

ASSURED GUARANTY LTD
Form 10-Q
August 10, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

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

transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

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Bermuda
(State or other jurisdiction of incorporation)

98-0429991
(I.R.S. employer identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(address of principal executive office)

(441) 299-9375

(Registrants telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of registrant's Common Shares (\$0.01 par value) outstanding as of July 31, 2009 was 156,599,838 (excludes 455,234 unvested restricted shares).

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Assured Guaranty Ltd.****Consolidated Balance Sheets**
(in thousands of U.S. dollars except per share and share amounts)

(Unaudited)

	June 30, 2009	December 31, 2008
Assets		
Fixed maturity securities, at fair value (amortized cost: \$3,418,383 in 2009 and \$3,162,308 in 2008)	\$ 3,413,257	\$ 3,154,137
Short-term investments, at cost which approximates fair value	1,170,970	477,197
Total investments	4,584,227	3,631,334
Cash and cash equivalents	8,507	12,305
Accrued investment income	31,477	32,846
Deferred acquisition costs	374,087	288,616
Prepaid reinsurance premiums	23,121	18,856
Reinsurance recoverable on ceded losses	4,533	6,528
Premiums receivable	752,892	15,743
Goodwill	85,417	85,417
Credit derivative assets	146,350	146,959
Deferred tax asset	209,109	129,118
Current income taxes receivable	26,351	21,427
Salvage recoverable	199,828	80,207
Committed capital securities, at fair value	10,158	51,062
Other assets	39,682	35,289
Total assets	\$ 6,495,739	\$ 4,555,707
Liabilities and shareholders equity		
Liabilities		
Unearned premium reserves	\$ 2,222,717	\$ 1,233,714
Reserves for losses and loss adjustment expenses	200,287	196,798
Profit commissions payable	10,220	8,584
Reinsurance balances payable	33,754	17,957
Funds held by Company under reinsurance contracts	30,000	30,683
Credit derivative liabilities	957,752	733,766
Long-term debt	516,974	347,210
Other liabilities	169,116	60,773
Total liabilities	4,140,820	2,629,485
Commitments and contingencies		
Shareholders equity		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 134,445,139 and 90,955,703 shares issued and outstanding in 2009 and 2008)	1,344	910
Additional paid-in capital	1,733,997	1,284,370
Retained earnings	622,369	638,055

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Accumulated other comprehensive (loss) income	(2,791)	2,887
Total shareholders equity	2,354,919	1,926,222
Total liabilities and shareholders equity	\$ 6,495,739	\$ 4,555,707

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations and Comprehensive Income
(in thousands of U.S. dollars except per share amounts)

(Unaudited)

	Three Months Ended				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues								
Net earned premiums	\$ 78,634	\$ 51,685	\$ 227,080	\$ 98,518				
Net investment income	43,300	40,232	86,901	76,806				
Net realized investment (losses) gains (includes impairment losses of \$14,833, consisting of \$36,466 of total other-than-temporary impairment losses, net of \$21,633 recognized in other comprehensive income, for the quarter ended June 30, 2009)	(4,888)	1,453	(21,998)	2,080				
Change in fair value of credit derivatives								
Realized gains and other settlements on credit derivatives	27,816	31,793	48,395	59,410				
Unrealized (losses) gains on credit derivatives	(254,284)	708,502	(227,302)	448,881				
Net change in fair value of credit derivatives	(226,468)	740,295	(178,907)	508,291				
Fair value (loss) gain on committed capital securities	(60,570)	8,896	(40,904)	17,407				
Other income	492	153	1,394	178				
Total revenues	(169,500)	842,714	73,566	703,280				
Expenses								
Loss and loss adjustment expenses	38,030	38,125	117,784	93,263				
Profit commission expense	2,071	1,022	2,326	2,202				
Acquisition costs	16,548	11,825	39,969	23,708				
Other operating expenses	22,594	19,665	50,291	48,303				
FSAH acquisition-related expenses	24,225		28,846					
Interest expense	6,484	5,820	12,305	11,641				
Other expenses	1,868	1,715	3,268	2,450				
Total expenses	111,820	78,172	254,789	181,567				
(Loss) income before (benefit) provision for income taxes	(281,320)	764,542	(181,223)	521,713				
(Benefit) provision for income taxes								
Current	(9,874)	7,212	1,701	17,325				
Deferred	(101,442)	212,114	(98,409)	128,381				
Total (benefit) provision for income taxes	(111,316)	219,326	(96,708)	145,706				
Net (loss) income	(170,004)	545,216	(84,515)	376,007				
Other comprehensive income (loss), net of taxes								
Unrealized holding gains (losses) on fixed maturity securities arising during the year	59,667	(41,289)	49,965	(46,186)				
	7,114	(895)	24,189	(1,289)				

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Reclassification adjustment for realized losses (gains) included in net (loss) income							
Change in net unrealized gains on fixed maturity securities	66,781	(42,184)	74,154	(47,475)			
Unrealized losses on fixed maturity securities related to factors other than credit	(19,968)		(19,968)				
Change in cumulative translation adjustment	6,384	(458)	(2,003)	(101)			
Cash flow hedge	(104)	(104)	(209)	(209)			
Other comprehensive income (loss), net of taxes	53,093	(42,746)	51,974	(47,785)			
Comprehensive (loss) income	\$ (116,911)	\$ 502,470	\$ (32,541)	\$ 328,222			
Earnings per share:							
Basic	\$ (1.82)	\$ 6.01	\$ (0.91)	\$ 4.38			
Diluted	\$ (1.82)	\$ 5.96	\$ (0.91)	\$ 4.35			
Dividends per share	\$ 0.045	\$ 0.045	\$ 0.09	\$ 0.09			

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

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Consolidated Statements of Shareholders' Equity
For Six Months Ended June 30, 2009
(in thousands of U.S. dollars except per share amounts)

(Unaudited)

	Common Stock		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total Shareholders' Equity	
Balance, December 31, 2008	\$	910	\$	1,284,370	\$	638,055	\$	2,887	\$	1,926,222
Cumulative effect of accounting change - Adoption of FAS 163 effective January 1, 2009						19,443				19,443
Cumulative effect of accounting change - Adoption of FSP 115-2 effective April 1, 2009						57,652	(57,652)			
Net loss						(84,515)				(84,515)
Dividends (\$0.09 per share)						(8,199)				(8,199)
Dividends on restricted stock units				67		(67)				
Net proceeds from issuance of common stock		443		447,647						448,090
Common stock repurchases		(10)		(3,666)						(3,676)
Shares cancelled to pay withholding taxes		(1)		(982)						(983)
Shares issued under ESPP				205						205
Share-based compensation and other		2		6,356						6,358
Change in cash flow hedge, net of tax of \$(113)							(209)			(209)
Change in cumulative translation adjustment							(2,003)			(2,003)
Unrealized losses related to factors other than credit, net of tax of \$(1,665)							(19,968)			(19,968)
All other unrealized gains on fixed maturity securities, net of tax of \$12,739							74,154			74,154
Balance, June 30, 2009	\$	1,344	\$	1,733,997	\$	622,369	\$	(2,791)	\$	2,354,919

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)

(Unaudited)

	Six Months Ended	
	June 30,	
	2009	2008
Operating activities		
Net (loss) income	\$ (84,515)	\$ 376,007
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities:		
Non-cash interest and operating expenses	8,542	10,771
Net amortization of (discount) premium on fixed maturity securities	(4,810)	2,295
Accretion of discount on premium receivable	(10,812)	
(Benefit) provision for deferred income taxes	(98,409)	128,381
Net realized investment losses (gains)	21,998	(2,080)
Unrealized losses (gains) on credit derivatives	227,302	(448,881)
Fair value loss (gain) on committed capital securities	40,904	(17,407)
Change in deferred acquisition costs	16,365	(25,282)
Change in accrued investment income	1,369	(5,451)
Change in premiums receivable	(4,899)	1,962
Change in prepaid reinsurance premiums	2,360	(7,121)
Change in unearned premium reserves	161,350	320,214
Change in reserves for losses and loss adjustment expenses, net	(73,400)	19,843
Change in profit commissions payable	1,636	(11,583)
Change in funds held by Company under reinsurance contracts	(683)	3,852
Change in current income taxes	(4,924)	(3,372)
Tax benefit for stock options exercised		(10)
Other changes in credit derivatives assets and liabilities, net	(2,707)	(2,820)
Other	6,113	(7,956)
Net cash flows provided by operating activities	202,780	331,362
Investing activities		
Fixed maturity securities:		
Purchases	(827,862)	(840,455)
Sales	705,004	252,503
Maturities	5,500	3,350
(Purchases) sales of short-term investments, net	(693,637)	17,807
Net cash flows used in investing activities	(810,995)	(566,795)
Financing activities		
Net proceeds from issuance of common stock	448,495	248,978
Net proceeds from issuance of equity units	167,972	
Dividends paid	(8,199)	(7,769)
Repurchases of common stock	(3,676)	

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Share activity under option and incentive plans		(778)		(3,833)
Tax benefit for stock options exercised				10
Net cash flows provided by (used in) financing activities		603,814		237,386
Effect of exchange rate changes		603		123
(Decrease) increase in cash and cash equivalents		(3,798)		2,076
Cash and cash equivalents at beginning of period		12,305		8,048
Cash and cash equivalents at end of period	\$	8,507	\$	10,124
Supplementary cash flow information				
Cash paid during the period for:				
Income taxes	\$	6,836	\$	20,700
Interest	\$	11,800	\$	11,800

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

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**Assured Guaranty Ltd.
Notes to Consolidated Financial Statements**

June 30, 2009

(Unaudited)

1. Business and Organization

Assured Guaranty Ltd. is a Bermuda-based holding company which provides, through its operating subsidiaries, credit enhancement products to the public finance, structured finance and mortgage markets (together with its subsidiaries, the Company). Credit enhancement products are financial guarantees or other types of support, including credit derivatives, which improve the credit of underlying debt obligations. The Company issues policies in both financial guaranty and credit derivative form. Assured Guaranty Ltd. applies its credit expertise, risk management skills and capital markets experience to develop insurance, reinsurance and derivative products that meet the credit enhancement needs of its customers. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued. A derivative is a financial instrument whose characteristics and value depend upon the characteristics and value of an underlying security. Assured Guaranty Ltd. markets its products directly to and through financial institutions, serving the U.S. and international markets. Assured Guaranty Ltd.'s financial results include four principal business segments: financial guaranty direct, financial guaranty reinsurance, mortgage guaranty and other. These segments are further discussed in Note 14.

Financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of principal and interest when due. Financial guaranty insurance may be issued to the holders of the insured obligations at the time of issuance of those obligations, or may be issued in the secondary market to holders of public bonds and structured securities. A loss event occurs upon existing or anticipated credit deterioration, while a payment under a policy occurs when the insured obligation defaults. This requires the Company to pay the required principal and interest when due in accordance with the underlying contract. The principal types of obligations covered by the Company's financial guaranty direct and financial guaranty assumed reinsurance businesses are structured finance obligations and public finance obligations. Because both businesses involve similar risks, the Company analyzes and monitors its financial guaranty direct portfolio and financial guaranty assumed reinsurance portfolio on a unified process and procedure basis.