deferred premium revenues until received and therefore represent an off-balance sheet value which will contribute to future earned premiums. As of March 31, 1994, MBIA estimates the present value of its future stream of payments to be \$187.6 million.

Premiums earned in the first quarter increased 2% to \$54.5 million from \$53.5 million in the first quarter of 1993. This increase was a result of the growth in deferred premium revenues from the addition of new business in 1993, partially mitigated by the decline in earned premiums resulting from lower bond refundings and calls during 1994.

When an MBIA-insured bond issue is refunded or retired early, the outstanding liability associated with the refunded or called portion is extinguished and the remaining deferred premium revenue is earned immediately, except for any portion which may be applied as a credit toward the premium charged on the refunding bond issue if such refunding issue is insured by MBIA Corp. Earned premiums generated by refunded and called bonds in the first quarter of 1994 and 1993 were \$14.5 million and \$19.9 million, respectively. Of these amounts, \$8.9 million and \$11.2 million, respectively, related to issues for which MBIA Corp. insured the replacement bonds. The amount of bond refundings and calls is difficult to predict since it is influenced by a variety of factors such as prevailing interest rates relative to the coupon rates of the original issue, the issuer's desire to modify restrictive covenants and changing requirements under the Internal Revenue Code.

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MBIA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

The Company's total investments were \$3.82 billion as of March 31, 1994, including \$675.7 million related to the Company's municipal investment agreement business. Net investment income

(excluding the amount earned on investment agreement assets which are recorded as a component of non-insurance revenues) increased 10% to \$46.9 million in the first quarter of 1994 compared with \$42.6 million in the corresponding period of 1993. The increase was a result of the growth of invested assets from continued positive operating cash flows. Average investments excluding investment agreement assets were \$3.01 billion in the first quarter of 1994 compared with \$2.58 billion for the same period last year. Tax-exempt investments as of March 31, 1994 represented 75% of total investments excluding investment agreement assets, compared with 70% at December 31, 1993. Net realized capital gains in the first quarter of 1994 increased to \$6.4 million from \$2.3 million in the same period of 1993. The Company realized \$9.4 million in gains from the liquidation of its investment in an S&P indexed fund, which was partially offset by \$3.0 of realized losses in its fixed income portfolio.

MBIA has undertaken the development of non-insurance businesses which capitalize on its core capabilities. In aggregate for the first quarter 1994, these businesses contributed \$2.2 million, double the first quarter 1993 revenues of \$1.1 million.

MBIA Municipal Investors Services Corporation ("MBIA/MISC") provides cash management services for local governments, school districts and similar authorities. As of March 31, 1994 MBIA/MISC had 662 clients and over \$2.1 billion of client assets under management. MBIA/MISC is operating in seven states and plans to continue its expansion into additional states in the near term.

In 1993, the Company formed MBIA Investment Management Corp. ("IMC"), which provides investment vehicles in the form of investment agreements guaranteed as to principal and interest, for states, municipalities and municipal authorities. At March 31, 1994, IMC had outstanding investment agreements of \$693.6 million. The related assets are invested in high quality securities and are recorded as a component of the Company's total investments, exclusive of payables and receivables for investments not settled.

Municipal investment agreements are recorded as balance sheet liabilities at the time such agreements are executed. The liability for a municipal investment agreement is carried at the principal value of the

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MBIA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

obligation plus accrued interest due. Interest expense on municipal investment agreements is computed daily based upon the outstanding liability balance at rates specified in the agreements, and that expense is deducted from the investment income from the related assets in non-insurance revenues.

The provision for losses and loss adjustment expenses for the first quarter of 1994 was \$1.9 million, compared with \$1.5 million in 1993, representing additions to the loss reserves consistent with the Company's reserve methodology. At March 31, 1994, \$22.4 million of the \$35.6 million loss and loss adjustment expense reserve was allocated on a case basis, compared with \$7.3 million of the \$27.0 million reserve for first quarter-end 1993. During the first quarter of 1994, the Company's case reserves increased by \$14.9 million of which \$13.4 million related to five issues added to the case specific portion of the total reserve. None of these issues are in default. The increase in case reserves had no impact on net income, since the increase in the Company's case-specific reserve was offset by a corresponding decrease in the unallocated portion of its general loss reserve.

Other insurance related expenses which are composed of net policy acquisition costs and operating expenses increased by

almost 2%, paralleling the increase in earned premiums for the period.

Expenses related to the Company's non-insurance business lines increased to \$2.3 million in the first quarter of 1994 from \$1.0 million in the first quarter of 1993 due to the expansion of these new businesses.

The Company's interest expense was constant at \$6.7 million for the first quarters of 1994 and 1993.

In aggregate, expenses for the first quarter of 1994 increased by 7% over the first quarter of 1993.

The Company's effective tax rates at 20.7% and 20.8% for the first quarters of 1994 and 1993, respectively, were virtually unchanged despite the increase in the Federal corporate tax rate. This was due principally to the Company's strategy to shift towards a higher proportion of tax-exempt securities in its investment portfolio.

During the first quarter of 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities." Fixed-income investments, which were previously carried at amortized cost are now classified as available-for-sale and reported at market value. The first quarter 1994 impact of this

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MBIA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

change was an increase of \$64.8 million in the reported value of the Company's investment portfolio and an increase in shareholders' equity of \$42.1 million, or \$1.01 in book value per share. Changes in the market value of securities classified as available-for-sale have no income statement impact.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated reported invested assets and cash grew 8% to \$3.83 billion at March 31, 1994 from \$3.55 billion at year-end 1993. The increase was due to continued positive operating cash flow from MBIA Corp.'s insurance premiums, investment income, an increase in the municipal investment agreement portfolio and the impact of SFAS 115.

The Company's liquidity is largely dependent upon MBIA Corp.'s ability to pay dividends to the Company. MBIA Corp.'s net income, comprised of premium earnings and investment income less losses, expenses and taxes, is a source of continuing additions to capital and dividend paying capability. Under New York insurance law, without prior approval of the Superintendent of the New York State Insurance Department, MBIA Corp. may pay a dividend only from earned surplus subject to the maintenance of a minimum capital requirement, and the dividends in any 12-month period may not exceed the lesser of 10% of its policyholders' surplus as shown on its last filed statutory-based financial statements or adjusted net investment income, as defined, for such 12-month period. MBIA Corp. paid no dividends in the first quarter of 1994 and at March 31, 1994 had in excess of \$68 million available for payment of further dividends to the Company without prior approval.

MBIA Corp. has an irrevocable standby line of credit of \$575 million with a group of major banks to provide funds for the payment of claims in the event that severe losses should occur. The agreement is for a seven-year term expiring on December 31, 2000 but, subject to approval by the banks, the agreement may be renewed annually to extend the term to seven years beyond the renewal date. To further facilitate the immediate payment of

claims, should they occur, MBIA Corp. has established lines of credit totaling \$130 million with four other major banks. The Company also maintains a \$25 million revolving line of credit with a major bank for general corporate purposes. As of March 31, 1994, there were no outstanding borrowings under these agreements.

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MBIA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

MBIA Corp. also maintains a high degree of liquidity within its investment portfolio in the form of readily marketable high quality fixed income securities and short-term investments. In management's opinion, the capital resources of MBIA Corp., represented by the liquidity of its investment portfolio, its cash flow from operations and bank lines of credit are more than adequate to meet the Company's expected cash requirements.

At March 31, 1994, MBIA Corp. had \$22.4 million in case specific loss reserves. Any related payments are expected to be funded from operating cash flows.

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PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

<TABLE>

<C> <S>

11. Computation of Earnings Per Share Assuming Full Dilution

</TABLE>

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MBIA INC.

Registrant

Date: May 12, 1994

/s/ ARTHUR M. WARREN

Arthur M. Warren
Senior Vice President,
Chief Financial Officer &
Treasurer

Date: May 12, 1994

/s/ JULIETTE S. TEHRANI

Julliette S. Tehrani
Senior Vice President,
Controller & Assistant Treasurer
(Principal Accounting Officer)

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MBIA INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE ASSUMING FULL DILUTION

(In thousands except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31	
	1994	1993
<S>	<C>	<C>
Net income	\$65,741	\$72,651
Fully diluted shares:		
Average number of common shares outstanding	41,719	41,900
Assumed exercise of dilutive stock options	436	557
	42,155	42,458
Earnings per share assuming full dilution	\$ 1.56	\$ 1.71

</TABLE>