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CORPORATE PARTICIPANTS

Mona Zeehandelaar

Radian Group - SVP IR

Bob Quint

Radian Group - CFO

Stephen Cooke

Radian Group - President of Guaranty Business

S.A. Ibrahim

Radian Group - CEO

Scott Tearbauld

Radian Group - Chief Risk Officer for MI

CONFERENCE CALL PARTICIPANTS

Jeffrey Dunn

KBW - Analyst

Steve Stelmach

FBR Capital Markets - Analyst

Andrew Brill

Goldman Sachs - Analyst

Gary Johnson

Alliance - Analyst

Mike Thrasher

Piper Jaffray - Analyst

Ken Posner

Morgan Stanley - Analyst

Scott Frost

HSBC - Analyst

Ken Zuckerberg

Fontana Capital - Analyst

Satish Palle

Merrill Lynch - Analyst

Larry Battelli

Moore Capital - Analyst

Laura Scam

Sonic Capital - Analyst

Nick Cano

Paulson - Analyst

Nandu Narayanan

Trident Investment Management - Analyst

Craig Carposie

Mast Capital - Analyst

Peter Wed

Diamondback - Analyst

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David Polson

Bear Stearns - Analyst

Makeita Kokkalie

Endeavor Capital - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Radian's Third Quarter 2007 Earnings Conference Call. At that time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be provided for you at that time. (OPERATOR INSTRUCTIONS) . As a reminder, today's conference is being recorded, Thursday November 1, 2007. At this time I would like to turn the conference over to Ms. Mona Zeehandelaar, Senior Vice President of Investor Relations and Corporate Communications. Please go ahead, ma'am.

Mona Zeehandelaar - *Radian Group - SVP IR*

Thank you Matt. Thank you everyone for joining us today. With me on the call are S.A. Ibrahim, Chief Executive Officer of Radian; Bob Quint, Chief Financial Officer; and Steve Cooke, President of our Financial Guaranty business; as well as other members of our management team. As I do every quarter, let me remind you that today's conference call will contain statements that are forward-looking. As you know, these statements are based on current expectations that are subject to risks and uncertainties. And Radian actual results may differ materially from those expressed or projected in these forward-looking statements. Factors that could cause Radian's actual results to be materially different than those in the forward-looking statements are described in the Safe Harbor statement that is included in our webcast and in the risk factors detailed in item 1-A of Part 1 of your annual report on Form 10-K for the 2006 fiscal year.

Today we will follow our normal format. S.A. will begin, followed by Bob, who will review key financial metrics for the quarter; and then we will take your questions. In the interest of time today I ask that all participants please limit themselves to one question and a follow-up, then return to the queue. This way we can give as many people as possible the opportunity to ask their questions. For those logged on to the webcast at www.Radian.biz, the slides are provided as background and should compliment our remarks today. Now it is my pleasure to introduce you to S.A..

S.A. Ibrahim - *Radian Group - CEO*

Thank you, Mona. And thank you all for joining us today. The third quarter's results were disappointing, but not unexpected given market conditions. We reported a net loss of \$704 million, and a diluted net loss per share of \$8.78. This net loss included several unusual items, some Radian specific, and some resulting from industry-wide problems in the subprime Mortgage market. Our plan today is to update you on the information we provided on our September investor calls. We shared many details on our Mortgage Insurance risk exposure with you on September 5, and we were very transparent on our entire book of business, including Alt-A which we have been disclosing for a long time. You can see from our reserves as a percentage of risk in force, we have been disciplined and consistent.

You will hear from Bob when he goes through each of these items and other third quarter-related items that our view of the expected ultimate losses in our traditional Mortgage Insurance book, NIMs, and second has not changed materially from our September 5, presentation. We believe the performance of our traditional MI book of business this quarter is comparable with the industry. I would like to note that our book value is solid at \$42.86 per share. While Mortgage Insurance credit losses will continue to impact our results for the foreseeable future, I'm encouraged by the positive trends in Mortgage Insurance penetration and by the resiliency of your Financial Guaranty business.

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We took a number of actions during the third quarter to instill market confidence, and to provide ourselves with greater financial flexibility and adequate liquidity for the long- term. On August 15, we bolstered our capital position by drawing down \$200 million of our \$400 million revolving credit facility. Although we have a further \$200 million at our disposal, we have no plans at this time to draw down the remaining capacity of the credit facility or to upstream cash dividends from any of our operating subsidiaries. The liquidity needs of holding company are minimal and current resources are adequate to meet them.

During the quarter, we contributed \$100 million to our Financial Guaranty business to help solidify its market position. This represented a statement to rating agencies, customers and counter parties regarding our confidence in the Financial Guaranty business. During September, Radian sold a portion of its investment in Sherman Financial for \$278 million. The proceeds will support the Mortgage Insurance business's capital position, which while strong will benefit additionally by the capital infusion during this credit cycle. These actions have further strengthened our balance sheet. We have a high quality investment portfolio, valued at \$6.5 billion at September 30, and total loss reserves of more than \$1 billion. We believe the strongest in the industry. We are in close contact with the rating agencies as one of the highest priorities is stable credit ratings. During the quarter, Standards and Poors removed Radian Group and Mortgage subsidiaries from negative watch and affirmed their counter party credit and financial strength rating with a negative outlook. We have hopeful that Moody's will report soon, and that their review of our capital adequacy Mortgage Insurance franchise and the viability of our revised business strategy will result in a confirmation of our current ratings.

Let me remind you that both Moody's and S&P's rating on our Financial Guaranty business remain AA-3 and AA with a stable outlook. While the current industry environment remains challenging, we are pleased to see many initiatives underway that are designed to stabilize the marketplace. In particular the initiatives taken by Mortgages lenders, the GFC and various regulators to strengthen underwriting and work on solutions to help borrowers stay in their homes, should have a positive effect.

We continue to be very proactive in maintaining close relationships with our customers and met with many of these customers at the recent Mortgage Banker's Association Conference in Boston. We were pleased to receive continued assurance of ongoing commitments and significant new business. Our message to them is that we will continue to focus on partnering with them on high-quality products and services that will make them successful and keep their borrowers in their homes.

This morning, we announced a change in our Mortgage Insurance leadership. Mark Casale is leaving Radian and I have appointed David Applegate as President of Radian Guaranty and Paul Bognanno to the newly created position of Vice Chairman of Radian Guaranty. Dave and Paul bring strong industry knowledge and expertise to Radian, and we are excited to have them on board. The benefits of Mortgage Insurance have been highlighted by the recent correction in the Mortgage market, creating opportunities for our industry. There are certainly challenges ahead, but also favorable market fundamentals. The skills, contacts, and industry reputations that Dave and Paul as industry veterans bring to Radian are aligned with our direction going forward, and they will add significant leadership and experience to energize Radian's Mortgage Insurance business.

Our Financial Guaranty business adds diversity and stability to Radian, and is strong compliment of Radian's book value and market value. Our exposure to RMBS is approximately 2% of our total net per outstanding and our webcast slides include details on the entire Financial Guaranty portfolio. Our Financial Guaranty team is work hard to restore confidence and demonstrate financial stability with their customers and counter parties.

Bob will now take you through an explanation of the main items that affected our financial performance in the third quarter.
Bob?

Bob Quint - Radian Group - CFO

Thank you, S.A.. For this quarter, since there are so many unusual item that impact our financial statements, I will be going through them one by one explaining each item and it's impact and how the third quarter figures relate to the projections given on September 5. The other thing we have done is isolated each unusual item, and depicted an impact to book value for the

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quarter. That is contained in both our press release and on Page 5 of the webcast slides, and sets forth both the pre-tax and after-tax impact. First item is the impairment in our C-BASS investment.

The September 5, presentation assumed that the entire \$468 million equity investment and the \$50 million demand note were fully impaired. Although there is still uncertainty regarding how the C-BASS situation will ultimately play out, we have enough information at this point to impair the entire \$468 million investment. We consider our \$50 million demand note to be fully recoverable and hence have not impaired that asset due to its relatively senior position in the cash flow waterfall of C-BASS under any of the possible outcomes. However, because the third quarter C-BASS financial statements are not yet finalized, the carrying value of the note has not yet been finalized. Although, we have done our best with the information we have, the outcome is still dependent on obtaining finalization final statements from C-BASS. We have offset our C-BASS impairment with a deferred tax asset, which we believe is fully recoverable although the timing of this recover is uncertain. Depending on what ultimately happens with C-BASS, we will be entitled to some portion of the residual equity left after all other creditors. Under some potential scenarios our remaining equity would be worth something greater than zero, but based on the information we now know, this is the best estimate of our value.

The next item is our NIMs mark-to-market loss. The number we disclosed on September 5, was a projected ultimate principal credit loss of \$340 million, or \$270 million on top of the \$70 million that we had previously booked through June 30. That is still our approximation of total principal losses, and we believe the number is adequately stressed. The cash collections on NIMs during the third quarter have been in line with our expectations, bringing our total exposure down to 715 million at September 30. Cash collections in October were another 25 million, which brings the up-to-date risk enforced to 690 million. However, the comprehensive mark to market impact for the quarter was approximately 366 million, which when added to the existing market June 30, of 66 million brings the current mark to 432 million. In addition to credit losses this fair value mark is obtained by incorporating other items including an theoretical adequate rate of return to a counter party will who would willing to take on this exposure from Radian. We consider the incremental mark above our expected credit loss equivalent to the spread-related mark on corporate CDOs, a mark that will turn around over time if our base case of 340 million is correct. If you recall none of the September 5, projections incorporated spread-related marks that we expect to turn around overtime. Of course we will update this mark on a quarterly basis and monitor the pay down of our NIMs exposure, as well as any updates to our NIMs principal loss projection.

The next item is second lease. Our expected future claim losses that we communicated on September 5, of approximately \$300 million has not changed. However, due to a component of FAS 60 that covers Insurance Accounting, because we view second liens as a separate product that has been sold and measured separately from traditional MI, we have accelerated the present value of the expected future losses and expenses above expected future premiums, and have booked that number as a premium deficiency. The number was \$155 million, and it will not impact the timing of defaults and claim payments on second liens at all. In fact, the same projections that came up with our \$300 million of future projected losses were used to calculate this premium deficiency. Please also remember that this is our best estimate of future losses, but we have the least amount of certainty around this projection. This is simply an acceleration of a recording of a portion of these ultimate losses. Premium deficiency is shown as a separate line on our P&L and the balance sheet, and we will update it every quarter.

Next item is our traditional MI business loss provision, which reflects the higher delinquencies than claims that occurred this quarter. Our paid claims came in at \$137 million, right at our expectations. We expect the paid claim number to be 160 to 170 million for the fourth quarter and between 675 million and 750 million for 2008. Both of these numbers include second lien loss payments. The increase in delinquencies combined with roll-rate adjustments and larger loan balances has required us to book an increase to the loss reserves of \$142 million for the quarter, bringing our provision for losses to 279 million. This reserve change keeps our reserve levels very strong and provides what we believe is the best estimate of future claim payments on current delinquency.

We believe that our reserves have been consistently the strongest in the industry, and our incurred loss ratio in the past has reflected that. Importantly, there is no significant change to the aggregate amount of our base-case ultimate loss expectations presented on September 5, with regard to our current book of business. Although the short-term timing of MI losses is very

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difficult to predict, and the timing of losses has been more front loaded in recent vintages. Our base-case scenario for ultimate losses which is calibrated to the avail index is done on an MSA by MSA basis and incorporates our expectations for big near-term declines in many parts of the country that we feel are most vulnerable. For example, we expect the MSAs of Sarasota and West Palm Beach in Florida, and those of Sacramento and Fresno in California to have much greater than 10% declines through year-end 2008. There are other MSAs in other areas, such as in Texas where we have incorporated house price appreciation. We believe our numbers are adequately stressed, and are continually refining our models, and although some pieces have moved around, our loss projection through 2010 are in the same range as those presented in September 5.

However, because loss projections are exactly that, projections, we have provided numbers in a more stressed economic in housing environment, one in which house prices in California, Florida, the auto states and all of our bubble MSAs declined by over -- by 20% over three years. That stress, produced incremental losses through 2010 of \$730 million as we set forth on September 5. After a further refinement of that stress scenario, where we have front-loaded more of the stress losses, we are changing the 730 million to 760 million, only a minimal decrease in book value on top of the \$5.90 previously disclosed. Still, in that badly stressed environment, which based on historical% president, we believe is well worse than what will actually happen. The MI Company maintains a strong level of capital. The Ultimate Capital and Smart Home recoveries assumed in our base case is about \$50 million, and in the stress case is approximately \$270 million. Those recovers will not happen until at least 2009 and later, hence the front loading of more of our losses in 2007 and 2008 before any such recoveries are possible.

There is a policy acquisition amortization acceleration in the MI business this quarter caused by the increase in loss expectation. That acceleration was approximately \$8 million. There is a \$17 million increase in premiums earned this quarter that resulted from a premium accrual adjustment. While premiums earned are still strong due to the insurance enforce growth the run rate for earned premium should not include this one-time adjustment. We do expect flow premiums earned to continue to grow over the near-term, which reflects our expectation that our flow insurance in force will continue to grow due to good penetration for the MI industry, and higher persistency which has gotten up to the low 80s. Flow new insurance written volume of 12.2 billion for the third quarter is almost double what it was a year ago, and up 15% from last quarter. The mix of business is also expected to change in the fourth quarter, as more of our business written is prime and less is Alt-A. That trend should continue.

We accrued all additional merger-related expenses and reversed out any previously booked expenses that were contingent upon merger completion. The operating expense this quarter also reflects significantly lower FAS 123R compensation expenses that are tied to stock performance and financial performance. With expenses containing several unusual items, we have looked at a potential run rate for the expense line, and that's policy acquisition and other operating expenses into 2008 and expect it to be in the \$80 million range per quarter on a consolidated basis.

Financial Guaranty results this quarter reflect an increase to the allocated nonspecific reserves of \$50 million for the transaction that was discussed on our Financial Guaranty call last month. This deal originated in 2003, has a total maximum exposure of \$100 million, and is the only direct market value transaction on Radian Assets books. The AA, and AAA collateral on that deal needs to be liquidated over a 6-month period, because since we last spoke about the transaction, the deal has extended. So far the credit performance of the underlying assets has been adequate. However, due to the nature of much of the collateral and to overall ABS spreads the market value of the collateral has fallen substantially. We have determined that the best way to book a loss provision is to use a current equivalent of a mark-to-market expectation about the valuation of the collateral since there is no basis to predict where the collateral value will go over that six-month period. If over the period the collateral can be liquidated at better rates the loss could be lower. However, based on the information we have today, this is a best estimate of future losses. Even with this addition, the Financial Guaranty loss reserve, our year-to-date loss ratio for that segment is 27%.

The mark-to-market adjustment in Financial Guaranty for the quarter is \$256 million, and we believe this number does not contain material credit impairment. As we said on the September 5t, call, we expect most, if not all of this mark to turn around over time or when spread tightens. The mark-to-market loss is GAAP only and has no impact on Radian assets claim-paying resources for regulatory purposes or rating agency purposes. The balance of Financial Guaranty performed generally in line with expectations. We had extremely strong reinsurance premiums written, strong refunding, and a continued reversal of trade credit losses which helped improve the overall operating performance.

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The Domestic Mortgage Insurance CDS business has further negative mark of \$17 million this quarter. The total exposure on this business is \$212 million and we don't expect a material amount ultimate credit losses as most of this exposure is related to deals that are performing well. The deals are domestic RMBS swaps rated between BB B and single A, and range from the May 2005 vintage to January 2006 vintage with the majority of exposure from 2005 vintage production. The international CDS had a negative mark this quarter of \$5 million, all of which we consider spread related. Although the notional exposure on this business is very high at 8.1 billion, please remember that Radian's attachment point is super AAA, and we so no reasonable scenario which we would incur any credit losses in such exposure. One transaction has a current attachment point of 6.12%, is seasoned 4.6 years and losses to date are 0.002%, and has a weighted average LTD of 50%. The other transaction has an attachment point of 4%, it's three year's seasoned. Losses to date are 0.001% and a weighted average LTD of 62%. In both deals our attachment point is over 10 times expected losses.

The Sherman gain recognized for this quarter was \$181.7 million. And the equity pickup will be measured as of September 1, at 21.78% of Sherman's earnings. For this quarter, the equity reflected one month at that new percentage. As part of the sale, we have given Sherman management a one-year option to buy our remaining stake in Sherman for a purchase price of around \$326 million. If the option is exercised, we will have another gain on sale to be recognized. There is a possible contingent payment at a future date associated with the Sherman sale, and this will not be reflected until it is measurable, likely in many years but no later than 2013. A very important thing to note, none of the unusual items that have created losses for the quarter represent immediate liquidity events and the C-BASS impairment and our spread related mark-to-market movement will never be a liquidity event. In fact, our cash flow for this quarter was significantly positive. Radian remains in a very strong capital position that was bolstered by the \$100 million contribution made to Financial Guaranty and the \$278 million cash proceeds from the Sherman sale that came to the MI business. The excess losses on MI, NIMs, and seconds will develop over time and we believe we have the capital in the MI Company to absorb these losses and maintain a strong overall capital level.

Our current cash position at the holding company is over \$100 million, and the one potential liquidity need in the short-term, an estimated \$84 million IRS advance payment is allowed to be collected from our subsidiaries under our tax-sharing arrangement. We also have \$200 million available under our existing credit line, although we have no current plans to draw that money down. Our MI risk to capital is 11.9 to 1 at September 30. However, if we exclude the super AAA international credit default swap, which needs very little capital to support that risk the risk to capital is 9.7 to 1. Certainly a very strong number, and importantly our capital stands the test of the rating agencies, which are far more detailed than a simple risk to capital. At 21.6%, our debt-to-capitalization is a little over our targeted range of 15 to 20%, and we expect to manage that back down over time. If you look at the book value projections done at September 5, they project a book value of \$46.90 at December 31, 2007. As we indicated during that call, these projections do not include spread-only mark-to-market movement, which for the third quarter was \$2.06 for Financial Guaranty and approximately \$0.78 for the mark-to-market in the NIMs above our projected credit losses. And the premium deficiency on second liens also accelerated the current P&L impact further. Other than those differences the book value is very close to our projections.

I hope that covers all of the unusual item as well as some of the routine items contained within our financial We expect that next quarter we'll return to a more normal situation although we have said that MI losses should remain at very elevated levels at least through 2008 and into 2009. We would now like to turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) One moment, please for our first question. And our first question comes from Jeffrey Dunn with KBW, please go ahead.

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Jeffrey Dunn - KBW - Analyst

Thank you, good morning. More of the rating agencies question the NIMs at 270, thinking it could be more. Where do you think they differ in their expectation versus yours?

Bob Quint - Radian Group - CFO

I think they -- you are talking about S&P, and I think they said they are differing with regard to the more recent vintage business the 2007 -- early 2007 vintage that we are projecting minimal losses, and they had a number that was a little bit higher. We have updated our numbers through quarter end, and we feel comfortable with our numbers and our projections.

Jeffrey Dunn - KBW - Analyst

Okay. And then you contributed 100 million to Financial Guaranty in August, and then the market value CDO popped up in September and clipped away 50 million of that contribution. Do you feel you need to shore that up? Or was that already kind of known behind the scenes?

Bob Quint - Radian Group - CFO

Well, we're pretty comfortable with our capital position. I think the S&P and Moody's stable outlooks have confirmed that. So we're very comfortable with our capital position in FG even after the provision on that transaction.

Jeffrey Dunn - KBW - Analyst

Okay. And last question on the seconds, I'm not sure I understand the accounting here, but does this effectively mean we're not going to see provisioning for future expected pay claims? It's taken care of by the accounting measure that was posted this quarter?

Bob Quint - Radian Group - CFO

Essentially. If our projections are correct, we have front loaded present value of future losses and future premiums. So the only net P&L impact you should see going forward would be the time value unless our projections change over time.

Jeffrey Dunn - KBW - Analyst

How does that effect the premium line?

Bob Quint - Radian Group - CFO

The premium --

Jeffrey Dunn - KBW - Analyst

Would that essentially go to zero, and the provision goes to zero, and this accounts for it?

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Bob Quint - Radian Group - CFO

No, the premiums and the losses in the future will still be booked through those lines. The adjustment to the P&L will occur through the premium deficiency. So, making up numbers -- there's \$10 million of premiums next quarter, that will run through the premiums line. If there's \$20 million of losses, that will run through the losses line. And then the net of \$10 million will be a decrease to the premium deficiency, and the net P&L will be zero, understanding that the time value will always be an increase, essentially to the P&L impact.

Jeffrey Dunn - KBW - Analyst

Okay. To the hit effectively net amortize through the P&L over the next couple of years?

Bob Quint - Radian Group - CFO

That's right.

Jeffrey Dunn - KBW - Analyst

Thank you.

Operator

Thank you, sir. Our next question comes from Steve Stelmach with FBR Capital Markets. In addition I would like to remind everyone to please ask one question and replace yourself into the queue by pressing star one. Again, our next question comes from Steve Stelmach, please go ahead.

Steve Stelmach - FBR Capital Markets - Analyst

Yes, good morning. Could you just give us some incite on the new business you are writing in the Financial Guaranty segment? It looks like the public financial reinsurance business was pretty solid. Could you let us know what is driving that, one? And then for the rest of the business, particularly the structured finance, how is that progressing, and give us an outlook on sort of interest and the Financial Guaranty wrap.

Bob Quint - Radian Group - CFO

I think one of the benefits that we have is that we have a diverse book of business which is balanced between both the direct and the reinsurance business. I think what we have found on the reinsurance side -- and this is consistent with results you have seen from a number of companies who are our clients on the reinsurance side -- that some of that activity among the AAAs has been robust and we have benefited from that. Likewise we had a robust quarter in terms of refunding. In terms of our structured finance direct business, we have been active in the CDO space, although certainly less active than previous quarters, given overall developments in that market. But likewise, that is a balance -- a business which is balanced, not with only CDO activity, but also PMI activity, which has been an active area, particularly in the European market as well as our Financial Solutions business. Probably where we have been most impacted on the public finance direct side of the business, public Finance reinsurance as I said before, has been fairly robust. That direct business is one where we are still seeing activity in a number of the key sectors, although we are spending a lot of time bolstering market confidence in that area. We are pricing deals, currently on the fixed rate side. We're spending a lot of time starting with the investor call last month and with individual meetings with clients attempting to bolster market confidence. And I think as a lot of the uncertainty in the overhang from the Mortgage business clears up that will benefit our Public Finance Direct business overtime.

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Steve Stelmach - *FBR Capital Markets - Analyst*

Thank you.

Operator

Thank you, is sir. And our next question comes from Andrew Brill with Goldman Sachs. Please go ahead.

Andrew Brill - *Goldman Sachs - Analyst*

Thanks, just given that you are increasingly writing prime versus some of the higher yielding products you wrote in the past, how much of a decline in the premium yield should we expect going forward?

Bob Quint - *Radian Group - CFO*

I think-- I think it will occur overtime as some of the higher premium business runs off and some of the more traditional business with lower premium rates comes on. I think a slow, kind of steady decline is probably appropriate, although we also expect to grow our end force, and as we said we think our flow premiums earned will grow. A lot of the higher premium bulk business that was written in, more than '05 and prior, a lot of that has run off, so it's not a huge component anymore, so I think that will serve, also, to kind of slow down that trend of a decline in premium yield.

Andrew Brill - *Goldman Sachs - Analyst*

Just one more question quickly, on the captive reinsurance side, do you have a sense of sort of what level -- I guess an average cumulative loss ratio we would have to get to for the amount of capital in the trust to be insufficient to meet the claim?

Bob Quint - *Radian Group - CFO*

For the capital in the trust to be exhausted or to start paying claims?

Andrew Brill - *Goldman Sachs - Analyst*

To be exhausted.

Bob Quint - *Radian Group - CFO*

Yes, if the attachment point is, either 4 or 5%, which is on the order of a 80 to 90% loss ratio, then it comes out at 14%. You are talking about a loss ratio in excess of 200%, and probably closer to 300%.

Andrew Brill - *Goldman Sachs - Analyst*

So I guess the question I was really gearing toward is am I understanding there is only a limit amount of capital in though reinsurance trust. So let's say your losses reached let's say 14% of a risk enforced on a 40/10/40, you still run the risk on the amount of cash on hand in the actual reinsurance trust is insufficient to meet the amount of claims. Is that a fair way to think about it?

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Bob Quint - *Radian Group - CFO*

Yes, we're comfortable that -- if you go back to the stress scenario -- remember the stress scenario is one that we think is well worse than what we think will happen, and the ultimate captive recoveries are \$270 million, that is well less than the amount in the trust. So it would have to be a lot worse than our stress scenario, and we still have significant resources in the trust above that to -- to reimburse us.

Andrew Brill - *Goldman Sachs - Analyst*

Thank you.

Operator

Thank you, sir. Our next question comes from Gary Johnson with Alliance please go ahead.

Gary Johnson - *Alliance - Analyst*

Yes, I had a question about your surplus position at the end of the third quarter, how this was affected by charges and losses?

Bob Quint - *Radian Group - CFO*

Are you talk about our statutory --

Gary Johnson - *Alliance - Analyst*

Statutory surplus, yes.

Bob Quint - *Radian Group - CFO*

The -- on the MI side, we were bolstered by the Sherman sale, which provided \$278 million. We were also -- had some negative items. All in all for the quarter it was negative, but it wasn't that substantially negative, and we're very comfortable with our capital position in the MI business as of the end of the quarter.

Gary Johnson - *Alliance - Analyst*

How much was in?

Bob Quint - *Radian Group - CFO*

The exact amount of the --

Gary Johnson - *Alliance - Analyst*

Yes.

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Bob Quint - *Radian Group - CFO*

I don't -- I can't tell you.

Gary Johnson - *Alliance - Analyst*

Okay.

Operator

Thank you, sir. And our next question comes from Mike Thrasher with Piper Jaffray, please go ahead.

Mike Thrasher - *Piper Jaffray - Analyst*

Bob I was hoping you could help me reconcile a couple of items here. In the Mortgage Insurance, the change for value derivative instruments, the 388 number, versus I guess the 366 NIMs number that you show a few pages earlier what is the difference there?

Bob Quint - *Radian Group - CFO*

It's the 17 and the 5. To 366, 17 for domestic RMBS, swaps, and 5 for the international. So that should be 22 on top of the 366.

Mike Thrasher - *Piper Jaffray - Analyst*

Got you. Thank you for that. And then second, the last quarter there was a \$61 million NIMs mark, and so I'm trying to -- I guess, understand the 270 -- excuse me, the 366. Does that include or is that in addition to the 61 that was marked already in the previous quarter?

Bob Quint - *Radian Group - CFO*

In addition to. So, there's two things. The total mark was 66 at June, another 366, makes 432 --

Mike Thrasher - *Piper Jaffray - Analyst*

Got you.

Bob Quint - *Radian Group - CFO*

-- the credit component, we believe was 70 as of June with another 270, makes 340.

Mike Thrasher - *Piper Jaffray - Analyst*

Thank you, that's helpful.

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Operator

Thank you, sir. And our next question comes from Ken Posner with Morgan Stanley. Please go ahead.

Ken Posner - Morgan Stanley - Analyst

Hi, I was wondering if you guys could talk a little bit about the flow business, which is obviously the really valuable part of Mortgage Insurance franchise. I think we all understand these captives attach at 4 to 5%. The defaults, or I guess accumulative claims rates, I'm wondering if you can give just a little perspective about where these accumulative default rates were in the last couple of years, where you see them trending right now and sort of the assumptions you are making in your different cases that you talked about. The base case and the stress case.

Bob Quint - Radian Group - CFO

Okay. The -- historically, if you are talking about the prime business, historically claims on prime business have been in sort of the 2.5 to 3% range. We have depicted our expectations for each vintage on page 29 of our September 5, presentation. Some of the more recent vintages on the prime book we are expect, upwards of, 7%-ish claim rates. So, two to three times historical averages, and that's where the captive would conceivably kick in because the attachment point on captives is 4 to 5%. So we have put out the expectations around upping the claim rates on the -- by vintage by product in that September 5, presentation.

Ken Posner - Morgan Stanley - Analyst

And as a quick follow-up when you look around the country right now, what kinds of numbers are you seeing in the worst parts of the country like the Midwest or California versus the best parts, like Texas?

Bob Quint - Radian Group - CFO

Well, in terms of ultimate claim rates we -- it's very early in those vintages. So, we can look at delinquency rates and sort of early kinds of indications, but we don't have ultimate claim rates on those more recent vintages, which are really the ones that we're projecting most of the losses.

Ken Posner - Morgan Stanley - Analyst

Thank you.

Bob Quint - Radian Group - CFO

Okay.

Operator

Thank you, is sir. And our next question comes from Scott Frost with HSBC. Please go ahead.

Scott Frost - HSBC - Analyst

Yes, did you say your paid losses, projected paid losses in 2008 are going to be up to 750 million? That high? Is that what I heard you say on the call?

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Bob Quint - Radian Group - CFO

We said between 675 and 750, and that includes second liens as well as all of the first liens.

Scott Frost - HSBC - Analyst

Okay. Did you -- can you give us an idea or can you give us an idea about your expected profitability in 2008 given this -- given the information today?

Bob Quint - Radian Group - CFO

Well, we -- we put out there projections on September 5, and we have said that we are sticking by our ultimate claim projections on our MI book of business as well as the NIM projections and the second lien projections, so on an ultimate basis we feel confident in our protections. The difficult aspect of that is the timing in MI losses are very difficult to predict the timing of that. So at this point we're not saying with regard to 2008, exactly what that will look like; but certainly we expect the Financial Guaranty business to make money, and we expect Sherman to make money, and on the MI side, even if there are losses, the overall consolidated net income will be -- will not be significantly negative.

Scott Frost - HSBC - Analyst

Okay. Thank you.

Operator

Thank you, sir. Our next question comes from Ken Zuckerberg with Fontana Capital. Go ahead.

Ken Zuckerberg - Fontana Capital - Analyst

Yes, good morning. I have sort of a few questions that are inter related. I want to be mindful of the rule, but I feel we need to ask these. I guess first from the standpoint, Bob, of the information provided last month to today, obviously there's a bit of a disconnect between what you guys said and what the result is here, taking in to account there's different levels of assets that you are commenting on in more detail today. So I guess I wanted to ask you to address that, and also to provide some incite as to the capital position, if it's as solid as you think, what risk do we run if there's a 5 or 10% deterioration in some of the assumptions you have provided today? And what that could mean for debt-to-total cap which presumably would be even higher. More like the 30 range. And for S.A. I wanted to get a little bit more color financial controls, really get the data from the right people below you and Bob to provide us with such confidence of loss exposure and capital position, thank you.

S.A. Ibrahim - Radian Group - CEO

Bob, you want to answer the first part --

Bob Quint - Radian Group - CFO

Yes, you are going to have to tell me specifically what you are talking about with regard to a difference -- or I'm not sure how you referred it to. Because we don't see that.

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Ken Zuckerberg - *Fontana Capital - Analyst*

Okay. Well, Bob, there's certainly some slight deterioration in terms of a lot of different aspects of your business, and to the extent -- if you just line up each area, each product area, the NIMs, the second liens, and then we take all of the new data we see about foreclosures, default rates. If your assumptions are 10% to optimistic, your debt to total cap is 30%, which would suggest that you are going to have the need to raise capital. Your cost of capital goes up with the stock price going down, so I guess what I'm saying is, if there are so many signs in the marketplace now that it's only going to get worse for a while, can you tell us how you so confident that you are going to be able to ride through without needing to raise capital in six months when the environment gets a bit worse. That's where I'm getting at.

S.A. Ibrahim - *Radian Group - CEO*

Clearly, let me see if I can answer your question as I understand it. Clearly, we have been to the best of our information and ability as transparent as we could be in talking about our base scenario and our stress scenario, and we have given you information to calculate what impact the stress scenario would have on our book value going forward. We have very strong analytical resources, modeling resources, but as Bob said, projecting -- making projections while we strive for as much accuracy as possible, making projections takes in to consideration a lot of factors in terms of what going to happen in the external environment. We also have shared with you some of the assumptions we have made -- in terms of the data in our projections in terms how we believe different markets will behave. So I -- the answer to your question is we really are trying to be as accurate, given the information we have, and given our assessment of where the market is, given our assessment of the trends in our own performance. We try to compare what we are seeing with the players like loan performance. We've -- with the GFC data, with other data, and we try to get it as right as we can, but we're not perfect.

Operator

Thank you for your question, sir. Our next question comes from Satish Pulle with Merrill Lynch, please go ahead.

Satish Pulle - *Merrill Lynch - Analyst*

Hi. I had a quick question about specific vintages, actually. We've heard a lot of talk about how a good deal of the subprime vintage of '06 is off -- of '07 and '06 are not so great, and therefore, people are projecting losses going forward. What about the '05 vintage? And are you seeing any increases in delinquency as the number of '05 vintage loans come up with resets and things like that or are you relatively comfortable with that vintage?

S.A. Ibrahim - *Radian Group - CEO*

Thank you. Let me introduce somebody we have sitting with us this morning, that is Scott [Tearbauld] who is the Chief Risk Officer for the MI business, and I think he can answer your question in a detailed level. Scott?

Scott Tearbauld - *Radian Group - Chief Risk Officer for MI*

Good morning. First of all the good news, although it's early the 2007 subprime vintage is actually performing very well. However, as you noticed the 2005 and 2006 vintages are underperforming. They are, if not -- if not inconsistent with the loss forecast that we have shared with you, and it's also not inconsistent with what we consider normal seasoning of these books. The good news is that they at this point aren't performing so bad that it would be unprecedented, so .

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S.A. Ibrahim - Radian Group - CEO

Does that answer your question?

Satish Pulle - Merrill Lynch - Analyst

That's fine. Thank you.

Operator

Thank you, sir. And our next question comes from Larry [Battelli] with Moore Capital. Please go ahead.

Larry Battelli - Moore Capital - Analyst

Hi. Thank you. Can you hear me okay?

Bob Quint - Radian Group - CFO

Yes.

Larry Battelli - Moore Capital - Analyst

You say in Slide 3 that there's 1.925 billion of equity underneath the Mortgage Insurance business, and you say later on that there's 885 million of reserves in the Mortgage Insurance business. Can you break that down geographically for us. So U.S., Europe, Australia? And then when Europe is liquidated, will there be a noticeable amount of either capital or reserves or both that come back to the U.S.? And then can you tell us to what degree both capital and reserves are fundable between these geographies? Thanks.

Bob Quint - Radian Group - CFO

We have gotten no primary MI exposure in Europe. The only exposure on the MI side in Europe are those super AAA swaps they spoke about. And those require very little capital to support them and won't have reserves against them. We do have a minimal amount of risk exposure in Hong Kong and in Australia. That is performing very well, and has very little amount of reserves against it. So essentially, all or, substantially all of the reserves on the MI segment are domestic.

Larry Battelli - Moore Capital - Analyst

And the capital?

Bob Quint - Radian Group - CFO

As well. There's a -- there's a little bit of capital in you know -- allocated to Australia and Hong Kong, and a little bit of capital allocated to those super A swaps, but the huge majority of the capital is also domestic.

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Larry Battelli - *Moore Capital - Analyst*

And I would assume that would be true as well for the unearned premiums that are on the liability side of the balance sheet.

Bob Quint - *Radian Group - CFO*

That's correct. There's some unearned premiums related to Hong Kong, but minimal.

Larry Battelli - *Moore Capital - Analyst*

Okay. Thank you.

Operator

Thank you, sir. Our next question comes from Laura [Scam] with [Sonic] Capital please go ahead.

Laura Scam - *Sonic Capital - Analyst*

Hi, good morning. Bob, I had a quick question for you with respect to the incurred loss ratios. It seems like you front loaded some of the pain from the NIMs, and the second liens in this quarter, and so there should be less of an effect on that going forward. So was wondering how that affects your expectations for incurred losses in the fourth quarter and in '08? Thank you.

Bob Quint - *Radian Group - CFO*

Well, certainly, certainly that is the case. However, when we put our loss ratio projections throughout, we really segregated those, so we considered those separate products. But certainly, you are right, the fact that the credit component of the NIMs has been front loaded through mark-to-market because they are derivatives and the fact that we have front loaded a lot of the P&L in the second through the premium deficiency, does mean that future loss ratios will be lower than they would have been if we had not been able to do that.

Laura Scam - *Sonic Capital - Analyst*

So, just to follow-up, is that then the expectation of below 100% going forward?

Bob Quint - *Radian Group - CFO*

Well, I think -- I think in the near- term, certainly the rest of '07 and '08, there are going to be elevated. And then we expect beginning in '09 probably the middle of '09 that they will start to come down from there. And we put projections throughout that -- we still believe are in the -- the range of expectations. Although, again, I think, the nearer-term might be a little bit higher than we put throughout.

Laura Scam - *Sonic Capital - Analyst*

Okay. Thank you.

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Operator

Thank you, sir. Our next question comes from Nick [Cano] with Paulson please go ahead.

Nick Cano - Paulson - Analyst

I actually don't have a question.

Operator

Thank you, sir. And our next question comes from Nandu Narayanan with Trident Investment Management. Please go ahead.

Nandu Narayanan - Trident Investment Management - Analyst

Good morning. My question relates to what would happen if there was a ratings downgrade of Radian. The way I see it now is you have got based on your slides about \$42 billion or \$43 billion almost of Mortgage Insurance risk enforce in addition of having a lot of Financial Guaranty risk you have taken on. Your shareholder equity is about 3.5 billion, (inaudible) but from the perspective of anyone buying insurance from you, these are not exactly the most exciting numbers, notwithstanding your assumptions of being able to manage through this and survive this and so on. Is there any kind of trigger in terms of you requiring you to post capital or something like that against the insurance you have written if in fact there's at it ratings downgrade.

Bob Quint - Radian Group - CFO

Just remember when you are putting numbers throughout in terms of risk in force and capital et cetera, the huge majority of our risk in force is risk because it's notional risk, but it's a not going to be paid out because claim rates would have to be astronomical---

Nandu Narayanan - Trident Investment Management - Analyst

The truth is we're in a great depression kind of environment, it seems like in housing already. And so -- I mean, all we can look at in terms of -- from the perspective of someone buying insurance is this seems to be a pattern in the whole industry. Everyone is saying the losses are not going to be great, and the losses have been way more than the management projected.

Bob Quint - Radian Group - CFO

I mean, we're a AA Company, and we -- to be AA you need to be withstanding a stress from rating agencies that is essentially just what you described, a great depression. Now our base case and stress case is not a great depression, but the rating agency capital levels to withstand and to maintain a AA rating, are very, very substantial.

Operator

Thank you. And our next question comes from Craig [Carposie] with Mast Capital. Please go ahead.

Craig Carposie - Mast Capital - Analyst

Yes, thank you for the time. I would like to talk about your new primary business written, it looks like you wrote about \$1.5 billion of A minus and worst business in Q3 '07, and that's up from about 500 million in Q3 '06. Could you talk about conversations

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you are having with your customer base on the MI side? And could you give us any color at all on the pricing on this environment? The reason I ask is given the rapid adverse development that you are seeing in your book, I just question if it's a the best use of capital to write additional A minus exposure unless you are getting paid handsomely for it. If you are, I'd like to hear your thoughts about it.

S.A. Ibrahim - *Radian Group - CEO*

If you look at the overall trend of our business mix over -- say from '05 -- September '05 on through September '07, and that's on Slide 8 in the webcast slide, you will see that the trend on prime is trending up. Alt-A and A minus and B and C combined have been trending down, and within that you see some movement in the categories. We have said that our focus going forward is going to be on prime and high-quality Alt-A, and the way -- and then we may -- and we believe that, but there's some business that is done that -- from basically FICO -- if you look at it superficially from a FICO basis or -- it could be classified as superprime but that may be DU royalty, which is the -- (inaudible), actually it's really far more complicated than just going by these categories.

Suffice it to say that we are focusing our business model on garnering high-quality business. We have been -- we have communicated our new criteria internally. We have communicated to our customers. We have taken a strong line with some of our customers even at the expense of temporarily losing business from one or two customers. We gained more than we lost, however, overall, and if you look at our numbers in terms of the flow of business we have done in the third quarter at 12.2 billion actually, and compare it to the [micro] statistics, and the MDA numbers in terms of origination, we have actually gained share from the second quarter to the third quarter. So it is something that we're focused on, and it has to be dialed down as we go along. And in fact our new hires will help us get there, because they have the experience in running shops where they did that within their business, and they know how the industry operates.

Craig Carposie - *Mast Capital - Analyst*

When thinking about Q3 '07, versus Q3 '06, has there been a material increase in the amount that you are charging for your insurance?

S.A. Ibrahim - *Radian Group - CEO*

Has there been a material increase in the premiums we charge? The flow premiums for the most part are a function of the rate cards that are filed, so, they basically are what they are. And as the industry -- the quality of the business in the industry improves on risk-adjusted basis, those premiums are a lot better. In terms of the other business, we basically set premiums on a deal-by-deal or -- basis. And we have had opportunity to look at those deals recently and reflect the current market conditions into our pricing.

Operator

Sir, thank you for your question. Our next question comes from Chris Smith with Diamondback, please go ahead.

Peter Wed - *Diamondback - Analyst*

Yes, hello this is Peter [Wed]. I appreciate the new management team you announced today. What is the Board's current thinking about management at the senior-most levels of the company, given the sort of downward spiral of the company over the last two years?

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S.A. Ibrahim - Radian Group - CEO

I would -- I think our Board in its governance responsibilities has to always ensure that they have the right leadership of the company, and the Board does that on a regular basis, and they are doing their job, and I operate at the pleasure of the Board.

Peter Wed - Diamondback - Analyst

Will -- will any members of the Board be coming on future conference calls, or are any of them on right now to answer questions regarding this?

S.A. Ibrahim - Radian Group - CEO

I am on the Board, but I think you don't mean me. I -- let me think about -- I don't know how I can answer that question. Let me think about how can I take it up with Board members.

Operator

Thank you, sir. Our next question comes from David Polson with Bear Stearns, please go ahead.

David Polson - Bear Stearns - Analyst

Yes, I wanted to re-ask a question before -- what -- in the scenario where your ratings are lowered; however, unlikely it could be, would you see any operational ramifications? I know some of it so discussed -- this is discussed in our Ks and Qs and risk. But maybe just talk about, what that would be in terms of maybe collateral calls if any, and also your -- perhaps your discussions with the GSCs recently at operating at lower than AA? Thank you.

S.A. Ibrahim - Radian Group - CEO

As you said before, we are in constant come communications with the GFCs, and the answer to what would happen in the event of a ratings downgrade is going to depend on whether the GFCs are comfortable with continuing to make us legible going forward. The picture has changed considerably if you look at what has happened in the industry in the last three months, there's a number of players in the industry who are more or less in a similar situation as us in terms of being on watch, negative watch from the rating agencies, and the rating agencies increasingly I think are looking more at the industry as a whole than just us. So it creates a high degree of complexity in terms of how the rate -- the GSCs would deal with the situation.

Operator

Thank you. And our final question comes from Makeita [Kokkalie] with Endeavor Capital. Please go ahead with your question.

Makeita Kokkalie - Endeavor Capital - Analyst

Hello?

Mona Zeehandelaar - Radian Group - SVP IR

Hi.

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Bob Quint - Radian Group - CFO

Hi.

Makeita Kokkalie - Endeavor Capital - Analyst

Hi. I heard you said that you are expecting 20% on home price operation in some of the bubble MSAs, and how does that translate in to national level? What is your estimates of housing price depreciation, appreciation, for, say, next two years or whatever the number you have?

Bob Quint - Radian Group - CFO

What we have said about the 20% is that in our stress case, not our base case, in our stress case, we have taken California, Florida, the mid-western auto states, and all of our bubble MSAs and had house prices in those areas decline 20% over three years. That was a scenario that we ran that we considered a stress. In our base case, we used the [AFAO] index and calibrated to that, and that includes many areas of the country that are declining, and some that are increasing as well.

Makeita Kokkalie - Endeavor Capital - Analyst

So in the base case those bubbles states are declining by how much?

Bob Quint - Radian Group - CFO

It depends on the MSA because it's MSA by MSA, but many of them are greater than 10%.

Makeita Kokkalie - Endeavor Capital - Analyst

10% plus. And your estimates on the Page 29 of September 5 presentation of accumulative gross rate of 1.8%, that is on the base case?

Bob Quint - Radian Group - CFO

Yes, it is.

Operator

Thank you for your question, ma'am. At this time I would like to turn the conference back over to S.A. Ibrahim, the CEO. Please go ahead, sir.

S.A. Ibrahim - Radian Group - CEO

Thank you. In closing I would like to say that these times are very challenging for all of us. But remember that Radian has strong capital and liquidity position. And that we are fundamentally in a cycle, deeper and perhaps more prolonged than in recent times. Our recover is not matter of if, but when. Our new business written should benefit and is already benefiting from the increased demand for credit protection in this cycle.

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In summary, we have shared many details of our exposure with you, and have a history of being forthcoming about our risk breakdown and disciplined and consistent in our reserves. Once you set aside NIMs and seconds our core MI book is comparable with others. We have strong franchises in both of our businesses, and additionally the instrumental balance and value that come from having Financial Guaranty and Sherman. Our Mortgage Insurance leadership changes underscored our determination to succeed in the market. And finally, the Management and the Board remain focused on long-term shareholder value preservation and creation. I would like to thank you all for participating in Radian's call.

Operator

Thank you, is sir. Ladies and gentlemen, that does conclude our conference call for today. Thank you all for participating. You may now disconnect.

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