Navios Maritime Partners L.P.
Form 424B3
January 30, 2014
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PROSPECTUS

$500,000,000

NAVIOS MARITIME PARTNERS L.P.

COMMON UNITS

REPRESENTING LIMITED PARTNERSHIP INTERESTS

DEBT SECURITIES

We may, from time to time, issue up to $500,000,000 aggregate principal amount of common units and/or debt securities. We will specify in an accompanying prospectus supplement the terms of the securities. We may sell these securities to or through underwriters and also to other purchasers or through agents. We will set forth the names of any underwriters or agents in the accompanying prospectus supplement. Our common units are listed on the New York Stock Exchange under the symbol NMM. On November 6, 2013, the last reported sales price of our common units on the NYSE was $16.70 per common unit.

Investing in our common units involves risks that are described in the Risk Factors section beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless it is accompanied by a prospectus supplement.

The date of this prospectus is January 15, 2014.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC), utilizing a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of U.S.$500,000,000. We have provided to you in this prospectus a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. In any applicable prospectus supplements, we may add to, update or change any of the information contained in this prospectus.

References in this prospectus to Navios Maritime Partners L.P., the Company, we, our, us or similar terms when for periods prior to our initial public offering on November 16, 2007 refer to the assets of Navios Maritime Holdings Inc. (Navios Holdings), and its vessels and vessel-owning subsidiaries that were sold or contributed to Navios Maritime Partners L.P. and its subsidiaries in connection with the initial public offering.

References in this prospectus to Navios Maritime Partners L.P., the Company, we, our, us or similar terms when in a present tense or for historical periods since November 16, 2007 refer to Navios Maritime Partners L.P. and its subsidiaries. References in this prospectus to Navios Holdings refer, depending on the context, to Navios Holdings and its subsidiaries, including Navios ShipManagement Inc. (Navios ShipManagement); provided, however, it shall not include Navios Maritime Partners L.P. to the extent it may otherwise be deemed a subsidiary. Navios ShipManagement (an affiliate of our general partner) manages the commercial and technical operation of our fleet pursuant to a management agreement and provides administrative services to us pursuant to an administrative services agreement. References in this prospectus supplement to our IPO refer to our initial public offering, which was consummated on November 16, 2007.

You should read carefully this prospectus, any prospectus supplement, and the additional information described below under the heading Where You Can Find More Information. You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

The following is only a summary. We urge you to read the entire prospectus, including the more detailed financial statements, notes to the financial statements and other information incorporated by reference from our other filings with the SEC. An investment in our securities involves risks. Therefore, carefully consider the information provided under the heading Risk Factors beginning on page 5.

Business Overview

We are an international owner and operator of drybulk vessels, formed in August 2007 by Navios Holdings, a vertically integrated seaborne shipping and logistics company with over 55 years of operating history in the drybulk shipping industry. We completed our IPO of 10,000,000 common units and the concurrent sale of 500,000 common units to a corporation owned by Angeliki Frangou, our chairman and chief executive officer, on November 16, 2007. We used the proceeds of these sales of approximately $193.3 million, plus $160.0 million funded from our revolving credit facility as subsequently amended (the Credit Facility) to acquire our initial fleet of vessels. Our vessels are chartered-out under medium to long-term time charters with an average remaining term of approximately four years to a strong group of counterparties, including Cosco Bulk Carrier Co. Ltd., Mitsui O.S.K. Lines Ltd., Constellation Energy Group and Rio Tinto.

Our Fleet

Our fleet consists of 14 Panamax vessels, eight Capesize vessels, three Ultra-Handymax vessels and five Post-Panamax container vessels.

In general, our vessels operate under long-term time charters of three or more years at inception with counterparties that we believe are creditworthy. We may operate vessels in the spot market until the vessels have been fixed under appropriate long-term charters.

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The following table provides summary information about our fleet:

Owned Vessels	Type	Built	Capacity (DWT)	Charter-out Expiration Date	Charter-Out Rate(1)
Navios Apollon	Ultra-Handymax	2000	52,073	February 2014	$ 13,500(2)
Navios Soleil	Ultra-Handymax	2009	57,337	December 2013	$ 8,906
Navios La Paix(3)	Ultra-Handymax	2014	61,000		$
Navios Gemini S	Panamax	1994	68,636	February 2014	$ 24,225
Navios Libra II	Panamax	1995	70,136	September 2015	$ 12,000(2)
Navios Felicity	Panamax	1997	73,867	May 2014	$ 12,000(4)
Navios Galaxy I	Panamax	2001	74,195	February 2018	$ 21,937
Navios Helios	Panamax	2005	77,075	December 2013	$ 7,838
Navios Hyperion	Panamax	2004	75,707	April 2014	$ 37,953
Navios Alegria	Panamax	2004	76,466	February 2014	$ 16,984(5)
Navios Orbiter	Panamax	2004	76,602	April 2014	$ 38,052
Navios Hope	Panamax	2005	75,397	July 2014	$ 10,000
Navios Sagittarius	Panamax	2006	75,756	November 2018	$ 26,125
Navios Harmony	Panamax	2006	82,790	March 2014	$ 14,725
Navios Sun(3)	Panamax	2005	76,619		$
Navios Fantastiks	Capesize	2005	180,265	March 2014	$ 14,678
Navios Aurora II	Capesize	2009	169,031	November 2019	$ 41,325
Navios Pollux	Capesize	2009	180,727	April 2019	$ 40,888
Navios Fulvia	Capesize	2010	179,263	September 2015	$ 50,588
Navios Melodia(6)	Capesize	2010	179,132	September 2022	$ 29,356(7)
Navios Luz	Capesize	2010	179,144	November 2020	$ 29,356(8)
Navios Buena Ventura	Capesize	2010	179,259	October 2020	$ 29,356(8)
Navios Joy	Capesize	2013	181,389	June 2016	$ 19,000(9)

Chartered-in Vessels	Type	Built	Capacity (DWT)	Charter-out Expiration Date	Charter-Out Rate(1)
Navios Prosperity(10)	Panamax	2007	82,535	May 2014	$ 12,000(4)
Navios Aldebaran(11)	Panamax	2008	76,500	June 2014	$ 11,000(12)

Container Vessels	Type	Built	TEU	Charter-out Expiration Date	Charter-Out Rate(1)
Navios TBN 1(13)	Container	2006	6,800	November 2023	$ 30,150
Navios TBN 2(13)	Container	2006	6,800	November 2023	$ 30,150
Navios TBN 3(13)	Container	2006	6,800	November 2023	$ 30,150
Navios TBN 4(13)	Container	2006	6,800	November 2023	$ 30,150
Navios TBN 5(13)	Container	2006	6,800	November 2023	$ 30,150

(1) Daily charter-out rate per day, net of commissions or net insurance or settlement proceeds, where applicable.
(2) Profit sharing 50% on the actual results above the period rates.
(3) Expected to be delivered in the first quarter of 2014.
(4) Profit sharing: The owners will receive 100% of the first $1,500 in profits above the base rate and thereafter all profits will be split 50% to each party.
(5) Profit sharing 50% above $16,984/ day based on Baltic Exchange Panamax TC Average.
(6)

In January 2011, Korea Line Corporation (KLC) filed for receivership. The charter was affirmed and will be performed by KLC on its original terms, following an interim suspension period during which Navios Partners trades the vessel directly.

(7) Profit sharing 50% above $37,500/ day based on Baltic Exchange Capesize TC Average.

(8) Profit sharing 50% above $38,500/ day based on Baltic Exchange Capesize TC Average.

(9) The charterer has been granted an option to extend the charter for two optional years, the first at $22,325(net) per day and the second at $25,650(net) per day.

(10) The Navios Prosperity is chartered-in for seven years until June 2014 and we have options to extend for two one-year periods. We have the option to purchase the vessel after June 2012 at a purchase price that is initially 3.8 billion Yen ($38.7 million based upon the exchange rate at September 30, 2013) declining each year by 145 million Yen ($1.5 million based upon the exchange rate at September 30, 2013).

(11) The Navios Aldebaran is chartered-in for seven years until March 2015 and we have options to extend for two one-year periods. We have the option to purchase the vessel after March 2013 at a purchase price that is initially 3.6 billion Yen ($36.6 million based upon the exchange rate at September 30, 2013) declining each year by 150 million Yen ($1.5 million based upon the exchange rate at September 30, 2013).

(12) Profit sharing: The owners will receive 100% of the first $2,500 in profits above the base rate and thereafter all profits will be split 50% to each party.

(13) Expected to be delivered in the fourth quarter of 2013. The vessels are fixed on ten-year charters with Navios Partners option to terminate after year seven.

Our Competitive Strengths

We believe that our future prospects for success are enhanced by the following aspects of our business:

Stable and growing cash flows. We believe that the medium to long-term, fixed-rate nature of our charters will provide a stable base of revenue. In addition, we believe that the potential opportunity to purchase additional vessels from Navios Holdings and through the secondary market provides visible future growth in our revenue and distributable cash flow. We believe that our management agreement, which has been extended until December 31, 2017, provides for a fixed management fee until December 31, 2015, will continue to provide us with predictable expenses. From January 2016 to December 2017, we expect that we will reimburse Navios ShipManagement (the Manager) for all of the actual operating costs and expenses it incurs in connection with the management of our fleet, which may make our cash flows less predictable.

Strong relationship with Navios Holdings. We believe our relationship with Navios Holdings and its affiliates provides us with numerous benefits that are key to our long-term growth and success, including Navios Holdings expertise in commercial management and Navios Holdings reputation within the shipping industry and its network of strong relationships with many of the world s drybulk raw material producers, agricultural traders and exporters, industrial end-users, shipyards, and shipping companies. We also benefit from Navios Holdings expertise in technical management through its in-house technical manager, which provides efficient operations and maintenance for our vessels at costs significantly below the industry average for vessels of a similar age. Navios Holdings expertise in fleet management is reflected in Navios Holdings history of a low number of off-hire days and in its record of no material incidents giving rise to loss of life or pollution or other environmental liability.

High-quality, flexible fleet. Our fleet consists of 14 modern, Panamax vessels, eight modern Capesize vessels, three Ultra-Handymax vessels and five Post-Panamax container vessels. The average age of the vessels in our fleet is significantly lower than the average age of the world drybulk fleet. Our fleet had an average age of 6.6 years as of November 6, 2013, compared to a current industry average age of about 9.6 years for the drybulk fleet and 10.8 years for the containers fleet (both industry averages as of September 30, 2013). Panamax vessels are highly flexible vessels capable of carrying a wide range of

drybulk commodities, including iron ore, coal, grain and fertilizer, and of being accommodated in most major discharge ports. Ultra-Handymax vessels are similar to Panamax vessels although with less carrying capacity and generally have self-loading and discharging gear on board to accommodate undeveloped ports. Capesize vessels are primarily dedicated to the carriage of iron ore and coal. Post-Panamax container vessels are designed to carry manufactured, finished or semi-finished goods in steel

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shipping containers or specific routes. We believe that our high-quality, flexible fleet provides us with a competitive advantage in the drybulk and container time charter market, where vessel age, flexibility and quality are of significant importance in competing for business.

Operating visibility through long-term charters with strong counterparties. All of our vessels are chartered-out under medium to long-term time charters with an average remaining charter duration of approximately four years to a strong group of counterparties consisting of, amongst others: Cosco Bulk Carrier Co. Ltd., Mitsui O.S.K. Lines Ltd., Rio Tinto and Constellation Energy. We believe our existing charter coverage with strong counterparties provides us with predictable contracted revenues and operating visibility.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

Pursue stable cash flows through long-term charters for our fleet. We intend to continue to utilize medium to long-term, fixed-rate charters for our existing fleet. Currently, the vessels in our fleet have an average remaining charter duration of approximately four years and have staggered charter expirations. We will seek to opportunistically re-charter our vessels in order to add incremental stable cash flow and improve the long-term charter terms.

Continue to grow and diversify our fleet of owned and chartered-in vessels. We seek to make strategic acquisitions to expand our fleet in order to capitalize on the demand for drybulk carriers in a manner that is accretive to distributable cash flow per unit. We have the right to purchase certain additional drybulk vessels currently owned or chartered-in by Navios Holdings when those vessels are fixed under long-term charters for a period of three or more years. In addition, we may seek to expand and diversify our fleet through the open market purchase of owned and chartered-in drybulk vessels with charters of three or more years. We believe that our long-term charters and financial flexibility will assist us to make additional accretive acquisitions.

Capitalize on our relationship with Navios Holdings and expand our charters with recognized charterers. We believe that we can use our relationship with Navios Holdings and its established reputation in order to obtain favorable long-term time charters and attract new customers. We will continue to increase the number of vessels we charter to our existing charterers, as well as enter into charter agreements with new customers, in order to develop a portfolio that is diverse from a customer, geographic and maturity perspective.

Provide superior customer service by maintaining high standards of performance, reliability and safety. Our customers seek transportation partners that have a reputation for high standards of performance, reliability and safety. We intend to use Navios Holdings   operational expertise and customer relationships to further expand a sustainable competitive advantage with consistent delivery of superior customer service.

Corporate Information

We are incorporated under the laws of the Republic of the Marshall Islands. We maintain our principal executive offices at 7, Avenue de Grande Bretagne, Office 11B2 Monte Carlo MC 98000 Monaco. Our telephone number at that address is (011) + (377) 9798-2140. Our website address is *www.navios-mlp.com*. The information on our website is not a part of this prospectus.

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RISK FACTORS

Although many of our business risks are comparable to those a corporation engaged in a similar business would face, limited partner interests are inherently different from the capital stock of a corporation. You should carefully consider the following risk factors together with all of the other information included in this prospectus when evaluating an investment in our securities.

If any of the following risks actually occur, our business, financial condition, cash flows or operating results could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline, and you could lose all or part of your investment.

Risks Inherent in Our Business

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution on our common units following the establishment of cash reserves and payment of fees and expenses or to maintain or increase distributions.

We may not have sufficient cash available each quarter to pay the minimum quarterly distribution of $0.35 per common unit following the establishment of cash reserves and payment of fees and expenses. The amount of cash we can distribute on our common units depends principally upon the amount of cash we generate from our operations, which may fluctuate based on numerous factors including, among other things:

- the rates we obtain from our charters and the market for long-term charters when we recharter our vessels;
- the level of our operating costs, such as the cost of crews and insurance, following the expiration of the fixed term of our management agreement pursuant to which we pay a fixed daily fee until December 2015;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled inspection, maintenance or repairs of submerged parts, or drydocking, of our vessels;
- demand for drybulk commodities;
- supply of drybulk vessels;
- prevailing global and regional economic and political conditions; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

The actual amount of cash we will have available for distribution also will depend on other factors, some of which are beyond our control, such as:

- the level of capital expenditures we make, including those associated with maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations;

- our debt service requirements and restrictions on distributions contained in our debt instruments;

- interest rate fluctuations;

- the cost of acquisitions, if any;

- fluctuations in our working capital needs;

- our ability to make working capital borrowings, including the payment of distributions to unitholders; and

- the amount of any cash reserves, including reserves for future maintenance and replacement capital expenditures, working capital and other matters, established by our board of directors in its discretion.

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The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

The cyclical nature of the international drybulk shipping industry may lead to decreases in long-term charter rates and lower vessel values, resulting in decreased distributions to our common unitholders.

The shipping business, including the dry cargo market, is cyclical in varying degrees, experiencing severe fluctuations in charter rates, profitability and, consequently, vessel values. For example, during the period from January 1, 2011 to December 31, 2012, the Baltic Exchange s Panamax time charter average daily rates experienced a low of $3,336 and a high of $17,115. Additionally, during the period from January 1, 2011 to December 31, 2012, the Baltic Exchange s Capesize time charter average daily rates experienced a low of $2,644 and a high of $32,889 and the Baltic Dry Index experienced a low of 647 points and a high of 2,173 points. We anticipate that the future demand for our drybulk carriers and drybulk charter rates will be dependent upon demand for imported commodities, economic growth in the emerging markets, including the Asia Pacific region, India, Brazil and Russia and the rest of the world, seasonal and regional changes in demand and changes to the capacity of the world fleet. Adverse economic, political, social or other developments can decrease demand and prospects for growth in the shipping industry and thereby could reduce revenue significantly. A decline in demand for commodities transported in drybulk carriers or an increase in supply of drybulk vessels could cause a further decline in charter rates, which could materially adversely affect our results of operations and financial condition. If we sell a vessel at a time when the market value of our vessels has fallen, the sale may be at less than the vessel s carrying amount, resulting in a loss.

The demand for vessels has generally been influenced by, among other factors:

- global and regional economic conditions;
- developments in international trade;
- changes in seaborne and other transportation patterns, such as port congestion and canal closures;
- weather and crop yields;
- armed conflicts and terrorist activities including piracy;
- political developments; and
- embargoes and strikes.

The supply of vessel capacity has generally been influenced by, among other factors:

- the number of vessels that are in or out of service;
- the scrapping rate of older vessels;
- port and canal traffic and congestion;
- the number of newbuilding deliveries; and
- vessel casualties.

Charter rates in the drybulk shipping industry have decreased from their historically high levels and may decrease further in the future, which may adversely affect our earnings and ability to pay dividends.

The industry s current charter rates have significantly decreased from their historic highs reached in the second quarter of 2008. If the drybulk shipping industry, which has been highly cyclical, is depressed in the future when our charters expire or at a time when we may want to sell a vessel, our earnings and available cash flow may be adversely affected. We cannot assure you that we will be able to successfully charter our vessels in

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the future or renew our existing charters at rates sufficient to allow us to operate our business profitably, to meet our obligations, including payment of debt service to our lenders, or to pay dividends to our unitholders. Our ability to renew the charters on our vessels on the expiration or termination of our current charters, or on vessels that we may acquire in the future, the charter rates payable under any replacement charters and vessel values will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the transportation of commodities.

All of our time charters are scheduled to expire on dates ranging from December 2013 to November 2023. If, upon expiration or termination of these or other contracts, long-term recharter rates are lower than existing rates, particularly considering that we intend to enter into long-term charters, or if we are unable to obtain replacement charters, our earnings, cash flow and our ability to make cash distributions to our unitholders could be materially adversely affected.

The market values of our vessels, which have declined from historically high levels, may fluctuate significantly, which could cause us to breach covenants in our credit facilities and result in the foreclosure on our mortgaged vessels.

Factors that influence vessel values include:

- number of newbuilding deliveries;
- number of vessels scrapped or otherwise removed from the total fleet;
- changes in environmental and other regulations that may limit the useful life of vessels;
- changes in global drybulk commodity supply;
- types and sizes of vessels;
- development of an increase in use of other modes of transportation;
- cost of vessel acquisitions;
- governmental or other regulations;
- prevailing level of charter rates; and

general economic and market conditions affecting the shipping industry.

If the market values of our owned vessels decrease, we may breach covenants contained in our credit facilities. We purchased the majority of our vessels from Navios Holdings based on market prices that were for certain vessels at historically high levels. If we breach the covenants in our credit facilities and are unable to remedy any relevant breach, our lenders could accelerate our debt and foreclose on the collateral, including our vessels. Any loss of vessels would significantly decrease our ability to generate positive cash flow from operations and therefore service our debt. In addition, if the book value of a vessel is impaired due to unfavorable market conditions, or a vessel is sold at a price below its book value, we would incur a loss.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter our board of directors is required to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. These maintenance and replacement capital expenditures include capital expenditures associated with drydocking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet.

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These expenditures could increase as a result of changes in:

- the cost of our labor and materials;
- the cost of suitable replacement vessels;
- customer/market requirements;
- increases in the size of our fleet; and
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment.

Our significant maintenance and replacement capital expenditures will reduce the amount of cash we have available for distribution to our unitholders. In October 2013, we fixed the rate with the Manager until December 31, 2015 at a daily rate of: (a) $4,000 per Ultra-Handymax vessel; (b) $4,100 per Panamax vessel; (c) $5,100 per Capesize vessel effective January 1, 2014 through December 31, 2015; and (d) $6,500 per Post-Panamax container vessel effective from the date of delivery of such vessel to the Navios Partners owned fleet through December 31, 2015, while the term of the management agreement is until December 31, 2017. Intermediate and special survey expenses (including drydocking expenses) will be reimbursed at cost under the management agreement. From January 1, 2016 to December 31, 2017, we expect that we will reimburse the Manager for all of the actual operating costs and expenses it incurs in connection with the management of our fleet, which may result in significantly higher fees for that period. In the event the management agreement is not renewed, we will separately deduct estimated capital expenditures associated with drydocking from our operating surplus in addition to estimated replacement capital expenditures.

Our partnership agreement requires our board of directors to deduct estimated, rather than actual, maintenance and replacement capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus. The amount of estimated capital expenditures deducted from operating surplus is subject to review and change by the conflicts committee of our board of directors at least once a year. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed previous estimates.

If we expand the size of our fleet in the future, we generally will be required to make significant installment payments for acquisitions of vessels even prior to their delivery and generation of revenue. Depending on whether we finance our expenditures through cash from operations or by issuing debt or equity securities, our ability to make cash distributions to unitholders may be diminished or our financial leverage could increase or our unitholders could be diluted.

The actual cost of a vessel varies significantly depending on the market price, the size and specifications of the vessel, governmental regulations and maritime self-regulatory organization standards.

If we purchase additional vessels in the future, we generally will be required to make installment payments prior to their delivery. If we finance these acquisition costs by issuing debt or equity securities, we will increase the aggregate amount of interest payments or minimum quarterly distributions we must make prior to generating cash from the operation of the vessel.

To fund the remaining portion of these and other capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for distributions to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general

economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we successfully obtain necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional preferred and common equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to meet our quarterly distributions to our preferred unitholders and minimum quarterly distribution to our common unitholders, which could have a material adverse effect on our ability to make cash distributions to all of our unitholders.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities and our interest rates under our credit facilities may fluctuate and may impact our operations.

As of September 30, 2013, all of our facilities were fully drawn and the total borrowings under our credit facilities amounted to $344.7 million. We have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;

- our debt level will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and

- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. Our ability to service debt under our credit facilities also will depend on market interest rates, since the interest rates applicable to our borrowings will fluctuate with the London Interbank Offered Rate, or LIBOR, or the prime rate. We do not currently hedge against increases in such rates and, accordingly, significant increases in such rate would require increased debt levels and reduce distributable cash. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to affect any of these remedies on satisfactory terms, or at all.

Our credit facilities contain restrictive covenants, which may limit our business and financing activities.

On July 31, 2012, we entered into a credit facility for $290.45 million (the July 2012 Facility) in order to refinance and merge two existing credit facilities. On August 8, 2012, we entered into another credit facility, and borrowed an

amount of $44.0 million (the August 2012 Facility). On June 27, 2013, we entered into a term loan facility (the Term Loan B Facility), and borrowed an amount of $250.0 million to refinance and replace all outstanding amounts under our August 2012 Facility, partially prepay amounts outstanding under the July 2012 Facility and complete a previously announced vessel acquisition. In October 2013, we announced the issuance of a $189.5 million add-on to the Term Loan B Facility. As of September 30, 2013 the outstanding loan balance under Navios Partners credit facilities was $344.7 million.

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The operating and financial restrictions and covenants in our credit facilities and any future credit facilities could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, our credit facilities require the consent of our lenders or limit our ability to, among other items:

- incur or guarantee indebtedness;
- charge, pledge or encumber the vessels;
- merge or consolidate;
- change the flag, class or commercial and technical management of our vessels;
- make cash distributions;
- make new investments; and
- sell or change the ownership or control of our vessels.

Our credit facilities also require us to comply with the International Safety Management Code, or ISM Code, and International Ship and Port Facilities Security Code, or ISPS Code, and to maintain valid safety management certificates and documents of compliance at all times.

In addition, our credit facilities require us to:

- maintain a required security amount of over 140%;
- maintain minimum free consolidated liquidity of at least the higher of $20.0 million and the aggregate of interest and principal falling due during the previous six months;
- maintain a ratio of EBITDA to interest expense of at least 5.00 : 1.00;
- maintain a ratio of total liabilities to total assets (as defined in our credit facilities) of less than 0.65 : 1.00; and

maintain a minimum net worth to $250.0 million.

The Term Loan B Facility is secured by first priority mortgages covering certain vessels owned by subsidiaries of Navios Partners, in addition to other collateral and guaranteed by each subsidiary of Navios Partners. The Term Loan B Facility agreement requires maintenance of a loan to value ratio of 0.8 to 1.0, and other restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. The Term Loan B Facility agreement also provides for customary events of default.

Our ability to comply with the covenants and restrictions that are contained in our credit facilities and any other debt instruments we may enter into in the future may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we are in breach of any of the restrictions, covenants, ratios or tests in our credit facilities, especially if we trigger a cross default currently contained in certain of our loan agreements, a significant portion of our obligations may become immediately due and payable, and our lenders commitment to make further loans to us may terminate. We may not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, our obligations under our credit facilities are secured by certain of our vessels, and if we are unable to repay borrowings under such credit facilities, lenders could seek to foreclose on those vessels.

Restrictions in our debt agreements may prevent us from paying distributions to unitholders.

Our payment of principal and interest on the debt will reduce cash available for distribution on our common units. In addition, our credit facilities prohibit the payment of distributions if we are not in compliance with certain financial covenants or upon the occurrence of an event of default.

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Events of default under our credit facilities include, among other things, the following:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- an event of insolvency or bankruptcy;
- material adverse change in the financial position or prospects of us or our general partner;
- failure of any representation or warranty to be materially correct; and
- failure of Navios Holdings or its affiliates (as defined in the credit facilities agreements) to own at least 20% of us.

We anticipate that any subsequent refinancing of our current debt or any new debt will have similar restrictions.

We depend on Navios Holdings and its affiliates to assist us in operating and expanding our business.

Pursuant to the management agreement between us and the Manager, the Manager provides to us significant commercial and technical management services (including the commercial and technical management of our vessels, vessel maintenance and crewing, purchasing and insurance and shipyard supervision). In addition, pursuant to an administrative services agreement between us and the Manager, the Manager provides to us significant administrative, financial and other support services. Our operational success and ability to execute our growth strategy depends significantly upon the Manager s satisfactory performance of these services. Our business will be harmed if the Manager fails to perform these services satisfactorily, if the Manager cancels either of these agreements, or if the Manager stops providing these services to us. We may also in the future contract with Navios Holdings for it to have newbuildings constructed on our behalf and to incur the construction-related financing. We would purchase the vessels on or after delivery based on an agreed-upon price.

Our ability to enter into new charters and expand our customer relationships will depend largely on our ability to leverage our relationship with Navios Holdings and its reputation and relationships in the shipping industry. If Navios Holdings suffers material damage to its reputation or relationships, it may harm our ability to:

- renew existing charters upon their expiration;

- obtain new charters;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with suppliers and other third parties.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

As we expand our business, we may have difficulty managing our growth, which could increase expenses.

We intend to seek to grow our fleet, either through purchases, the increase of the number of chartered-in vessels or through the acquisitions of businesses. The addition of vessels to our fleet or the acquisition of new businesses will impose significant additional responsibilities on our management and staff. We will also have to increase our customer base to provide continued employment for the new vessels. Our growth will depend on:

- locating and acquiring suitable vessels;
- identifying and consummating acquisitions or joint ventures;

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- integrating any acquired business successfully with our existing operations;
- enhancing our customer base;
- managing our expansion; and
- obtaining required financing.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty in obtaining additional qualified personnel, and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection therewith or that our acquisitions will perform as expected, which could materially adversely affect our results of operations and financial condition.

Our growth depends on continued growth in demand for drybulk commodities and the shipping of drybulk cargoes.

Our growth strategy focuses on expansion in the drybulk shipping sector. Accordingly, our growth depends on continued growth in world and regional demand for drybulk commodities and the shipping of drybulk cargoes, which could be negatively affected by a number of factors, such as declines in prices for drybulk commodities, or general political and economic conditions.

Reduced demand for drybulk commodities and the shipping of drybulk cargoes would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition. In particular, Asian Pacific economies and India have been the main driving force behind the current increase in seaborne drybulk trade and the demand for drybulk carriers. A negative change in economic conditions in any Asian Pacific country, but particularly in China, Japan or India, may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects, by reducing demand and resultant charter rates.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

Long-term time charters have the potential to provide income at pre-determined rates over more extended periods of time. However, the process for obtaining longer term time charters is highly competitive and generally involves a lengthy, intensive and continuous screening and vetting process and the submission of competitive bids that often extends for several months. In addition to the quality, age and suitability of the vessel, longer term shipping contracts tend to be awarded based upon a variety of other factors relating to the vessel operator, including:

- the operator s environmental, health and safety record;
- compliance with International Maritime Organization, or IMO, standards and the heightened industry standards that have been set by some energy companies;

shipping industry relationships, reputation for customer service, technical and operating expertise;

shipping experience and quality of ship operations, including cost-effectiveness;

quality, experience and technical capability of crews;

the ability to finance vessels at competitive rates and overall financial stability;

relationships with shipyards and the ability to obtain suitable berths;

construction management experience, including the ability to procure on-time delivery of new vessels according to customer specifications;

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- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and

- competitiveness of the bid in terms of overall price.

It is likely that we will face substantial competition for long-term charter business from a number of experienced companies. Many of these competitors have significantly greater financial resources than we do. It is also likely that we will face increased numbers of competitors entering into our transportation sectors, including in the drybulk sector. Many of these competitors have strong reputations and extensive resources and experience. Increased competition may cause greater price competition, especially for long-term charters.

As a result of these factors, we may be unable to expand our relationships with existing customers or obtain new customers for long-term charters on a profitable basis, if at all. However, even if we are successful in employing our vessels under longer term charters, our vessels will not be available for trading in the spot market during an upturn in the drybulk market cycle, when spot trading may be more profitable. If we cannot successfully employ our vessels in profitable time charters our results of operations and operating cash flow could be adversely affected.

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy focuses on a gradual expansion of our fleet. Any acquisition of a vessel may not be profitable to us at or after the time we acquire it and may not generate cash flow sufficient to justify our investment. In addition, our growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;

- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;

- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;

- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or

- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

If we purchase any newbuilding vessels, delays, cancellations or non-completion of deliveries of newbuilding vessels could harm our operating results.

If we purchase any newbuilding vessels, the shipbuilder could fail to deliver the newbuilding vessel as agreed or their counterparty could cancel the purchase contract if the shipbuilder fails to meet its obligations. In addition, under charters we may enter into that are related to a newbuilding, if our delivery of the newbuilding to our customer is delayed, we may be required to pay liquidated damages during the delay. For prolonged delays, the customer may terminate the charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages.

The completion and delivery of newbuildings could be delayed, cancelled or otherwise not completed because of:

quality or engineering problems;

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- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;
- bankruptcy or other financial crisis of the shipbuilder;
- a backlog of orders at the shipyard;
- political or economic disturbances;
- weather interference or catastrophic event, such as a major earthquake or fire;
- requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- inability to finance the construction or conversion of the vessels; or
- inability to obtain requisite permits or approvals.

If delivery of a vessel is materially delayed, it could materially adversely affect our results of operations and financial condition and our ability to make cash distributions.

The loss of a customer, charter or vessel could result in a loss of revenues and cash flow in the event we are unable to replace such customer, charter or vessel.

For the fiscal year ended December 31, 2012, we had 18 charter counterparties, the most significant of which were Cosco Bulk Carrier Co., Ltd., Mitsui O.S.K. Lines, Ltd. and Samsun Logix, and which accounted for approximately 22.8%, 16.0% and 13.0%, respectively, of total revenues. For the fiscal year ended December 31, 2011, we had 15 charter counterparties, the most significant of which were Cosco Bulk Carrier Co., Ltd., Mitsui O.S.K. Lines, Ltd. and Samsun Logix, and which accounted for approximately 22.2%, 18.5% and 13.2%, respectively, of total revenues. For the year ended December 31, 2010, we had 12 charter counterparties, the most significant of which were Mitsui O.S.K. Lines, Ltd., Cargill International S.A. and Cosco Bulk Carrier Co. Ltd., and which accounted for approximately 27.7%, 11.8% and 11.2%, respectively, of total revenues. No other customers accounted for 10% or more of total revenue for any of the years presented.

We could lose a customer or the benefits of a charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;

- the customer exercises certain rights to terminate the charter;

- the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or

- a prolonged force majeure event affecting the customer, including damage to or destruction of relevant production facilities, war or political unrest prevents us from performing services for that customer.

If we lose a charter, we may be unable to re-deploy the related vessel on terms as favorable to us due to the long-term nature of most charters and the cyclical nature of the industry or we may be forced to charter the vessel on the spot market at then market rates which may be less favorable than the charter that has been terminated. If we are unable to re-deploy a vessel for which the charter has been terminated, we will not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition. If we lose a vessel, any replacement newbuilding would not generate revenues during its construction, and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

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The permanent loss of a customer, time charter or vessel, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions in the event we are unable to replace such customer, time charter or vessel.

To mitigate this risk we have insured certain of our long-term charter-out contracts of the drybulk vessels for credit default occurring until the end of 2016, either through a AA rated European Union insurance provider up to a maximum cash payment of $120.0 million initially or through a separate agreement with Navios Holdings up to a maximum cash payment of $20.0 million. Our agreements provide that if the charterer goes into payment default, the respective insurer will reimburse us for the charter payments under the terms of the cover (subject to applicable deductibles and other customary limitations for such type of insurance).

The five container vessels recently acquired which are expected to be delivered into our fleet in the fourth quarter of 2013, are all chartered out to the same counterparty on long-term charters, which will have a significant impact on our future revenues.

In January 2011, Korea Line Corporation (KLC) which is the charterer of the Navios Melodia filed for receivership. The charter contract was affirmed and will be performed by KLC on its original terms, following an interim suspension period during which Navios Partners trades the vessel directly.

The risks and costs associated with vessels increase as the vessels age.

As of November 6, 2013, the vessels in our fleet have an average age of approximately 6.6 years and most drybulk vessels have an expected life of approximately 25-28 years. We may acquire older vessels in the future. In some instances, charterers prefer newer vessels that are more fuel efficient than older vessels. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers as well. Governmental regulations, safety or other equipment standards related to the age of the vessels may require expenditures for alterations or the addition of new equipment, to our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. If we sell vessels, we may have to sell them at a loss, and if charterers no longer charter out vessels due to their age, it could materially adversely affect our earnings.

Vessels may suffer damage and we may face unexpected drydocking costs, which could affect our cash flow and financial condition.

If our owned vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that insurance does not cover. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, could decrease our revenues and earnings substantially, particularly if a number of vessels are damaged or drydocked at the same time. Under the terms of the management agreement with the Manager, the costs of drydocking repairs are not included in the daily management fee, but will be reimbursed at cost.

We are subject to various laws, regulations and conventions, including environmental and safety laws that could require significant expenditures both to maintain compliance with such laws and to pay for any uninsured environmental liabilities including any resulting from a spill or other environmental incident.

The shipping business and vessel operation are materially affected by government regulation in the form of international conventions, national, state and local laws, and regulations in force in the jurisdictions in which vessels operate, as well as in the country or countries of their registration. Governmental regulations, safety or other

equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations and customer requirements or competition, may require us to make capital and other expenditures. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations, or the impact thereof on the fair market price or useful life of our vessels. In order to satisfy any such requirements, we may be required to take any of our vessels out of service for extended periods of time, with corresponding losses of revenues. In the future, market conditions may

not justify these expenditures or enable us to operate our vessels, particularly older vessels, profitably during the remainder of their economic lives. This could lead to significant asset write downs. In addition, violations of environmental and safety regulations can result in substantial penalties and, in certain instances, seizure or detention of our vessels.

Additional conventions, laws and regulations may be adopted that could limit our ability to do business, require capital expenditures or otherwise increase our cost of doing business, which may materially adversely affect our operations, as well as the shipping industry generally. In various jurisdictions legislation has been enacted, or is under consideration, that would impose more stringent requirements on air pollution and water discharges from our vessels. For example, the International Maritime Organization (IMO) periodically proposes and adopts amendments to revise the International Convention for the Prevention of Pollution from Ships (MARPOL), such as the revision to Annex VI which came into force on July 1, 2010. The revised Annex VI implements a phased reduction of the sulfur content of fuel and allows for stricter sulfur limits in designated emission control areas (ECAs). Thus far, ECAs have been formally adopted for the Baltic Sea and the North Sea including the English Channel. The North American ECA came into effect on August 1, 2012, and the United States Caribbean Sea ECA came into force on January 1, 2013, having effect from January 1, 2014. These ECAs will limit SOx, NOx and particulate matter emissions. In California has adopted more stringent low sulfur fuel requirements within California regulated waters. In addition, the IMO, the U.S. and states within the U.S. have proposed or implemented requirements relating to the management of ballast water to prevent the harmful effects of foreign invasive species.

The operation of vessels is also affected by the requirements set forth in the International Safety Management (ISM) Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive Safety Management System that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe vessel operation and describing procedures for dealing with emergencies. Further to this, the IMO has introduced the first ever mandatory measures for an international greenhouse gas reduction regime for a global industry sector. These Energy Efficiency measures took effect on January 1, 2013 and apply to all ships of 400 gross tonnage and above. They include the development of a ship energy efficiency management plan (SEEMP) which is akin to a safety management plan, with which the industry will have to comply. The failure of a ship owner or bareboat charterer to comply with the ISM Code and IMO measures may subject such party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports.

For all vessels, including those operated under our fleet at present, international liability for oil pollution is governed by the International Convention on Civil Liability for Bunker Oil Pollution Damage (the Bunker Convention). In 2001, the IMO adopted the Bunker Convention, which imposes strict liability on shipowners for pollution damage and response costs incurred in contracting states caused by discharges, or threatened discharges, of bunker oil from all classes of ships. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance to cover their liability for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime, including liability limits calculated in accordance with the Convention on Limitation of Liability for Maritime Claims 1976, as amended (the 1976 Convention), discussed in more detail in the following paragraph. The Bunker Convention became effective in contracting states on November 21, 2008 and as of September 30, 2013 was in effect in 74 states. In non-contracting states, liability for such bunker oil pollution typically is determined by the national or other domestic laws in the jurisdiction where the spillage occurs.

The right of vessel owners to limit liability incurred under the Bunker Convention depends on the applicable national or international regime. The 1976 Convention is the most widely applicable international regime limiting maritime pollution liability. Rights to limit liability under the 1976 Convention are forfeited where a spill is caused by a shipowner s intentional or reckless conduct. Certain jurisdictions have ratified the IMO s Protocol of 1996 to the 1976

Convention, referred to herein as the Protocol of 1996. The Protocol of 1996 provides for substantially higher liability limits in those jurisdictions than the limits set forth in the 1976

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Convention. Finally, some jurisdictions, such as the United States, are not a party to either the 1976 Convention or the Protocol of 1996, and, therefore, a shipowner s rights to limit liability for maritime pollution in such jurisdictions may be uncertain.

Environmental legislation in the United States merits particular mention as it is in many respects more onerous than international laws, representing a high-water mark of regulation with which ship owners and operators must comply, and of liability likely to be incurred in the event of non-compliance or an incident causing pollution. Such regulation may become even stricter if laws are changed as a result of the April 2010 Deepwater Horizon oil spill in the Gulf of Mexico. In the United States, the OPA establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from cargo and bunker oil spills from vessels, including tankers. The OPA covers all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. Under the OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or substantial threats of discharges, of oil from their vessels. In response to the 2010 Deepwater Horizon oil incident in the Gulf of Mexico, the U.S. House of Representatives passed and the U.S. Senate considered but did not pass a bill to strengthen certain requirements of the OPA; similar legislation may be introduced in the 113th Congress.

In addition to potential liability under the federal OPA, vessel owners may in some instances incur liability on an even more stringent basis under state law in the particular state where the spillage occurred. For example, California regulations prohibit the discharge of oil, require an oil contingency plan be filed with the state, require that the ship owner contract with an oil response organization and require a valid certificate of financial responsibility, all prior to the vessel entering state waters.

In the last decade, the EU has become increasingly active in the field of regulation of maritime safety and protection of the environment. In some areas of regulation the EU has introduced new laws without attempting to procure a corresponding amendment to international law. Notably, the EU adopted in 2005 a directive, as amended in 2009, on ship-source pollution, imposing criminal sanctions for pollution not only where pollution is caused by intent or recklessness (which would be an offence under MARPOL), but also where it is caused by serious negligence. The concept of serious negligence may be interpreted in practice to be little more than ordinary negligence. The directive could therefore result in criminal liability being incurred in circumstances where it would not be incurred under international law. Criminal liability for a pollution incident could not only result in us incurring substantial penalties or fines, but may also, in some jurisdictions, facilitate civil liability claims for greater compensation than would otherwise have been payable.

We maintain insurance coverage for each owned vessel in our fleet against pollution liability risks in the amount of $1.0 billion in the aggregate for any one event. The insured risks include penalties and fines as well as civil liabilities and expenses resulting from accidental pollution. However, this insurance coverage is subject to exclusions, deductibles and other terms and conditions. If any liabilities or expenses fall within an exclusion from coverage, or if damages from a catastrophic incident exceed the aggregate liability of $1.0 billion for any one event, our cash flow, profitability and financial position would be adversely impacted.

Climate change and government laws and regulations related to climate change could negatively impact our financial condition.

Regarding climate change in particular, we are and will be, directly and indirectly, subject to the effects of climate change and may, directly or indirectly, be affected by government laws and regulations related to climate change. A

number of countries have adopted or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. In the U.S., the United States Environmental Protection Agency (U.S. EPA) has

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declared greenhouse gases to be dangerous pollutants and has issued greenhouse gas reporting requirements for emissions sources in certain industries (which do not include the shipping industry). The U.S. EPA is also considering petitions to regulate greenhouse gas emissions from marine vessels.

In addition, while the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which requires adopting countries to implement national programs to reduce greenhouse gas emissions, the IMO intends to develop limits on greenhouse gases from international shipping. It has responded to the global focus on climate change and greenhouse gas emissions by developing specific technical and operational efficiency measures and a work plan for market-based mechanisms in 2011. These include the mandatory measures of the ship energy efficiency management plan (SEEMP), outlined above, and an energy efficiency design index (EEDI) for new ships. The IMO is also considering its position on market-based measures through an expert working group, which was expected to report back to its Marine Environment Protection Committee. Among the numerous proposals being considered by the working group are the following: a port state levy based on the amount of fuel consumed by the vessel on its voyage to the port in question; a global emissions trading scheme which would allocate emissions allowances and set an emissions cap; and an international fund establishing a global reduction target for international shipping, to be set either by the UNFCCC or the IMO. At its 64th session on 1 to 5 October 2012, the MEPC indicated that 2015 was the target year for Member States to identify market-based measures for international shipping.

In December 2011, UN climate change talks took place in Durban and concluded with an agreement referred to as the Durban Platform for Enhanced Action. The Durban Conference did not result in any proposals specifically addressing the shipping industry s role in climate change but the progress that has been made by the IMO in this area was widely acknowledged throughout the negotiating bodies of the UNFCCC process.

The European Union announced in April 2007 that it planned to expand the European Union emissions trading scheme by adding vessels, and a proposal from the European Commission was expected if no global regime for reduction of seaborne emissions had been agreed to by the end of 2011. That deadline has now expired and it remains to be seen what position the EU takes in this regard in the period ahead. As of January 31, 2013 the Commission has stopped short of proposing that emissions from ships be included in the EU s emissions-trading scheme (ETS). However on October 1, 2012 it announced that it would propose measures to monitor, verify and report on greenhouse-gas emissions from the shipping sector. On June 28, 2013, the European Commission adopted a communication setting out a strategy for progressively including greenhouse gas emissions from maritime transport in the EU s policy for reducing its overall GHG emissions. The first step proposed by the Commission is an EU Regulation which would establish an EU-wide system for the monitoring, reporting and verification (MRV) of carbon dioxide (CO_2) emissions from large ships starting in 2018. This may be seen as indicative of an intention to maintain pressure on the international negotiating process.

We cannot predict with any degree of certainty what effect, if any possible climate change and government laws and regulations related to climate change will have on our operations, whether directly or indirectly. While we believe that it is difficult to assess the timing and effect of climate change and pending legislation and regulation related to climate change on our business, we believe that climate change, including the possible increase in severe weather events resulting from climate change, and government laws and regulations related to climate change may affect, directly or indirectly, (i) the cost of the vessels we may acquire in the future, (ii) our ability to continue to operate as we have in the past, (iii) the cost of operating our vessels, and (iv) insurance premiums, deductibles and the availability of coverage. As a result, our financial condition could be negatively impacted by significant climate change and related governmental regulation, and that impact could be material.

The loss of key members of our senior management team could disrupt the management of our business.

We believe that our success depends on the continued contributions of the members of our senior management team, including Ms. Angeliki Frangou, our Chairman and Chief Executive Officer. The loss of the services of Ms. Frangou or one of our other executive officers or those of Navios Holdings who provide us with

significant managerial services could impair our ability to identify and secure new charter contracts, to maintain good customer relations and to otherwise manage our business, which could have a material adverse effect on our financial performance and our ability to compete.

We are subject to vessel security regulations and will incur costs to comply with recently adopted regulations and we may be subject to costs to comply with similar regulations that may be adopted in the future in response to terrorism.

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created ISPS Code. Among the various requirements are:

- on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid International Ship Security Certificate, or ISSC, that attests to the vessel s compliance with SOLAS security requirements and the ISPS Code. We will implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and take measures for the vessels to attain compliance with all applicable security requirements within the prescribed time periods. Although management does not believe these additional requirements will have a material financial impact on our operations, there can be no assurance that there will not be an interruption in operations to bring vessels into compliance with the applicable requirements and any such interruption could cause a decrease in charter revenues. Furthermore, additional security measures could be required in the future which could have a significant financial impact on us.

Our international activities increase the compliance risks associated with economic and trade sanctions imposed by the United States, the European Union and other jurisdictions.

Our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations, including the United Nations, the European Union and its member countries. Under economic and trading sanctions laws, governments may seek to impose modifications to

business practices, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions.

During 2011 and continuing into 2012, the scope of sanctions imposed against the government of Iran and persons engaging in certain activities or doing certain business with and relating to Iran has been expanded by a number of jurisdictions, including the United States, the European Union and Canada. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA), which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies, such as our company, and introduces limits on the ability of companies and persons to do

business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products (tankers owned by an affiliate of ours have called on ports in Iran but do not engage in the activities specifically identified by these sanctions). Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation.

We are monitoring developments in the United States, the European Union and other jurisdictions that maintain sanctions programs, including developments in implementation and enforcement of such sanctions programs. Expansion of sanctions programs, embargoes and other restrictions in the future (including additional designations of countries subject to sanctions), or modifications in how existing sanctions are interpreted or enforced, could prevent our tankers from calling on ports in sanctioned countries or could limit their cargoes. If any of the risks described above materialize, it could have a material adverse impact on our business and results of operations.

The operation of ocean-going vessels entails the possibility of marine disasters including damage or destruction of the vessel due to accident, the loss of a vessel due to piracy or terrorism, damage or destruction of cargo and similar events that may cause a loss of revenue from affected vessels and damage our business reputation, which may in turn lead to loss of business.

The operation of ocean-going vessels entails certain inherent risks that may materially adversely affect our business and reputation, including:

- damage or destruction of vessel due to marine disaster such as a collision;
- the loss of a vessel due to piracy and terrorism;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure and bad weather;
- environmental accidents as a result of the foregoing; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could substantially increase our costs. For example, the costs of replacing a vessel or cleaning up a spill could substantially lower our revenues by taking vessels out of operation permanently or for periods of time. The involvement of our vessels in a disaster or delays in delivery or damages or loss of cargo may harm our reputation as a safe and reliable vessel operator and cause us to lose business.

The operation of vessels, such as dry bulk carriers, has certain unique risks. With a dry bulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, dry bulk cargoes are often heavy, dense,

easily shift, and react badly to water exposure. In addition, dry bulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in dry bulk carriers may lead to the flooding of the vessels holds. If a dry bulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel s bulkheads leading to the loss of a vessel.

The total loss or damage of any of our vessels or cargoes could harm our reputation as a safe and reliable vessel owner and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs, or loss that could negatively impact our business, financial condition, results of operations, cash flows and ability to pay distributions.

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A failure to pass inspection by classification societies could result in one or more vessels being unemployable unless and until they pass inspection, resulting in a loss of revenues from such vessels for that period and a corresponding decrease in operating cash flows.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and with SOLAS. Our owned fleet is currently enrolled with American Bureau of Shipping, Nippon Kaiji Kiokai, Bureau Veritas and Lloyd s Register.

A vessel must undergo an annual survey, an intermediate survey and a special survey. In lieu of a special survey, a vessel s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel fails any annual survey, intermediate survey or special survey, the vessel may be unable to trade between ports and, therefore, would be unemployable, potentially causing a negative impact on our revenues due to the loss of revenues from such vessel until she is able to trade again.

We are subject to inherent operational risks that may not be adequately covered by our insurance.

The operation of ocean-going vessels in international trade is inherently risky. Although we carry insurance for our fleet against risks commonly insured against by vessel owners and operators, including hull and machinery insurance, war risks insurance and protection and indemnity insurance (which include environmental damage and pollution insurance), all risks may not be adequately insured against, and any particular claim may not be paid. We do not currently maintain off-hire insurance, which would cover the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any extended vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business and our ability to pay distributions to our unitholders. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill or marine disaster could exceed our insurance coverage, which could harm our business, financial condition and operating results. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available to us may be significantly more expensive than our existing coverage.

Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. Our insurance policies also contain deductibles, limitations and exclusions which can result in significant increased overall costs to us.

Because we obtain some of our insurance through protection and indemnity associations, we may also be subject to calls, or premiums, in amounts based not only on our own claim records, but also the claim records of all other members of the protection and indemnity associations.

We may be subject to calls, or premiums, in amounts based not only on our claim records but also the claim records of all other members of the protection and indemnity associations through which we receive insurance coverage for tort liability, including pollution-related liability. Our payment of these calls could result in significant expenses to us, which could have a material adverse effect on our business, results of operations and financial condition.

Because we generate all of our revenues in U.S. dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could cause us to suffer exchange rate losses thereby increasing expenses and reducing income.

We engage in worldwide commerce with a variety of entities. Although our operations may expose us to certain levels of foreign currency risk, our transactions are at present predominantly U.S. dollar-denominated. Transactions in currencies other than the functional currency are translated at the exchange rate in effect at the date of each transaction. Expenses incurred in foreign currencies against which the U.S. dollar falls in value can increase thereby decreasing our income or vice versa if the U.S. dollar increases in value. For example, as of December 31, 2012, the value of the U.S. dollar as compared to the Euro decreased by approximately 2.0% compared with the respective value as of December 31, 2011. A greater percentage of our transactions and expenses in the future may be denominated in currencies other than the U.S. dollar.

Our operations expose us to global political risks, such as wars and political instability that may interfere with the operation of our vessels causing a decrease in revenues from such vessels.

We are an international company and primarily conduct our operations outside the United States. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered will affect us. In the past, political conflicts, particularly in the Persian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. For example, in October 2002, the vessel Limburg, which was not affiliated with us, was attacked by terrorists in Yemen. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Following the terrorist attack in New York City on September 11, 2001, and the military response of the United States, the likelihood of future acts of terrorism may increase, and our vessels may face higher risks of being attacked in the Middle East region and interruption of operations causing a decrease in revenues. In addition, future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations by causing delays in shipping on certain routes or making shipping impossible on such routes, thereby causing a decrease in revenues.

In addition, a government could requisition title or seize our vessels during a war or national emergency. Requisition of title occurs when a government takes a vessel and becomes the owner. A government could also requisition our vessels for hire, which would result in the government s taking control of a vessel and effectively becoming the charterer at a dictated charter rate. Requisition of one or more of our vessels would have a substantial negative effect on us as we would potentially lose all revenues and earnings from the requisitioned vessels and permanently lose the vessels. Such losses might be partially offset if the requisitioning government compensated us for the requisition.

Acts of piracy on ocean-going vessels have increased in frequency and magnitude, which could adversely affect our business.

The shipping industry has historically been affected by acts of piracy in regions such as the South China Sea and the Gulf of Aden. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since its increase in 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea. A recent and significant example of the heightened level of piracy came in February 2011 when the M/V Irene SL, a crude oil tanker which was not affiliated with us, was captured by pirates in the Arabian Sea while carrying crude oil estimated to be worth approximately $200 million. In December 2009, the Navios Apollon, one of our vessels, was seized by pirates 800 miles off the coast of Somalia while transporting fertilizer from Tampa, Florida to Rozi, India and was released on February 27, 2010. These piracy attacks resulted in regions (in which our vessels are deployed) being characterized by insurers as war risk zones or Joint War Committee (JWC) war and strikes listed areas. Premiums payable for such insurance coverage could increase significantly and

such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in

such circumstances. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not on-hire for a certain number of days and it is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and cash flows. Acts of piracy on ocean-going vessels have increased in frequency, which could adversely affect our business and operations.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our ability to obtain financing, our results of operations, financial condition and cash flows and could cause the market price of our common units to decline.

Concerns relating to the European sovereign debt crisis have recently intensified. While Greece, Portugal and Ireland have been the most affected countries thus far, with each agreeing to a rescue package with the European Union and the International Monetary Fund, there are fears that other European countries may be further affected by increasing public debt burdens and weakening economic growth prospects. On January, 13, 2012, Standard and Poor s Rating Services downgraded the long-term ratings for nine Eurozone nations, including France, Italy and Spain. Since then, Standard and Poor s, Moody s Investors Service and other credit ratings agencies have further downgraded certain Eurozone nations, most recently with Fitch Ratings downgrade of Italy s sovereign rating on March 8, 2013. Such downgrades could negatively affect those countries ability to access the public debt markets at reasonable rates or at all, materially affecting the financial conditions of banks in those countries, including those with which we maintain cash deposits and equivalents, or on which we rely on to finance our vessel and new business acquisitions.

Cash deposits and cash equivalents in excess of amounts covered by government-provided insurance are exposed to loss in the event of non-performance by financial institutions. We maintain cash deposits and equivalents in excess of government-provided insurance limits at banks in Greek and other European banks, which may expose us to a loss of cash deposits or cash equivalents.

The United States and other parts of the world are exhibiting volatile economic trends and were recently in a recession. Despite signs of recovery, the outlook for the world economy remains uncertain. For example, the credit markets worldwide have experienced significant contraction, de-leveraging and reduced liquidity, and the U.S. federal government, state governments and foreign governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Additionally, uncertainty regarding tax policy and government spending in the United States have created an uncertain environment which could reduce demand for our services. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The Securities and Exchange Commission (the SEC), other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws. Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. These issues, along with the reprising of credit risk and the difficulties currently experienced by financial institutions have made, and will likely continue to make, it difficult to obtain financing. As a result of the disruptions in the credit markets, many lenders have increased margins on lending rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts), or have refused to refinance existing debt at all. Additionally, certain banks that have historically been significant lenders to the shipping industry have reduced or ceased lending activities in the shipping industry. New banking regulations, including larger capital requirements and the resulting policies adopted by lenders, could reduce lending activities. We may experience difficulties obtaining financing commitments, including commitments to

refinance our existing debt as balloon payments come due under our credit facilities, in the future if lenders are unwilling to extend financing to us or unable to meet their funding obligations due to their own liquidity, capital or solvency issues. Due to the fact that we would possibly cover all or a portion of the cost of any new vessel acquisition with debt financing, such uncertainty, combined with restrictions imposed by our current debt, could hamper our ability to finance vessels or new business acquisitions.

In addition, the economic uncertainty worldwide has markedly reduced demand for shipping services and has decreased shipping rates, which may adversely affect our results of operations and financial condition. Currently, the economies of China, Japan, other Pacific Asian countries and India are the main driving force behind the development in seaborne transportation. Reduced demand from such economies has driven decreased rates and vessel values.

We could face risks attendant to changes in economic environments, changes in interest rates, tax policies, and instability in certain securities markets, among other factors. Major market disruptions and the uncertainty in market conditions and the regulatory climate in the U.S., Europe and worldwide could adversely affect our business or impair our ability to borrow amounts under any future financial arrangements. The current market conditions may last longer than we anticipate. These recent and developing economic and governmental factors could have a material adverse effect on our results of operations, financial condition or cash flows.

Maritime claimants could arrest our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages against such vessel. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted. We are not currently aware of the existence of any such maritime lien on our vessels.

In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel which is subject to the claimant s maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another ship in the fleet.

Navios Holdings and its affiliates may compete with us.

Pursuant to the omnibus agreement that we entered into with Navios Holdings in connection with the closing of the IPO (the Omnibus Agreement), Navios Holdings and its controlled affiliates (other than us, our general partner and our subsidiaries) generally agreed not to acquire or own Panamax or Capesize drybulk carriers under time charters of three or more years without the consent of our general partner. The Omnibus Agreement, however, contains significant exceptions that allow Navios Holdings or any of its controlled affiliates to compete with us under specified circumstances which could harm our business. In addition, concurrently with the successful consummation of the initial business combination by Navios Maritime Acquisition Corporation (Navios Acquisition), on May 28, 2010, because of the overlap between Navios Acquisition, Navios Holdings and us, with respect to possible acquisitions under the terms of the Omnibus Agreement, we entered into a business opportunity right of first refusal agreement which provides the types of business opportunities in the marine transportation and logistics industries, we, Navios Holdings and Navios Acquisition must share with the each other.

Common unitholders have limited voting rights and our partnership agreement restricts the voting rights of common unitholders owning more than 4.9% of our common units.

Holders of our common units have only limited voting rights on matters affecting our business. We hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders may only elect four of the

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seven members of our board of directors. The elected directors are elected on a staggered basis and serve for three year terms. Our general partner in its sole discretion has the right to appoint the remaining three directors and to set the terms for which those directors will serve. The partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management. Unitholders will have no right to elect our general partner and our general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts common unitholders voting rights by providing that if any person or group owns beneficially more than 4.9% of the common units then outstanding, any such common units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, except for purposes of nominating a person for election to our board, determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such common unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected independent directors.

Our general partner and its affiliates, including Navios Holdings, own a significant interest in us and have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to the detriment of unitholders.

Navios Holdings indirectly owns the 2.0% general partner interest and a 21.6% limited partner interest in us, and owns and controls our general partner. All of our officers and three of our directors are directors and/or officers of Navios Holdings and its affiliates, and our Chief Executive Officer is also the Chief Executive Officer of Navios Acquisition and Navios Holdings. As such these individuals have fiduciary duties to Navios Holdings and Navios Acquisition that may cause them to pursue business strategies that disproportionately benefit Navios Holdings or Navios Acquisition or which otherwise are not in our best interests or those of our unitholders. Conflicts of interest may arise between Navios Acquisition, Navios Holdings and their respective affiliates including our general partner, on the one hand, and us and our unitholders on the other hand. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our general partner or Navios Holdings or its affiliates to pursue a business strategy that favors us or utilizes our assets, and Navios Holdings officers and directors have a fiduciary duty to make decisions in the best interests of the stockholders of Navios Holdings, which may be contrary to our interests;

- our general partner and our board of directors are allowed to take into account the interests of parties other than us, such as Navios Holdings, in resolving conflicts of interest, which has the effect of limiting their fiduciary duties to our unitholders;

our general partner and our directors have limited their liabilities and reduced their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our general partner and our directors, all as set forth in the partnership agreement;

our general partner and our board of directors will be involved in determining the amount and timing of our asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available for distribution to our unitholders;

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- our general partner may have substantial influence over our board of directors decision to cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions.

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf; and

- our general partner may exercise its right to call and purchase our common units if it and its affiliates own more than 80% of our common units.

Although a majority of our directors will be elected by common unitholders, our general partner will likely have substantial influence on decisions made by our board of directors.

Our officers face conflicts in the allocation of their time to our business.

Navios Holdings and Navios Acquisition conduct businesses and activities of their own in which we have no economic interest. If these separate activities are significantly greater than our activities, there will be material competition for the time and effort of our officers, who also provide services to Navios Acquisition, Navios Holdings and its affiliates. Our officers are not required to work full-time on our affairs and are required to devote time to the affairs of Navios Acquisition, Navios Holdings and their respective affiliates. Each of our Chief Executive Officer and our Chief Financial Officer is also an executive officer of Navios Holdings, and our Chief Executive Officer is the Chief Executive Officer of Navios Acquisition and Navios Holdings.

Our partnership agreement limits our general partner s and our directors fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement contains provisions that reduce the standards to which our general partner and directors would otherwise be held by Marshall Islands law. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Where our partnership agreement permits, our general partner may consider only the interests and factors that it desires, and in such cases it has no fiduciary duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner in its individual capacity will be made by its sole owner, Navios Holdings. Specifically, pursuant to our partnership agreement, our general partner will be considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the partnership;

appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units, general partner interest or incentive distribution rights or votes upon the dissolution of the partnership;

provides that our general partner and our directors are entitled to make other decisions in good faith if they reasonably believe that the decision is in our best interests;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that neither our general partner nor our officers or our directors will be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or directors or our officers or directors or those other persons engaged in actual fraud or willful misconduct.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above.

Fees and cost reimbursements, which the Manager determines for services provided to us, are significant, are payable regardless of profitability and reduce our cash available for distribution.

Under the terms of our management agreement with the Manager, we pay a daily fee of $4,000 per Ultra-Handymax vessel, $4,100 per Panamax vessel, $5,100 per Capesize vessel beginning on January 1, 2014 and $6,500 per Post-Panamax container vessel for technical and commercial management services provided to us by the Manager until December 31, 2015. Intermediate and special survey expenses (including drydocking expenses) under this agreement will be reimbursed at cost. The term of the management agreement is until December 31, 2017.

The daily fee paid to the Manager includes all costs incurred in providing certain commercial and technical management services to us. While this fee is fixed until December 31, 2015, we expect that we will reimburse the Manager for all of the actual operating costs and expenses it incurs in connection with the management of our fleet from January 1, 2016 until December 31, 2017, which may result in significantly higher fees that period. All of the fees we are required to pay to the Manager under the management agreement are payable without regard to our financial condition or results of operations. In addition, the Manager provides us with administrative services, including the services of our officers and directors, pursuant to an administrative services agreement which has a term until December 31, 2017, and we reimburse the Manager for all costs and expenses reasonably incurred by it in connection with the provision of those services. The fees and reimbursement of expenses to the Manager are payable regardless of our profitability and could materially adversely affect our ability to pay cash distributions to unitholders.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

- The vote of the holders of at least 66 2/3 % of all the then outstanding common units, voting together as a single class is required to remove the general partner. Navios Holdings currently owns 21.6% of the total number of outstanding common units.

- Common unitholders elect only four of the seven members of our board of directors. Our general partner in its sole discretion has the right to appoint the remaining three directors.

- Election of the four directors elected by unitholders is staggered, meaning that the members of only one of three classes of our elected directors are selected each year. In addition, the directors appointed by our general partner will serve for terms determined by our general partner.

Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

Unitholders voting rights are further restricted by the partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of the common units then outstanding, any such common units owned by that person or group in excess of 4.9% may not be voted on any matter and

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will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, except for purposes of nominating a person for election to our board, determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such common unitholders in excess of 4.9% will be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

We have substantial latitude in issuing equity securities without unitholder approval.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party.

In establishing cash reserves, our board of directors may reduce the amount of cash available for distribution to unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. These reserves also will affect the amount of cash available for distribution to our unitholders. Our partnership agreement requires our board of directors each quarter to deduct from operating surplus estimated maintenance and replacement capital expenditures, as opposed to actual expenditures, which could reduce the amount of available cash for distribution. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, provided that any change must be approved by the conflicts committee of our board of directors.

Our general partner has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates, including Navios Holdings, own more than 80% of the common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their units.

As of November 6, 2013, Navios Holdings owned 14,223,763 common units and 1,449,681 general partner units, representing a 21.6% interest in us based on all outstanding common units and general partnership units.

Unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a partnership organized under the laws of the Marshall Islands, unitholders could be held liable for our obligations to the same extent as a general partner if they participate in the control of our business. Our general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental

liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to our general partner.

We can borrow money to pay distributions, which would reduce the amount of credit available to operate our business.

Our partnership agreement will allow us to make working capital borrowings to pay distributions. Accordingly, we can make distributions on all our units even though cash generated by our operations may not be sufficient to pay such distributions. Any working capital borrowings by us to make distributions will reduce the amount of working capital borrowings we can make for operating our business.

Increases in interest rates may cause the market price of our common units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general, and in particular for yield-based equity investments such as our common units. Any such increase in interest rates or reduction in demand for our common units resulting from other relatively more attractive investment opportunities may cause the trading price of our common units to decline. In addition, our interest expense will increase, since initially our debt will bear interest at a floating rate, subject to any interest rate swaps we may enter into the future.

Unitholders may have liability to repay distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Act, we may not make a distribution to unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

Because the Public Company Accounting Oversight Board is not currently permitted to inspect registered public accounting firms in Greece, including our independent registered public accounting firm, you may not benefit from such inspections.

Auditors of U.S. public companies, including our independent registered public accounting firm, are required by the laws of the United States to undergo periodic Public Company Accounting Oversight Board (PCAOB) inspections to assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the SEC. The laws of certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries. Accordingly, the PCAOB is currently prevented from fully evaluating the effectiveness of our independent registered public accounting firm s audit procedures or quality control procedures. Unlike shareholders or potential shareholders of most U.S. public companies, our unitholders would be deprived of the possible benefits of such PCAOB inspections.

Tax Risks

In addition to the following risk factors, you should read Material U.S. Federal Income Tax Considerations on page 52 for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of common units.

U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. unitholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes if at least 75.0% of its gross

income for any taxable year consists of certain types of passive income, or at least 50.0% of the average value of the entity s assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income generally includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. U.S. unitholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current and projected method of operation, and on opinion of counsel, we believe that we were not a PFIC for our 2012 taxable year, and we expect that we will not become a PFIC with respect to any other taxable year. Our U.S. counsel, Thompson Hine LLP, is of the opinion that (1) the income we receive from time chartering activities and the assets we own that are engaged in generating such income should not be treated as passive income or assets, respectively, and (2) so long as our income from time charters exceeds 25.0% of our gross income from all sources for each taxable year after our initial taxable year and the fair market value of our vessels contracted under time charters exceeds 50.0% of the average fair market value of all of our assets for each taxable year after our initial taxable year, we should not be a PFIC for any taxable year. This opinion is based on representations and projections provided by us to our counsel regarding our assets, income and charters, and its validity is conditioned on the accuracy of such representations and projections. We expect that all of the vessels in our fleet will be engaged in time chartering activities and intend to treat our income from those activities as non-passive income, and the vessels engaged in those activities as non-passive assets, for PFIC purposes. However, no assurance can be given that the Internal Revenue Service, or the IRS, will accept this position.

We may have to pay tax on U.S.-source income, which would reduce our earnings.

Under the Internal Revenue Code, or the Code, 50.0% of the gross shipping income of a vessel owning or chartering corporation that is attributable to transportation that either begins or ends, but that does not both begin and end, in the United States is characterized as U.S.-source shipping income. U.S.-source shipping income generally is subject to a 4.0% U.S. federal income tax without allowance for deduction or, if such U.S.-source shipping income is effectively connected with the conduct of a trade or business in the United States, U.S. federal corporate income tax (the highest statutory rate presently is 35.0%) as well as a branch profits tax (presently imposed at a 30.0% rate on effectively connected earnings) applies, unless that corporation qualifies for exemption from tax under Section 883 of the Code.

Based on an opinion of counsel, and certain assumptions and representations, we believe that we will qualify for this statutory tax exemption, and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances, including some that may be beyond our control that could cause us to lose the benefit of this tax exemption. Furthermore, our board of directors could determine that it is in our best interests to take an action that would result in this tax exemption not applying to us in the future. In addition, our conclusion that we qualify for this exemption, as well as the conclusions in this regard of our counsel, Thompson Hine LLP, is based upon legal authorities that do not expressly contemplate an organizational structure such as ours; specifically, although we have elected to be treated as a corporation for U.S. federal income tax purposes, we are organized as a limited partnership under Marshall Islands law. Therefore, we can give no assurances that the IRS will not take a different position regarding our qualification for this tax exemption.

If we were not entitled to the Section 883 exemption for any taxable year, we generally would be subject to a 4.0% U.S. federal gross income tax with respect to our U.S.-source shipping income or, if such U.S. source shipping income were effectively connected with the conduct of a trade or business in the United States, U.S. federal corporate income tax as well as a branch profits tax for those years. Our failure to qualify for the Section 883 exemption could have a

negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

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You may be subject to income tax in one or more non-U.S. countries, including Greece, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require you to file a tax return with and pay taxes to those countries.

We intend that our affairs and the business of each of our controlled affiliates will be conducted and operated in a manner that minimizes income taxes imposed upon us and these controlled affiliates or which may be imposed upon you as a result of owning our common units. However, because we are organized as a partnership, there is a risk in some jurisdictions that our activities and the activities of our subsidiaries may be attributed to our unitholders for tax purposes and, thus, that you will be subject to tax in one or more non-U.S. countries, including Greece, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. If you are subject to tax in any such country, you may be required to file a tax return with and to pay tax in that country based on your allocable share of our income. We may be required to reduce distributions to you on account of any withholding obligations imposed upon us by that country in respect of such allocation to you. The United States may not allow a tax credit for any foreign income taxes that you directly or indirectly incur.

We believe we can conduct our activities in such a manner that our unitholders should not be considered to be carrying on business in Greece solely as a consequence of the acquisition, holding, disposition or redemption of our common units. However, the question of whether either we or any of our controlled affiliates will be treated as carrying on business in any particular country, including Greece, will be largely a question of fact to be determined based upon an analysis of contractual arrangements, including the management agreement and the administrative services agreement we will enter into with the Manager, and the way we conduct business or operations, all of which may change over time. Furthermore, the laws of Greece or any other country may change in a manner that causes that country s taxing authorities to determine that we are carrying on business in such country and are subject to its taxation laws. Any foreign taxes imposed on us or any subsidiaries will reduce our cash available for distribution.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratio of our consolidated earnings to our consolidated fixed charges for the periods indicated.

	Nine Months Ended September 30,		Year Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Ratio of earnings to fixed charges(1)	4.73	6.53	8.14	6.21	7.25	3.86	3.36

(1) For purposes of computing our ratio of earnings to fixed charges on a consolidated basis, earnings is the result of adding (a) pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees, (b) fixed charges, (c) amortization of capitalized interest, and (d) distributed income of equity investees, and subtracting (a) interest capitalized and (b) preference security dividend requirements of consolidated subsidiaries. Fixed charges represent (i) interest expensed and capitalized, (ii) amortized premiums, discounts and capitalized expenses related to indebtedness, (iii) interest within time-charter hire and rental expense, and (iv) preference security dividend requirements of consolidated subsidiaries.

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FORWARD-LOOKING STATEMENTS

Statements included in this prospectus which are not historical facts (including our financial forecast and any other statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, and the markets in which we operate as described in this prospectus. In some cases, you can identify the forward-looking statements by the use of words such as may, could, should, would, expect, plan, anticipate, intend, for estimate, predict, propose, potential, continue or the negative of these terms or other comparable terminology.

Forward-looking statements appear in a number of places and include statements with respect to, among other things:

- our ability to make cash distributions on our common units;
- our future financial condition or results of operations and our future revenues and expenses;
- our anticipated growth strategies;
- future charter hire rates and vessel values;
- the repayment of debt;
- our ability to access debt and equity markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- future supply of, and demand for, drybulk commodities;
- increases in interest rates;
- our ability to maintain long-term relationships with major commodity traders;
- our ability to leverage to our advantage Navios Holdings relationships and reputation in the shipping industry;

our continued ability to enter into long-term, fixed-rate time charters;

our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term time charter;

timely purchases and deliveries of newbuilding vessels;

future purchase prices of newbuildings and secondhand vessels;

our ability to compete successfully for future chartering and newbuilding opportunities;

the expected cost of, and our ability to comply with, governmental regulations, maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;

our anticipated incremental general and administrative expenses as a publicly traded limited partnership and our expenses under the management agreement and the administrative services agreement with Navios ShipManagement and for reimbursements for fees and costs of our general partner;

the anticipated taxation of our partnership and our unitholders;

estimated future maintenance and replacement capital expenditures;

expected demand in the drybulk shipping sector in general and the demand for our Panamax, Capesize and Ultra-Handymax vessels in particular;

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- our ability to retain key executive officers;
- customers increasing emphasis on environmental and safety concerns;
- future sales of our common units in the public market; and
- our business strategy and other plans and objectives for future operations.

These and other forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in Risk Factors, including those set forth below:

- a lack of sufficient cash to pay the minimum quarterly distribution on our common units;
- the cyclical nature of the international drybulk shipping industry;
- fluctuations in charter rates for drybulk carriers;
- the historically high numbers of newbuildings currently under construction in the drybulk industry;
- changes in the market values of our vessels and the vessels for which we have purchase options;
- an inability to expand relationships with existing customers and obtain new customers;
- the loss of any customer or charter or vessel;
- the aging of our fleet and resultant increases in operations costs;
- damage to our vessels;
- general domestic and international political conditions, including wars and terrorism; and
- other factors detailed from time to time in our periodic reports filed with the SEC.

The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

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USE OF PROCEEDS

Unless we indicate otherwise in the applicable prospectus supplement, we currently intend to use the net proceeds from this offering for general partnership purposes, including future acquisitions.

We may set forth additional information on the use of net proceeds from the sale of securities we offer under this prospectus in a prospectus supplement relating to the specific offering.

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CAPITALIZATION

The table below sets forth the our capitalization and indebtedness as of September 30, 2013 (unaudited):

(Expressed in Thousands of U.S. Dollars except unit data)

		As of September 30, 2013
Long-term Debt (including current portion)[1]:	$	344,664
Partners Capital:		
Common Unitholders (71,034,163 units issued and outstanding September 30, 2013)		724,492
General Partner (1,449,681 units issued and outstanding September 30, 2013)		4,478
Total Partners Capital		728,970
Total Capitalization	$	1,073,634

1 Excludes the $189.5 million add-on to the Term Loan B Facility, $12.0 million of which closed on October 31, 2013 and $177.5 million of which closed on November 1, 2013.

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of November 6, 2013, there were 71,034,163 common units outstanding. Our common units began trading on the New York Stock Exchange on November 16, 2007 at an initial offering price of $20.00 per unit. Our common units are traded on the New York Stock Exchange under the symbol NMM.

Historical Prices

The following table sets forth, for the periods indicated, the high and low sales prices for our common units, as reported on the New York Stock Exchange. The last reported sale price of common units on the New York Stock Exchange on November 6, 2013 was $16.70 per common unit.

	Price Range	
	High	**Low**
Year Ended:		
December 31, 2012	$ 16.94	$ 11.59
December 31, 2011	$ 21.38	$ 11.31
December 31, 2010	$ 20.03	$ 14.50
December 31, 2009	$ 15.80	$ 6.39
December 31, 2008	$ 18.85	$ 3.36
Quarter Ended:		
September 30, 2013	$ 15.22	$ 13.81
June 30, 2013	$ 15.21	$ 13.59
March 31, 2013	$ 14.84	$ 12.84
December 31, 2012	$ 15.78	$ 12.11
September 30, 2012	$ 15.23	$ 13.16
June 30, 2012	$ 16.73	$ 11.59
March 31, 2012	$ 16.94	$ 15.00
December 31, 2011	$ 17.01	$ 12.49
September 30, 2011	$ 19.13	$ 11.31
June 30, 2011	$ 21.38	$ 16.80
March 31, 2011	$ 20.82	$ 18.13
Month Ended:		
October 31, 2013	$ 15.63	$ 14.24
September 30, 2013	$ 14.93	$ 14.14
August 31, 2013	$ 15.16	$ 13.81
July 31, 2013	$ 15.22	$ 14.35
June 30, 2013	$ 14.50	$ 13.59
May 31, 2013	$ 15.21	$ 13.84

Quarterly Distributions

Our unitholders are entitled under our partnership agreement to receive a quarterly distribution to the extent we have sufficient cash on hand to pay the distribution after we establish cash reserves and pay fees and expenses. Although we intend to continue to make strategic acquisitions and to take advantage of our unique relationship with Navios Holdings in a prudent manner that is accretive to our unitholders and to long-term distribution growth there is no guarantee that we will pay a quarterly distribution on the common units in any quarter. Even if our cash distribution

policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement and other factors. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under the terms of our existing credit facility.

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The following table sets forth, for the periods indicated, the approximate amounts of cash distributions that we have declared and paid:

Distributions for Quarter Ended	Amount of Cash Distributions	Cash Distributions per Unit
September 30, 2013	$ 32.6 million*	$ 0.4425 per unit
June 30, 2013	$ 29.9 million	$ 0.4425 per unit
March 31, 2013	$ 29.9 million	$ 0.4425 per unit
December 31, 2012	$ 29.9 million	$ 0.4425 per unit
September 30, 2012	$ 27.6 million	$ 0.4425 per unit
June 30, 2012	$ 27.6 million	$ 0.4425 per unit
March 31, 2012	$ 26.9 million	$ 0.44 per unit
December 31, 2011	$ 24.8 million	$ 0.44 per unit
September 30, 2011	$ 24.8 million	$ 0.44 per unit
June 30, 2011	$ 24.8 million	$ 0.44 per unit
March 31, 2011	$ 23.9 million	$ 0.43 per unit
December 31, 2010	$ 21.9 million	$ 0.43 per unit
September 30, 2010	$ 21.0 million	$ 0.42 per unit
June 30, 2010	$ 18.3 million	$ 0.42 per unit
March 31, 2010	$ 18.0 million	$ 0.415 per unit
December 31, 2009	$ 15.1 million	$ 0.41 per unit
September 30, 2009	$ 11.6 million	$ 0.405 per unit
June 30, 2009	$ 10.1 million	$ 0.40 per unit
March 31, 2009	$ 8.7 million	$ 0.40 per unit
December 31, 2008	$ 8.7 million	$ 0.40 per unit
September 30, 2008	$ 8.3 million	$ 0.385 per unit
June 30, 2008	$ 6.5 million	$ 0.35 per unit
March 31, 2008	$ 6.5 million	$ 0.35 per unit
December 31, 2007**	$ 3.2 million	$ 0.175 per unit

* The cash distribution will be payable on November 13, 2013 to unit holders of record as of November 8, 2013.

** Prorated for the period from November 16, 2007 to December 31, 2007.

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THE SECURITIES WE MAY OFFER

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplements, summarize all the material terms and provisions of the various types of securities that we may offer. We will describe in the applicable prospectus supplement relating to any securities the particular terms of the securities offered by that prospectus supplement. If we indicate in the applicable prospectus supplement, the terms of the securities may differ from the terms we have summarized below. We will also include information in the prospectus supplement, where applicable, about material United States federal income tax considerations, if any, relating to the securities, and the securities exchange, if any, on which the securities will be listed.

We may sell from time to time, in one or more offerings:

- common units; and/or
- debt securities.

This prospectus may not be used to consummate a sale of securities unless it is accompanied by a prospectus supplement.

COMMON UNITS

The Units

The common units represent limited partner interests in us. The holders of common units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement.

For a description of the relative rights and privileges of holders of common units in and to partnership distributions, please read the section Our Cash Distribution Policy and Restrictions on Distributions herein. For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read The Partnership Agreement in the prospectus dated November 12, 2007 included in our registration statement on Form F-1, as amended, initially filed with the SEC on October 26, 2007.

Transfer Agent and Registrar

Duties

Continental Stock Transfer & Trust Company serves as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units, except the following, which must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;

- special charges for services requested by a holder of a common unit; and
- other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, executive officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its

acceptance of the appointment. If a successor has not been appointed or has not accepted its appointment within 30 days after notice of the resignation or removal, our general partner may, at the direction of our board of directors, act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

By transfer of common units in accordance with our partnership agreement, each transferee of common units shall be admitted as a limited partner with respect to the common units transferred when such transfer and admission is reflected in our books and records. Each transferee:

- represents that the transferee has the capacity, power and authority to become bound by our partnership agreement;
- automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and
- gives the consents and approvals contained in our partnership agreement.

A transferee will become a substituted limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly. We may, at our discretion, treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner in our partnership for the transferred common units. Until a common unit has been transferred on our books, we and the transfer agent may treat the recordholder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

DEBT SECURITIES

The following description, together with the additional information we include in any applicable prospectus supplement, summarizes the material terms and provisions of the debt securities that we may offer under this prospectus. While the terms we have summarized below will apply generally to any future debt securities we may offer, we will describe the particular terms of any debt securities that we may offer in more detail in the applicable prospectus supplement. If we so indicate in a prospectus supplement, the terms of any debt securities we offer under that prospectus supplement may differ from the terms we describe below.

The debt securities we may offer and sell pursuant to this prospectus will be either senior debt securities or subordinated debt securities. We will issue the senior notes under the senior indenture, which we will enter into with a trustee to be named in the senior indenture. We will issue the subordinated notes under the subordinated indenture, which we will enter into with a trustee to be named in the subordinated indenture. We use the term indentures to refer to both the senior indenture and the subordinated indenture. The indentures will be qualified under the Trust Indenture

Act. We use the term debenture trustee to refer to either the senior trustee or the subordinated trustee, as applicable.

The following summaries of material provisions of any series of debt securities and the indentures are subject to, and qualified in their entirety by reference to, all the provisions of the indenture applicable to a particular series of debt securities.

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General

We will describe in each prospectus supplement the following terms relating to a series of notes:

- the title;
- any limit on the amount that may be issued;
- whether or not we will issue the series of notes in global form, the terms and who the depository will be;
- the maturity date;
- the annual interest rate, which may be fixed or variable, or the method for determining the rate and the date interest will begin to accrue, the dates interest will be payable and the regular record dates for interest payment dates or the method for determining such dates;
- whether or not the notes will be secured or unsecured, and the terms of any secured debt;
- the terms of the subordination of any series of subordinated debt;
- the place where payments will be made;
- our right, if any, to defer payment of interest and the maximum length of any such deferral period;
- the date, if any, after which, and the price at which, we may, at our option, redeem the series of notes pursuant to any optional redemption provisions;
- the date, if any, on which, and the price at which we are obligated, pursuant to any mandatory sinking fund provisions or otherwise, to redeem, or at the holder s option to purchase, the series of notes;
- whether the indenture will restrict our ability to pay dividends, or will require us to maintain any asset ratios or reserves;
- whether we will be restricted from incurring any additional indebtedness;

- a discussion of any material or special United States federal income tax considerations applicable to the notes;

- the denominations in which we will issue the series of notes, if other than denominations of $1,000 and any integral multiple thereof; and

- any other specific terms, preferences, rights or limitations of, or restrictions on, the debt securities.

Conversion or Exchange Rights

We will set forth in the prospectus supplement the terms on which a series of notes may be convertible into or exchangeable for common units or other securities of ours. We will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. We may include provisions pursuant to which the number of shares of common units or other securities of ours that the holders of the series of notes receive would be subject to adjustment.

Consolidation, Merger or Sale

The indentures do not contain any covenant which restricts our ability to merge or consolidate, or sell, convey, transfer or otherwise dispose of all or substantially all of our assets. However, any successor to or acquirer of such assets must assume all of our obligations under the indentures or the notes, as appropriate.

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Events of Default under the Indenture

The following are events of default under the indentures with respect to any series of notes that we may issue:

- if we fail to pay interest when due and our failure continues for 90 days and the time for payment has not been extended or deferred;
- if we fail to pay the principal, or premium, if any, when due and the time for payment has not been extended or delayed;
- if we fail to observe or perform any other covenant contained in the notes or the indentures, other than a covenant specifically relating to another series of notes, and our failure continues for 90 days after we receive notice from the debenture trustee or holders of at least 25% in aggregate principal amount of the outstanding notes of the applicable series; and
- if specified events of bankruptcy, insolvency or reorganization occur as to us.

If an event of default with respect to notes of any series occurs and is continuing, the debenture trustee or the holders of at least 25% in aggregate principal amount of the outstanding notes of that series, by notice to us in writing, and to the debenture trustee if notice is given by such holders, may declare the unpaid principal of, premium, if any, and accrued interest, if any, due and payable immediately.

The holders of a majority in principal amount of the outstanding notes of an affected series may waive any default or event of default with respect to the series and its consequences, except defaults or events of default regarding payment of principal, premium, if any, or interest, unless we have cured the default or event of default in accordance with the indenture. Any such waiver shall cure the default or event of default.

Subject to the terms of the indentures, if an event of default under an indenture shall occur and be continuing, the debenture trustee will be under no obligation to exercise any of its rights or powers under such indenture at the request or direction of any of the holders of the applicable series of notes, unless such holders have offered the debenture trustee reasonable indemnity. The holders of a majority in principal amount of the outstanding notes of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debenture trustee, or exercising any trust or power conferred on the debenture trustee, with respect to the notes of that series, provided that:

- the direction so given by the holder is not in conflict with any law or the applicable indenture; and
- subject to its duties under the Trust Indenture Act, the debenture trustee need not take any action that might involve it in personal liability or might be unduly prejudicial to the holders not involved in the proceeding.

A holder of the notes of any series will only have the right to institute a proceeding under the indentures or to appoint a receiver or trustee, or to seek other remedies if:

- the holder has given written notice to the debenture trustee of a continuing event of default with respect to that series;

- the holders of at least 25% in aggregate principal amount of the outstanding notes of that series have made written request, and such holders have offered reasonable indemnity, to the debenture trustee to institute the proceeding as trustee; and

- the debenture trustee does not institute the proceeding, and does not receive from the holders of a majority in aggregate principal amount of the outstanding notes of that series other conflicting directions within 60 days after the notice, request and offer.

These limitations do not apply to a suit instituted by a holder of notes if we default in the payment of the principal, premium, if any, or interest on, the notes.

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We will periodically file statements with the debenture trustee regarding our compliance with specified covenants in the indentures.

Modification of Indenture; Waiver

We and the debenture trustee may change an indenture without the consent of any holders with respect to specific matters, including:

- to fix any ambiguity, defect or inconsistency in the indenture; and
- to change anything that does not materially adversely affect the interests of any holder of notes of any series.

In addition, under the indentures, the rights of holders of a series of notes may be changed by us and the debenture trustee with the written consent of the holders of at least a majority in aggregate principal amount of the outstanding notes of each series that is affected. However, we and the debenture trustee may only make the following changes with the consent of each holder of any outstanding notes affected:

- extending the fixed maturity of the series of notes;
- reducing the principal amount, reducing the rate of or extending the time of payment of interest, or any premium payable upon the redemption of any notes; or
- reducing the percentage of notes, the holders of which are required to consent to any amendment.

Discharge

Each indenture provides that we can elect to be discharged from our obligations with respect to one or more series of debt securities, except for obligations to:

- register the transfer or exchange of debt securities of the series;
- replace stolen, lost or mutilated debt securities of the series;
- maintain paying agencies;
- hold monies for payment in trust;

- compensate and indemnify the trustee; and
- appoint any successor trustee.

In order to exercise our rights to be discharged, we must deposit with the trustee money or government obligations sufficient to pay all the principal of, any premium, if any, and interest on, the debt securities of the series on the dates payments are due.

Form, Exchange and Transfer

We will issue the notes of each series only in fully registered form without coupons and, unless we otherwise specify in the applicable prospectus supplement, in denominations of $1,000 and any integral multiple thereof. The indentures provide that we may issue notes of a series in temporary or permanent global form and as book-entry securities that will be deposited with, or on behalf of, The Depository Trust Company or another depository named by us and identified in a prospectus supplement with respect to that series.

At the option of the holder, subject to the terms of the indentures and the limitations applicable to global securities described in the applicable prospectus supplement, the holder of the notes of any series can exchange the notes for other notes of the same series, in any authorized denomination and of like tenor and aggregate principal amount.

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Subject to the terms of the indentures and the limitations applicable to global securities set forth in the applicable prospectus supplement, holders of the notes may present the notes for exchange or for registration of transfer, duly endorsed or with the form of transfer endorsed thereon duly executed if so required by us or the security registrar, at the office of the security registrar or at the office of any transfer agent designated by us for this purpose. Unless otherwise provided in the notes that the holder presents for transfer or exchange, we will make no service charge for any registration of transfer or exchange, but we may require payment of any taxes or other governmental charges.

We will name in the applicable prospectus supplement the security registrar, and any transfer agent in addition to the security registrar, that we initially designate for any notes. We may at any time designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for the notes of each series.

If we elect to redeem the notes of any series, we will not be required to:

- issue, register the transfer of, or exchange any notes of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any notes that may be selected for redemption and ending at the close of business on the day of the mailing; or

- register the transfer of or exchange any notes so selected for redemption, in whole or in part, except the unredeemed portion of any notes we are redeeming in part.

Information Concerning the Debenture Trustee

The debenture trustee, other than during the occurrence and continuance of an event of default under an indenture, undertakes to perform only those duties as are specifically set forth in the applicable indenture. Upon an event of default under an indenture, the debenture trustee must use the same degree of care as a prudent person would exercise or use in the conduct of his or her own affairs. Subject to this provision, the debenture trustee is under no obligation to exercise any of the powers given it by the indentures at the request of any holder of notes unless it is offered reasonable security and indemnity against the costs, expenses and liabilities that it might incur.

Payment and Paying Agents

Unless we otherwise indicate in the applicable prospectus supplement, we will make payment of the interest on any notes on any interest payment date to the person in whose name the notes, or one or more predecessor securities, are registered at the close of business on the regular record date for the interest.

We will pay principal of and any premium and interest on the notes of a particular series at the office of the paying agents designated by us, except that unless we otherwise indicate in the applicable prospectus supplement, we will make interest payments by check which we will mail to the holder. Unless we otherwise indicate in a prospectus supplement, we will designate the corporate trust office of the debenture trustee in the City of New York as our sole paying agent for payments with respect to notes of each series. We will name in the applicable prospectus supplement any other paying agents that we initially designate for the notes of a particular series. We will maintain a paying agent in each place of payment for the notes of a particular series.

All money we pay to a paying agent or the debenture trustee for the payment of the principal of or any premium or interest on any notes which remains unclaimed at the end of two years after such principal, premium or interest has

become due and payable will be repaid to us, and the holder of the security thereafter may look only to us for payment thereof.

Governing Law

The indentures and the notes will be governed by and construed in accordance with the laws of the Republic of Marshall Islands, except to the extent that the Trust Indenture Act is applicable.

Subordination of Subordinated Notes

The subordinated notes will be unsecured and will be subordinate and junior in priority of payment to certain of our other indebtedness to the extent described in a prospectus supplement. The subordinated indenture does not limit the amount of subordinated notes which we may issue. It also does not limit us from issuing any other secured or unsecured debt.

LEGAL OWNERSHIP OF SECURITIES

We can issue securities in registered form or in the form of one or more global securities. We describe global securities in greater detail below. We refer to those persons who have securities registered in their own names on the books that we or any applicable trustee maintain for this purpose as the holders of those securities. These persons are the legal holders of the securities. We refer to those persons who, indirectly through others, own beneficial interests in securities that are not registered in their own names, as indirect holders of those securities. As we discuss below, indirect holders are not legal holders, and investors in securities issued in book-entry form or in street name will be indirect holders.

Book-Entry Holders

We may issue securities in book-entry form only, as we will specify in the applicable prospectus supplement. This means securities may be represented by one or more global securities registered in the name of a financial institution that holds them as depositary on behalf of other financial institutions that participate in the depositary s book-entry system. These participating institutions, which are referred to as participants, in turn, hold beneficial interests in the securities on behalf of themselves or their customers.

Only the person in whose name a security is registered is recognized as the holder of that security. Securities issued in global form will be registered in the name of the depositary or its participants. Consequently, for securities issued in global form, we will recognize only the depositary as the holder of the securities, and we will make all payments on the securities to the depositary. The depositary passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the securities.

As a result, investors in a book-entry security will not own securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary s book-entry system or holds an interest through a participant. As long as the securities are issued in global form, investors will be indirect holders, and not holders, of the securities.

Street Name Holders

We may terminate a global security or issue securities in non-global form. In these cases, investors may choose to hold their securities in their own names or in street name. Securities held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those securities through an account he or she maintains at that institution.

For securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the securities are registered as the holders of those securities, and we will make all payments on those securities to them. These institutions pass along the payments they receive to their customers who

are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold securities in street name will be indirect holders, not holders, of those securities.

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Legal Holders

Our obligations, as well as the obligations of any applicable trustee and of any third parties employed by us or a trustee, run only to the legal holders of the securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a security or has no choice because we are issuing the securities only in global form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers or by law, to pass the payment or notice along to the indirect holders but does not do so. Similarly, we may want to obtain the approval of the holders to amend an indenture, to relieve us of the consequences of a default or of our obligation to comply with a particular provision of the indenture or for other purposes. In such an event, we would seek approval only from the holders, and not the indirect holders, of the securities. Whether and how the holders contact the indirect holders is the responsibility of the holders.

Special Considerations for Indirect Holders

If you hold securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders consent, if ever required;
- whether and how you can instruct it to send you securities registered in your own name so you can be a holder, if that is permitted in the future;
- how it would exercise rights under the securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the securities are in book-entry form, how the depositary s rules and procedures will affect these matters.

Global Securities

A global security is a security held by a depositary which represents one or any other number of individual securities. Generally, all securities represented by the same global securities will have the same terms.

Each security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose

is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary, its nominee or a successor depositary, unless special termination situations arise. We describe those situations below under Special Situations When a Global Security Will Be Terminated. As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that does. Thus, an investor whose security is represented by a global security will not be a holder of the security, but only an indirect holder of a beneficial interest in the global security.

If the prospectus supplement for a particular security indicates that the security will be issued in global form only, then the security will be represented by a global security at all times unless and until the global security is terminated. If termination occurs, we may issue the securities through another book-entry clearing system or decide that the securities may no longer be held through any book-entry clearing system.

Special Considerations for Global Securities

As an indirect holder, an investor s rights relating to a global security will be governed by the account rules of the investor s financial institution and of the depositary, as well as general laws relating to securities transfers. We do not recognize an indirect holder as a holder of securities and instead deal only with the depositary that holds the global security.

If securities are issued only in the form of a global security, an investor should be aware of the following:

- An investor cannot cause the securities to be registered in his or her name, and cannot obtain non-global certificates for his or her interest in the securities, except in the special situations we describe below;

- An investor will be an indirect holder and must look to his or her own bank or broker for payments on the securities and protection of his or her legal rights relating to the securities, as we describe under Legal Ownership of Securities above;

- An investor may not be able to sell interests in the securities to some insurance companies and to other institutions that are required by law to own their securities in non-book-entry form;

- An investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

- The depositary s policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor s interest in a global security. We and any applicable trustee have no responsibility for any aspect of the depositary s actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;

- The depositary may, and we understand that DTC will, require that those who purchase and sell interests in a global security within its book-entry system use immediately available funds, and your broker or bank may require you to do so as well; and

- Financial institutions that participate in the depositary s book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the securities. There may be more than one financial intermediary in the chain of

ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations When a Global Security Will be Terminated

In a few special situations described below, the global security will terminate and interests in it will be exchanged for physical certificates representing those interests. After that exchange, the choice of whether to hold securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in securities transferred to their own name, so that they will be direct holders. We have described the rights of holders and street name investors above.

The global security will terminate when the following special situations occur:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security and we do not appoint another institution to act as depositary within 90 days;

- if we notify any applicable trustee that we wish to terminate that global security; or

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- if an event of default has occurred with regard to securities represented by that global security and has not been cured or waived.

The prospectus supplement may also list additional situations for terminating a global security that would apply only to the particular series of securities covered by the prospectus supplement. When a global security terminates, the depositary, and not we or any applicable trustee, is responsible for deciding the names of the institutions that will be the initial direct holders.

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PLAN OF DISTRIBUTION

We may sell the securities being offered hereby in one or more of the following ways from time to time:

- through dealers or agents to the public or to investors;
- to underwriters for resale to the public or to investors;
- directly to investors; or
- through a combination of such methods.

We will set forth in a prospectus supplement the terms of the offering of securities, including:

- the name or names of any agents, dealers or underwriters;
- the purchase price of the securities being offered and the proceeds we will receive from the sale;
- any over-allotment options under which underwriters may purchase additional securities from us;
- any agency fees or underwriting discounts and other items constituting agents or underwriters compensation;
- any initial public offering price;
- any discounts or concessions allowed or reallowed or paid to dealers; and
- any securities exchanges on which the securities may be listed.

Underwriters, dealers and agents that participate in the distribution of the securities may be deemed to be underwriters as defined in the Securities Act and any discounts or commissions they receive from us and any profit on their resale of the securities may be treated as underwriting discounts and commissions under the Securities Act.

We will identify in the applicable prospectus supplement any underwriters, dealers or agents and will describe their compensation. We may have agreements with the underwriters, dealers and agents to indemnify them against specified civil liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with or perform services for us or our subsidiaries in the ordinary course of their businesses.

Certain persons that participate in the distribution of the securities may engage in transactions that stabilize, maintain or otherwise affect the price of the securities, including over-allotment, stabilizing and short-covering transactions in such securities, and the imposition of penalty bids, in connection with an offering. Certain persons may also engage in passive market making transactions as permitted by Rule 103 of Regulation M. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker s bid, however, the passive market maker s bid must then be lowered when certain purchase limits are exceeded.

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OUR CASH DISTRIBUTION POLICY AND RESTRICTIONS ON DISTRIBUTIONS

You should read the following discussion of our cash distribution policy and restrictions on distributions in conjunction with specific assumptions included in this section. In addition, you should read Forward-Looking Statements and Risk Factors for information regarding statements that do not relate strictly to historical or current facts and certain risks inherent in our business.

General

Cash Distribution Policy

Our cash distribution policy reflects a basic judgment that our unitholders will be better served by our distributing our cash available (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves) rather than retaining it. Because we believe we will generally finance any expansion capital expenditures from external financing sources, we believe that our investors are best served by our distributing all of our available cash. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash quarterly (after deducting expenses, including estimated maintenance and replacement capital expenditures and reserves).

Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy

There is no guarantee that unitholders will receive quarterly distributions from us. Our distribution policy is subject to certain restrictions and may be changed at any time, including:

- Our unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute available cash on a quarterly basis, which is subject to the broad discretion of our board of directors to establish reserves and other limitations.

- While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended. Our partnership agreement can be amended with the approval of a majority of the outstanding common units.

- Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by our board of directors, taking into consideration the terms of our partnership agreement.

- Under Section 51 of the Marshall Islands Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets.

- We may lack sufficient cash to pay distributions to our unitholders due to decreases in net revenues or increases in operating expenses, principal and interest payments on outstanding debt, tax expenses, working

capital requirements, maintenance and replacement capital expenditures or anticipated cash needs.

Our distribution policy will be affected by restrictions on distributions under our existing credit facilities which contain material financial tests and covenants that must be satisfied and we will not pay any distributions that will cause us to violate our existing credit facilities or other debt instruments. Should we be unable to satisfy these restrictions included in the existing credit facilities or if we are otherwise in default under our existing credit facilities, our ability to make cash distributions to you, notwithstanding our cash distribution policy, would be materially adversely affected.

If we make distributions out of capital surplus, as opposed to operating surplus, such distributions will constitute a return of capital and will result in a reduction in the minimum quarterly distribution and the target distribution levels. We do not anticipate that we will make any distributions from capital surplus.

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Our ability to make distributions to our unitholders depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, the provisions of existing and future indebtedness, applicable partnership and limited liability company laws and other laws and regulations.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of the additional available cash from operating surplus among the unitholders and our general partner up to the various target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of the unitholders and our General Partner in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution Target Amount, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests shown for our General Partner assume that our General Partner maintains its 2.0% general partner interest and assume our General Partner has not transferred the incentive distribution rights.

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	**General Partner**
Minimum Quarterly Distribution	$0.35	98.0%	2.0%
First Target Distribution	up to $0.4025	98.0%	2.0%
Second Target Distribution	above $ 0.4025 up to $0.4375	85.0%	15.0%
Third Target Distribution	above $ 0.4375 up to $0.525	75.0%	25.0%
Thereafter	above $0.525	50.0%	50.0%

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a discussion of the material U.S. federal income tax considerations that may be relevant to prospective beneficial owners of our common units and, unless otherwise noted in the following discussion, is the opinion of Thompson Hine LLP, our U.S. counsel, insofar as it relates to matters of U.S. federal income tax law and legal conclusions with respect to those matters. The opinion of our counsel is dependent on the accuracy of representations made by us to them, including descriptions of our operations contained herein.

This discussion is based upon provisions of the Internal Revenue Code (the Code), U.S. Treasury Regulations, and administrative rulings and court decisions, all as in effect or in existence on the date of this prospectus and all of which are subject to change or differing interpretations by the Internal Revenue Service (IRS) or a court, possibly with retroactive effect. Changes in these authorities may cause the tax consequences of ownership of our common units to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to we, our or us are references to Navios Maritime Partners L.P.

The following discussion applies only to beneficial owners of common units that own the common units as capital assets (generally, property held for investment purposes). The following discussion does not address all aspects of U.S. federal income taxation which may be important to particular beneficial owners of common units in light of their individual circumstances, such as (i) beneficial owners of common units subject to special tax rules (*e.g* ., banks or other financial institutions, real estate investment trusts, regulated investment companies, insurance companies, broker-dealers, tax-exempt organizations and retirement plans, individual retirement accounts and tax-deferred accounts, or former citizens or long-term residents of the United States) or that will hold the common units as part of a straddle, hedge, conversion, constructive sale, or other integrated transaction for U.S. federal income tax purposes, (ii) partnerships or other entities classified as partnerships for U.S. federal income tax purposes or their partners, (iii) U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar or (iv) beneficial owners of common units that own 10% or more (by vote or value) of our common units, all of whom may be subject to tax rules that differ significantly from those summarized below. If a partnership or other entity classified as a partnership for U.S. federal income tax purposes holds our common units, the tax treatment of its partners generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. If you are a partner in a partnership holding our common units, you should consult your own tax advisor regarding the tax consequences to you of the partnership s ownership of our common units.

No ruling has been obtained or will be requested from the IRS, regarding any matter affecting us or prospective holders of our common units. The opinions and statements made herein may be challenged by the IRS and, if so challenged, may not be sustained upon review in a court.

This discussion does not contain information regarding any state or local, estate, gift or alternative minimum tax considerations concerning the ownership or disposition of common units. **Each prospective beneficial owner of our common units should consult its own tax advisor regarding the U.S. federal, state, local, and other tax consequences of the ownership or disposition of common units.**

Election to Be Treated as a Corporation

We have elected to be treated as a corporation for U.S. federal income tax purposes. Consequently, among other things, U.S. Holders (as defined below) will not directly be subject to U.S. federal income tax on their shares of our income, but rather will be subject to U.S. federal income tax on distributions received from us and dispositions of common units as described below. For a further discussion of our treatment for U.S. federal income tax purposes, please see pages 15, 43 and 53 to 57 of our Annual Report on Form 20-F for the fiscal year ended December 31, 2012,

which is incorporated by reference into this prospectus.

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U.S. Federal Income Taxation of U.S. Holders

As used herein, the term U.S. Holder means a beneficial owner of our common units that:

- is an individual U.S. citizen or resident (as determined for U.S. federal income tax purposes),
- a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) organized under the laws of the United States or any of its political subdivisions,
- an estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- a trust if (i) a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under current U.S. Treasury Regulations to be treated as a United States person.

Distributions

Subject to the discussion below of the rules applicable to a passive foreign investment company (a PFIC), any distributions to a U.S. Holder made by us with respect to our common units generally will constitute dividends, which will be taxable as ordinary income or qualified dividend income as described in more detail below, to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder s tax basis in its common units on a dollar-for-dollar basis, and thereafter as capital gain, which will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the common units for more than one year. U.S. Holders that are corporations generally will not be entitled to claim a dividend received deduction with respect to distributions they receive from us. Dividends received with respect to the common units will be treated as foreign source income and generally will be treated as passive category income for U.S. foreign tax credit purposes.

Dividends received with respect to our common units by a U.S. Holder who is an individual, trust or estate (a non-corporate U.S. Holder) generally will be treated as qualified dividend income that is taxable to such non-corporate U.S. Holder at preferential capital gain tax rates, provided that: (i) our common units are traded on an established securities market in the United States (such as the New York Stock Exchange where our common units are traded) and are readily tradeable on such an exchange; (ii) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be, as discussed below); (iii) the non-corporate U.S. Holder has owned the common units for more than 60 days during the 121-day period beginning 60 days before the date on which the common units become ex-dividend (and has not entered into certain risk limiting transactions with respect to such common units); and (iv) the non-corporate U.S. Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property. Any dividends paid on our common units that are not eligible for these preferential rates will be taxed as ordinary income to a non-corporate U.S. Holder. In addition, a 3.8% tax may apply to certain investment income. *See Medicare Tax* below.

Special rules may apply to any amounts received in respect of our common units that are treated as extraordinary dividends. In general, an extraordinary dividend is a dividend with respect to a common unit that is equal to or in excess of 10.0% of a U.S. Holder s adjusted tax basis (or fair market value upon the U.S. Holder s election) in such common unit. In addition, extraordinary dividends include dividends received within a one-year period that, in the aggregate, equal or exceed 20.0% of a U.S. Holder s adjusted tax basis (or fair market value) in a common unit. If we pay an extraordinary dividend on our common units that is treated as qualified dividend income, then any loss recognized by a U.S. Individual Holder from the sale or exchange of such common units will be treated as long-term capital loss to the extent of the amount of such dividend.

Sale, Exchange or Other Disposition of Common Units

Subject to the discussion of PFICs below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of our common units in an amount equal to the difference between the amount

realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder s adjusted tax basis in such units. The U.S. Holder s initial tax basis in the common units generally will be the U.S. Holder s purchase price for the common units and that tax basis will be reduced (but not below zero) by the amount of any distributions on the common units that are treated as non-taxable returns of capital (as discussed under Distributions above). Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder s holding period is greater than one year at the time of the sale, exchange or other disposition.

A corporate U.S. Holder s capital gains, long-term and short-term, are taxed at ordinary income tax rates. If a corporate U.S. Holder recognizes a loss upon the disposition of our common units, such U.S. Holder is limited to using the loss to offset other capital gain. If a corporate U.S. Holder has no other capital gain in the tax year of the loss, it may carry the capital loss back three years and forward five years.

Long-term capital gains of non-corporate U.S. Holders are subject to the favorable tax rate of a maximum of 20%. In addition, a 3.8% tax may apply to certain investment income. See *Medicare Tax* below. A non-corporate U.S. Holder may deduct a capital loss resulting from a disposition of our common units to the extent of capital gains plus up to $3,000 ($1,500 for married individuals filing separate tax returns) and may carry forward a long-term capital loss indefinitely.

PFIC Status and Significant Tax Consequences

In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which the holder held our common units, either:

- at least 75.0% of our gross income (including the gross income of our vessel-owning subsidiaries) for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or

- at least 50.0% of the average value of the assets held by us (including the assets of our vessel-owning subsidiaries) during such taxable year produce, or are held for the production of, passive income.

Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income generally would constitute passive income unless we were treated as deriving our rental income in the active conduct of a trade or business under the applicable rules.

Based on our current and projected methods of operations, and an opinion of counsel, we believe that we will not be a PFIC with respect to any taxable year. Our U.S. counsel, Thompson Hine LLP, is of the opinion that (1) the income we receive from the time chartering activities and assets engaged in generating such income should not be treated as passive income or assets, respectively, and (2) so long as our income from time charters exceeds 25.0% of our gross income for each taxable year after our initial taxable year and the value of our vessels contracted under time charters exceeds 50.0% of the average value of our assets for each taxable year after our initial taxable year, we should not be a PFIC. This opinion is based on representations and projections provided to our counsel by us regarding our assets, income and charters, and its validity is conditioned on the accuracy of such representations and projections.

Our counsel s opinion is based principally on their conclusion that, for purposes of determining whether we are a PFIC, the gross income we derive or are deemed to derive from the time chartering activities of our wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, such income should not

constitute passive income, and the assets that we or our subsidiaries own and operate in connection with the production of such income, in particular, the vessels we or our subsidiaries own that are subject to time charters, should not constitute passive assets for purposes of determining whether we are or have been a PFIC. We expect that all of the vessels in our fleet will be engaged in time chartering activities and intend to treat our income from those activities as non-passive income, and the vessels engaged in those activities as non-passive assets, for PFIC purposes.

Our counsel has advised us that there is a significant amount of legal authority consisting of the Code, legislative history, IRS pronouncements and rulings supporting our position that the income from our time

chartering activities constitutes services income (rather than rental income). There is, however, no direct legal authority under the PFIC rules addressing whether income from time chartering activities is services income or rental income. Moreover, in a case not interpreting the PFIC rules, *Tidewater Inc. v. United States,* 565 F.3d 299 (5th Cir. 2009), the Fifth Circuit held that the vessel time charters at issue generated predominantly rental income rather than services income. However, the IRS stated in an Action on Decision (AOD 2010-001) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS s AOD, however, is an administrative action that cannot be relied upon or otherwise cited as precedent by taxpayers.

The opinion of our counsel is not binding on the IRS or any court. Thus, while we have received an opinion of our counsel in support of our position, there is a possibility that the IRS or a court could disagree with this position and the opinion of our counsel. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year in which a U.S. Holder owned our common units, the U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a Qualified Electing Fund, which we refer to as a QEF election. As an alternative to making a QEF election, the U.S. Holder should be able to make a mark-to-market election with respect to our common units, as discussed below. In addition, if we were treated as a PFIC for any taxable year in which a U.S. Holder owned our common units, the U.S. Holder would be required to file IRS Form 8621 for each year in which the U.S. Holder (i) recognizes gain on the actual or deemed disposition of our common unit, (ii) receives certain actual or deemed distributions from us or (iii) makes any of certain reportable elections (including a QEF election or a mark-to-market election). The U.S. Holder also would be required to file an annual report, with respect to each taxable year beginning on or after March 18, 2010, containing such information as the IRS may require in the revised IRS Form 8621. Until the IRS releases the revised IRS Form 8621, this additional reporting requirement is suspended (although a U.S. Holder that is currently otherwise required to file IRS Form 8621 (e.g., upon an actual or deemed disposition of PFIC stock) must continue to file the current IRS Form 8621). However, following the release of the revised IRS Form 8621, U.S. Holders for which the filing of IRS Form 8621 has been suspended for a taxable year will be required to attach IRS Form 8621 for each suspended taxable year to their next income tax or information return required to be filed with the IRS. In the event a U.S. Holder does not file IRS Form 8621, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close before the date which is three years after the date on which such report is filed.

It should also be noted that, if we were treated as a PFIC for any taxable year in which a U.S. Holder owned our common units and any of our non-U.S. subsidiaries were also a PFIC, the U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules.

Taxation of U.S. Holders Making a Timely QEF Election

If we were to be treated as a PFIC for any taxable year and a U.S. Holder makes a timely QEF election (any such U.S. Holder, an Electing Holder), the Electing Holder must report for U.S. federal income tax purposes its pro rata share of our ordinary earnings and net capital gain, if any, for our taxable year that ends with or within the Electing Holder s taxable year, regardless of whether or not the Electing Holder received any distributions from us in that year. Such income inclusions would not be eligible for the preferential tax rates applicable to qualified dividend income. The Electing Holder s adjusted tax basis in our common units will be increased to reflect taxed but undistributed earnings and profits. Distributions to the Electing Holder of our earnings and profits that were previously taxed will result in a

corresponding reduction in the Electing Holder s adjusted tax basis in our common units and will not be taxed again once distributed. The Electing Holder would not, however, be entitled to a deduction for its pro rata share of any losses that we incur with respect to any year. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our common units.

Even if a U.S. Holder makes a QEF election for one of our taxable years, if we were a PFIC for a prior taxable during which the U.S. Holder owned our common units and for which the U.S. Holder did not make a timely QEF election, the U.S. Holder would also be subject to the more adverse rules described below under *Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election.* However, under certain circumstances, a U.S. Holder may be permitted to make a retroactive QEF election with respect to us for any open taxable years in the U.S. Holder s holding period for our common units in which we are treated as a PFIC. Additionally, to the extent that any of our subsidiaries is a PFIC, a U.S. Holder s QEF election with respect to us would not be effective with respect to the U.S. Holder s deemed ownership of the stock of such subsidiary and a separate QEF election with respect to such subsidiary would be required.

A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with the U.S. Holder s U.S. federal income tax return. If, contrary to our expectations, we were to determine that we are treated as a PFIC for any taxable year, we would notify all U.S. Holders and would provide all necessary information to any U.S. Holder that requests such information in order to make the QEF election described above with respect to us and the relevant subsidiaries. A QEF election would not apply to any taxable year for which we are not a PFIC, but would remain in effect with respect to any subsequent taxable year for which we are a PFIC, unless the IRS consents to the revocation of the election.

Taxation of U.S. Holders Making a Mark-to-Market Election

If we were to be treated as a PFIC for any taxable year and, as we anticipate, our common units were treated as marketable stock, then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a mark-to-market election with respect to our common units, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the U.S. Holder s common units at the end of the taxable year over the holder s adjusted tax basis in the common units. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder s adjusted tax basis in the common units over the fair market value thereof at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s tax basis in the U.S. Holder s common units would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our common units would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of the common units would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. A mark-to-market election would not apply to our common units owned by a U.S. Holder in any taxable year during which we are not a PFIC, but would remain in effect with respect to any subsequent taxable year for which we are a PFIC, unless our common units are no longer treated as marketable stock or the IRS consents to the revocation of the election.

Even if a U.S. Holder makes a mark-to-market election for one of our taxable years, if we were a PFIC for a prior taxable during which the U.S. Holder owned our common stock and for which the U.S. Holder did not make a timely mark-to-market election, the U.S. Holder would also be subject to the more adverse rules described below under *Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election.* Additionally, to the extent that any of our subsidiaries is a PFIC, a mark-to-market election with respect to our common units would not apply to the U.S. Holder s deemed ownership of the stock of such subsidiary.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

If we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a timely QEF election or a timely mark-to-market election for that year (i.e., the taxable year in which the U.S. Holder s holding period commences), whom we refer to as a Non-Electing Holder, would be subject to special rules resulting in increased tax liability with respect to (1) any excess distribution (*i.e.* , the portion of any distributions received by the Non-Electing Holder on our common units in a taxable year in excess of 125.0% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if

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shorter, the Non-Electing Holder s holding period for the common units), and (2) any gain realized on the sale, exchange or other disposition of our common units. Under these special rules:

- the excess distribution and any gain would be allocated ratably over the Non-Electing Holder s aggregate holding period for the common units;
- the amount allocated to the current taxable year and any year prior to the year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

If we were treated as a PFIC for any taxable year and a Non-Electing Holder who is an individual dies while owning our common units, such holder s successor generally would not receive a step-up in tax basis with respect to such common units. Additionally, to the extent that any of our subsidiaries is a PFIC, the foregoing consequences would apply to the U.S. Holder s deemed receipt of any excess distribution on, or gain deemed realized on the disposition of, the stock of such subsidiary deemed owned by the U.S. Holder.

Medicare Tax

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will generally be subject to a 3.8% tax on the lesser of (i) the U.S. Holder s net investment income for a taxable year and (ii) the excess of the U.S. Holder s modified adjusted gross income for such taxable year over $200,000 ($250,000 in the case of joint filers). For these purposes, net investment income will generally include dividends paid with respect to our common units and net gain attributable to the disposition of our common units not held in a trade or business, but will be reduced by any deductions properly allocable to such income or net gain.

U.S. Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our common units (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a Non-U.S. Holder .

Distributions

Distributions we pay to a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax if the Non-U.S. Holder is not engaged in a U.S. trade or business. If the Non-U.S. Holder is engaged in a U.S. trade or business, our distributions will be subject to U.S. federal income tax to the extent they constitute income effectively connected with the Non-U.S. Holder s U.S. trade or business (and a corporate Non-U.S. Holder may also be subject to U.S. federal branch profits tax). However, distributions paid to a Non-U.S. Holder who is engaged in a trade or business may be exempt from taxation under an income tax treaty if the income arising from the distribution is not attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder.

Disposition of Units

In general, a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on any gain resulting from the disposition of our common units provided the Non-U.S. Holder is not engaged in a U.S. trade or business. A Non-U.S. Holder that is engaged in a U.S. trade or business will be subject to U.S. federal income tax in the event the gain from the disposition of units is effectively connected with the conduct of such U.S. trade or business (provided, in the case of a Non-U.S. Holder entitled to the benefits of an income tax treaty with the United States, such gain also is attributable to a U.S. permanent establishment). However, even if not engaged in a U.S. trade or business, individual Non-U.S. Holders may be subject to tax on gain resulting from the disposition of our common units if they are present in the United States for 183 days or more during the taxable year in which those units are disposed and meet certain other requirements.

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Backup Withholding and Information Reporting

In general, payments to a non-corporate U.S. Holder of distributions or the proceeds of a disposition of common units will be subject to information reporting. These payments to a non-corporate U.S. Holder also may be subject to backup withholding (currently at a rate of 28%), if the non-corporate U.S. Holder:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that he has failed to report all interest or corporate distributions required to be reported on his U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

A U.S. Holder generally is required to certify its compliance with the backup withholding rules on IRS Form W-9.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

Backup withholding is not an additional tax. Rather, a unitholder generally may obtain a credit for any amount withheld against his liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by filing a U.S. federal income tax return with the IRS.

Individual U.S. Holders (and to the extent specified in applicable U.S. Treasury regulations, certain individual Non-U.S. Holders and certain U.S. Holders that are entities) that hold specified foreign financial assets, including our common units, whose aggregate value exceeds $75,000 at any time during the taxable year or $50,000 on the last day of the taxable year (or such higher amounts as prescribed by applicable Treasury Regulations) are required to file a report on IRS Form 8938 with information relating to the assets for each such taxable year. Specified foreign financial assets would include, among other things, our common units, unless such common units are held in an account maintained by a U.S. financial institution (as defined). Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual U.S. Holder (and to the extent specified in applicable Treasury regulations, an individual Non-U.S. Holder or a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. U.S. Holders (including U.S. entities) and Non-U.S. Holders should consult their own tax advisors regarding their reporting obligations under this legislation.

MARSHALL ISLANDS TAX CONSEQUENCES

The following discussion is based upon the opinion of Reeder & Simpson P.C., our counsel as to matters of the laws of the Republic of the Marshall Islands, and the current laws of the Republic of the Marshall Islands applicable to persons who do not reside in, maintain offices in or engage in business in the Republic of the Marshall Islands.

Because we and our subsidiaries do not and do not expect to conduct business or operations in the Republic of the Marshall Islands, and because all documentation related to this offering will be executed outside of the Republic of the

Marshall Islands, under current Marshall Islands law you will not be subject to Marshall Islands taxation or withholding on distributions, including upon distribution treated as a return of capital, we make to you as a unitholder. In addition, you will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of common units, and you will not be required by the Republic of the Marshall Islands to file a tax return relating to your ownership of common units.

EACH PROSPECTIVE UNITHOLDER MUST CONSULT HIS OWN TAX, LEGAL AND OTHER ADVISORS REGARDING THE CONSEQUENCES OF OWNERSHIP OF COMMON UNITS UNDER THE UNITHOLDER S PARTICULAR CIRCUMSTANCES.

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LEGAL MATTERS

Reeder & Simpson P.C., Marshall Islands counsel, will provide us with an opinion as to the legal matters in connection with the securities we are offering. Unless otherwise specified in a prospectus supplement, the validity of the debt securities will be passed upon for us by Thompson Hine LLP. In connection with particular offerings of debt securities in the future, the validity of those debt securities also may be passed upon for any underwriters or agents by counsel named in the applicable prospectus supplement.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 20-F for the year ended December 31, 2012 have been so incorporated in reliance on the report of PricewaterhouseCoopers S.A., an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

EXPENSES

The following table sets forth the main costs and expenses, other than the underwriting discounts and commissions and the financial advisory fee, in connection with this offering, which we will be required to pay.

U.S. Securities and Exchange Commission registration fee	$ 25,464
Financial Industry Regulatory Authority, Inc. filing fee	*
New York Stock Exchange listing fee	*
Legal fees and expenses	*
Accounting fees and expenses	*
Printing and engraving costs	*
Transfer agent fees	*
Miscellaneous	*
Total	$ 25,464

* Amounts to be provided in a prospectus supplement or in a Current Report on Form 6-K subsequently incorporated by reference into this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus information that we file with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus by referring you to other documents filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed to be filed with the SEC, automatically will update information previously filed with the SEC, and may replace information in this prospectus.

We incorporate by reference into this prospectus the documents listed below:

our Annual Report on Form 20-F for the year ended December 31, 2012 filed on March 15, 2013 (the Form 20-F), as amended by Amendment No. 1 to the Form 20-F on Form 20-F/A filed on March 21, 2013;

our Report on Form 6-K filed on January 31, 2013 (except the second and third paragraph of Exhibit 99.2, which contain certain quotes by the Chairman and Chief Executive Officer of Navios Partners);

our Report on Form 6-K filed on February 4, 2013;

our Report on Form 6-K filed on February 7, 2013;

our Report on Form 6-K filed on April 29, 2013;

our Report on Form 6-K filed on May 2, 2013 (except the second and third paragraph of Exhibit 99.1, which contain certain quotes by the Chairman and Chief Executive Officer of Navios Partners);

our Report on Form 6-K filed on July 11, 2013;

our Report on Form 6-K filed on July 29, 2013;

our Report on Form 6-K filed on August 20, 2013 (except the second and third paragraph of Exhibit 99.1, which contain certain quotes by the Chairman and Chief Executive Officer of Navios Partners);

our Report on Form 6-K filed on September 10, 2013 (except the fifth paragraph of Exhibit 99.1, which contains certain quotes by the Chairman and Chief Executive Officer of Navios Partners);

our Report on Form 6-K filed on September 23, 2013;

our Report on Form 6-K filed on September 27, 2013;

our Report on Form 6-K filed on October 25, 2013;

our Report on Form 6-K filed on November 1, 2013;

our Report on Form 6-K filed on November 7, 2013 (except the second and third paragraph of Exhibit 99.1, which contain certain quotes by the Chairman and Chief Executive Officer of Navios Partners);

all subsequent reports on Form 20-F shall be deemed to be incorporated by reference into this prospectus and deemed to be part hereof after the date of this prospectus but before the termination of the offering by this prospectus;

- our reports on Form 6-K furnished to the SEC subsequent to the date of the initial registration statement and prior to effectiveness of the registration statement, and after the date of this prospectus, only to the extent that the forms expressly state that we incorporate them by reference in this prospectus; and

- the description of our common units contained in our Registration Statement on Form 8-A filed on November 7, 2007, including any subsequent amendments or reports filed for the purpose of updating such description.

These reports contain important information about us, our financial condition and our results of operations.

You may obtain any of the documents incorporated by reference in this prospectus from the SEC through its public reference facilities or its website at the addresses provided above. We will also provide each person to whom a prospectus is delivered, a copy of any or all information that has been incorporated by reference into this prospectus, but not delivered with this prospectus. You may request a copy of any document incorporated by reference in this prospectus (excluding exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document), at no cost by visiting our Internet website at www.navios-mlp.com, or by writing or calling us at the following address:

Navios Maritime Partners L.P.

7, Avenue de Grande Bretagne, Office 11B2

Monte Carlo MC 98000 Monaco

(011) + (377) 9798-2140

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with any information. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

Government Filings

As required by the Securities Act, we filed a registration statement on Form F-3 relating to the securities offered by this prospectus with the SEC. This prospectus is a part of that registration statement, which includes additional information. You should refer to the registration statement and its exhibits for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreements or other document.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), applicable to foreign private issuers. We, as a foreign private issuer, are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act, with respect to their purchases and sales of common units. In addition, we are not required to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we anticipate filing with the SEC, within 180 days after the end of each fiscal year, an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also anticipate furnishing quarterly reports on Form 6-K containing unaudited interim financial information for the first three quarters of each fiscal year, within 75 days after the end of such quarter.

You may read and copy any document we file or furnish with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can review our SEC filings and the registration statement by accessing the SEC s internet site at http://www.sec.gov.

Documents may also be inspected at the offices of the Financial Industry Regulatory Authority at 1735 K Street, Washington, D.C. 20006.

Information provided by the Company

We will furnish holders of our common units with annual reports containing audited financial statements and corresponding reports by our independent registered public accounting firm, and intend to furnish quarterly reports containing selected unaudited financial data for the three first quarters of each fiscal year. The audited financial statements will be prepared in accordance with United States generally accepted accounting principles and those reports will include a Operating and Financial Review and Prospects section for the relevant periods. As a foreign private issuer, we were exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. While we intend to furnish proxy statements to any shareholder in accordance with the rule of the NYSE, those proxy statements are not expected to conform to Schedule 14A of the proxy rules promulgated under the Exchange Act. In addition as a foreign issuer, we are exempt from the rules under the Exchange Act relating to short swing profit reporting and liability.

This prospectus is only part of a registration statement on Form F-3 that we have filed with the SEC under the Securities Act, and therefore omits certain information contained in the registration statement. We have also filed exhibits and schedules with the registration statement that are excluded from this prospectus, and you should refer to

the applicable exhibit or schedule for a complete description of any statement referring to any contract or other document. You may inspect a copy of the registration statement, including the exhibits and schedules:

- without charge at the public reference room,
- obtain a copy from the SEC upon payment of the fees prescribed by the SEC, or
- obtain a copy from the SEC s web site or our web site.

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ENFORCEABILITY OF CIVIL LIABILITIES AND

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

We are organized under the laws of the Marshall Islands as a limited partnership. Our general partner is organized under the laws of the Marshall Islands as a limited liability company. The Marshall Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent.

Most of our directors and the directors and officers of our general partner and those of our subsidiaries are residents of countries other than the United States. Substantially all of our and our subsidiaries assets and a substantial portion of the assets of our directors and the directors and officers of our general partner are located outside the United States. As a result, it may be difficult or impossible for United States investors to effect service of process within the United States upon us, our directors, our general partner, our subsidiaries or the directors and officers of our general partner or to realize against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. However, we have expressly submitted to the jurisdiction of the U.S. federal and New York state courts sitting in the City of New York for the purpose of any suit, action or proceeding arising under the securities laws of the United States or any state in the United States, and we have appointed the Trust Company of the Marshall Islands, Inc., Trust Company Complex, Ajeltake Island, P.O. Box 1405, Majuro, Marshall Islands MH96960, to accept service of process on our behalf in any such action.

Reeder & Simpson P.C., our counsel as to Marshall Islands law, has advised us that there is uncertainty as to whether the courts of the Republic of the Marshall Islands would (1) recognize or enforce against us, our general partner or our general partner s directors or officers judgments of courts of the United States based on civil liability provisions of applicable U.S. federal and state securities laws or (2) impose liabilities against us, our directors, our general partner or our general partner s directors and officers in original actions brought in the Marshall Islands, based on these laws.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We have obtained directors and officers liability insurance against any liability asserted against such person incurred in the capacity of director or officer or arising out of such status, whether or not we would have the power to indemnify such person.

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6 Investment in Affiliates

We have a 46.0% equity interest in C-BASS and an interest in Sherman, which consists of 40.96% of the Class A Common Units (Class A Common Units represent 94% of the total equity in Sherman) and 50% of the Preferred Units.

On July 29, 2007, we concluded that a material charge for impairment of our investment in C-BASS was required under GAAP.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Since February 2007, the market for subprime mortgages has experienced significant turmoil, with market dislocations accelerating to unprecedented levels beginning in mid-July 2007. C-BASS reported a loss of $14.7 million in the first quarter of 2007 before returning to profitability in the second quarter as credit spreads briefly stabilized before widening dramatically again in July.

Prior to July 29, 2007, a number of qualified buyers showed a strong interest in C-BASS, and both we and MGIC Investment Corporation (MGIC) received multiple preliminary indications of interest above C-BASS s book value. Due diligence was ongoing until July 29th when the increase in margin calls over the prior few days significantly jeopardized C-BASS s liquidity position, resulting in a withdrawal of all interested buyers at that time. Giving consideration to C-BASS s inability to meet the accelerating amount of margin calls they were receiving, as well as the withdrawal of any potential buyers at the time, we concluded on July 29, 2007 that a material charge for impairment of our interest in C-BASS was required.

Our total investment in C-BASS consists of approximately $468 million of equity as of June 30, 2007 and $50 million under an unsecured credit facility provided to C-BASS on July 19, 2007, as discussed in Note 12 below. MGIC also provided C-BASS with an unsecured credit facility in the same amount, which has been fully drawn. At June 30, 2007, on a pro forma basis reflecting the amounts drawn under our facility with C-BASS, Radian s investment in C-BASS was approximately $518 million.

We have not yet determined an estimate of the amount or range of amounts of the potential impairment, although the impairment charge could be our entire investment in C-BASS. Following our impairment determination, C-BASS faced significant additional margin calls and its liquidity position continued to deteriorate. With the cooperation of its lenders, including Radian and MGIC, C-BASS is actively working with The Blackstone Group L.P., its financial advisor, and potential investors to explore opportunities to secure additional liquidity. We do not currently anticipate any future cash expenditures associated with the impairment charge. The net impact to Radian of the impairment charge will include any associated tax benefit.

On June 24, 2005, we entered into agreements to restructure our ownership interest in Sherman. As part of the restructuring, we and MGIC each agreed to sell a 6.92% interest in Sherman to a new entity controlled by Sherman s management team, thereby reducing our ownership interest and MGIC s ownership interest to 34.58% for each of us. In connection with the restructuring, we and MGIC each paid $1 million for each of us to have the right, in the future, to purchase an additional 6.92% interest in Sherman from that new entity controlled by Sherman s management team for a price intended to approximate current fair market value. Before the restructuring, Sherman was owned 41.5% by us, 41.5% by MGIC and 17% by an entity controlled by Sherman s management team.

On September 14, 2006, we and MGIC each agreed to restructure our respective options. In order to accommodate this restructuring, the equity interests of Sherman were reclassified, effective July 1, 2006, from a single class of equity interests into Class A Common Units and a combination of Preferred Units and Class B Common Units. As part of the reclassification, all of the authorized Class B Common Units were granted to an entity controlled by Sherman s management. The Class B Common Units entitle Sherman s management to 3% of Sherman s pre-tax earnings above $200 million (on an annual basis) and a right in liquidation of up to 6% of any amounts after satisfaction of a liquidation preference on the Preferred Units. The actual percentage received by the holders of Class B Common Units upon a liquidation or sale of Sherman will depend on when the sale or liquidation occurs and the value of Sherman at that time.

As restructured, we and MGIC each were granted an identical option to purchase, effective July 1, 2006:

- 4.17% (8.34% for both of us) of the Class A Common Units outstanding after the reclassification, which represents 3.92% (7.84% for both of us) of the common equity interests in Sherman prior to the reclassification; and

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A preferred equity interest that entitles both us and MGIC to:

- Three percent (6% in total for both of us) of the first $200 million of Sherman s annual pre-tax earnings, which amount shall be allocated to the Preferred Units on a cumulative basis before any amounts are allocated to the Class B Common Units, and 1.5% (3% in total for both of us) of Sherman s annual pre-tax earnings above $200 million; and

- A preference in the proceeds received upon a liquidation or sale of Sherman equal to the tax basis in the preferred equity.

On September 22, 2006, we and MGIC each paid $65.3 million to an entity controlled by Sherman s management team in connection with the exercise of our restructured options. The purchase price consisted of approximately $44.8 million for the Class A Common Units and approximately $20.5 million for the Preferred Units. The acquisition of additional interest in common equity in Sherman resulted in $37.9 million of purchase accounting premium on receivables and approximately $4.0 million in goodwill and other intangibles. The amortization period of the premium on receivables is approximately three years with a higher amount of amortization recognized in the first year and declining over the life of the receivables. Included in the equity in net income of affiliates for the six months ended June 30, 2007 is $6.8 million of premium amortization. The goodwill is evaluated annually for impairment.

The following table shows the components that make up the investment in affiliates balance:

(In thousands)	June 30 2007	December 31 2006
C-BASS	$ 467,800	$ 451,395
Sherman	171,737	167,412
Other	34	34
Total	$ 639,571	$ 618,841

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(In thousands)	Three Months Ended June 30 2007	2006	Six Months Ended June 30 2007	2006
Investment in Affiliates-Selected Information:				
C-BASS				
Balance, beginning of period	$ 444,591	$ 387,043	$ 451,395	$ 364,364
Share of net income for period	23,209	44,855	16,405	74,881
Dividends received		16,547		23,894
Balance, end of period	$ 467,800	$ 415,351	$ 467,800	$ 415,351
Sherman				
Balance, beginning of period	$ 143,698	$ 49,608	$ 167,412	$ 81,753
Share of net income for period	26,298	27,182	55,874	55,497
Dividends received			51,512	60,515
Other comprehensive income	1,741		(37)	55
Balance, end of period	$ 171,737	$ 76,790	$ 171,737	$ 76,790
Portfolio Information:				
C-BASS				
(In thousands)				
Servicing portfolio	$ 58,100,000	$ 56,460,000		
Total assets	6,619,605	6,289,258		
Total liabilities	5,647,553	5,417,481		
Sherman				
Total assets	$ 1,778,299	$ 1,058,989		
Total liabilities	1,469,321	836,924		
Summary Income Statement:				
C-BASS				
Income				
(Loss) gain on securitization	$ (5,092)	$ 9,445	$ (10,586)	$ 7,601
Portfolio sales and changes in fair value	(15,942)	39,761	(101,613)	63,683
Servicing and subservicing fees, net	48,621	40,198	91,747	71,456
Net interest income	66,572	69,872	145,424	134,912
Other income	6,940	12,615	15,108	22,552
Total revenues	101,099	171,891	140,080	300,204
Expenses				
Compensation and benefits	27,750	60,223	59,893	107,287
Total other expenses	23,247	14,294	44,776	30,080
Total expenses	50,997	74,517	104,669	137,367
Net income	$ 50,102	$ 97,374	$ 35,411	$ 162,837
Sherman				
Income				

Revenues from receivable portfolios net of amortization	$ 252,990	$ 236,113	$ 504,945	$ 473,785
Other revenues	19,459	17,055	24,975	19,785
Total revenues	272,449	253,168	529,920	493,570
Expenses				
Operating and servicing expenses	147,516	133,766	287,677	261,134
Interest	18,750	11,502	32,333	21,538
Other	34,434	29,293	57,058	50,410
Total expenses	200,700	174,561	377,068	333,082
Net income	$ 71,749	$ 78,607	$ 152,852	$ 160,488

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

7 Losses and Loss Adjustment Expenses (LAE) Mortgage Insurance

We establish reserves to provide for the estimated losses from claims and the estimated costs of settling claims on defaults (or delinquencies) reported and defaults that have occurred but have not been reported.

Included in the reserve for losses at June 30, 2007, is $59.0 million related to a second-lien structured mortgage transaction. Of this amount, $29.5 million is included as a reinsurance recoverable in other assets on the condensed consolidated balance sheets.

The following table reconciles our mortgage insurance segment s beginning and ending reserves for losses and LAE for the six months ended June 30, 2007 (in thousands):

Mortgage Insurance	
Balance at January 1, 2007	$ 653,236
Less Reinsurance recoverables	21,763
Balance at January 1, 2007, net	631,473
Add total losses and LAE incurred in respect of default notices received	293,006
Deduct total losses and LAE paid in respect of default notices received	207,903
Balance at June 30, 2007, net	716,576
Add Reinsurance recoverables	29,519
Balance at June 30, 2007	$ 746,095

Claims paid during 2007 included claims from a structured transaction covering the first 10% of aggregate losses on a pool of subprime second-lien mortgages. As structured, we split losses with our counterparty under this policy on a 50-50 basis. We began experiencing a significant increase in filed claims on this policy during the third quarter of 2006 and have paid approximately $36.0 million in net claims on this policy as of June 30, 2007. At June 30, 2007, our net exposure remaining under this policy was approximately $42.0 million or half of the approximately $84.0 million in gross remaining exposure. Approximately $29.5 million of this $42.0 million was contained within our net loss reserve at June 30, 2007. In addition to this policy, we also have a supplemental policy on the same pool of mortgages that covers certain losses in excess of the 10% aggregate stop-loss.

Although delinquencies from this pool of mortgages have begun to stabilize, the pool has not shown the improvement that we had anticipated. Based on currently available information, we now believe that losses will likely exceed the 10% aggregate threshold of the initial policy, and when combined with the supplemental policy, total losses will likely exceed premiums over the life of the two policies. It is still too early to determine with any degree of certainty the total amount of losses that may result from the supplemental policy. Our current estimate of losses for both policies is reflected in our expectations for total mortgage insurance paid claims for 2007 and 2008. We are working constructively with our counterparty to attempt to satisfy all claims issues in a fair way that mitigates overall losses as best as possible.

8 Income Taxes

In June 2006, the FASB issued FIN 48. FIN 48 is effective for fiscal years beginning after December 15, 2006, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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We adopted FIN 48 in the first quarter of 2007. The cumulative effect of applying the provisions of FIN 48 was an increase of approximately $218 million in the current income taxes payable, a decrease of approximately $197 million in deferred income taxes payable and a $21 million decrease in retained earnings. Prior to the implementation of FIN 48, we maintained reserves for contingent tax liabilities, which totaled approximately $20 million as of December 31, 2006. After the adoption of FIN 48 and as of June 30, 2007, we have approximately $47.5 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Also prior to FIN 48, we maintained a net current tax recoverable based on payments made to the taxing authorities, and such recoverable was classified in other assets on our condensed consolidated balance sheets. As a result of the changes necessary in applying the guidelines of FIN 48, we expect our income tax provision to generally exceed actual payments made to the taxing authorities in any given year, which results in a current tax liability position reflected on the condensed consolidated balance sheets. Our policy for the recognition of interest and penalties associated with uncertain tax positions is to record such items as a component of our income tax provision. The table below details the cumulative effect of applying the provisions of FIN 48 as of June 30, 2007.

The effect of unrecognized tax benefits on our condensed consolidated balance sheets and results of operations is as follows:

	January 1		June 30
(In thousands)	**2007**	**Increase**	**2007**
Unrecognized tax benefits as a component of current income taxes payable	$ 218,400	$ 11,843	$ 230,243
Unrecognized tax benefits that, if recognized, would affect the effective tax rate	$ 41,118	$ 6,368	$ 47,486
Interest and penalties recognized in our condensed consolidated balance sheets	$ 28,085	$ 5,371	$ 33,456
Interest and penalties recognized in our condensed consolidated statements of income	$	$ 5,371	$ 5,371

Uncertain tax positions for which it is reasonably possible that the unrecognized tax benefits included above will significantly increase (decrease) over the 12-month period following adoption are various state and local income taxes and penalties and interest on taxable income from our investment in certain lower tier partnership interests.

We have taken a position in various jurisdictions that we are not required to remit taxes with regard to the income earned on our investment in certain partnership interests. Although we believe that these tax positions are likely to succeed if adjudicated in a court of last resort, measurement under FIN 48 of the potential amount of liability for state and local taxes and the potential for penalty and interest thereon is performed on a quarterly basis. Over the next twelve months, additional taxable income is expected from these investments, which would require additional measurements of potential state and local taxes, penalty and interest thereon. The estimated increase to the current income taxes payable for these positions over the 12-month period following adoption is approximately $9.8 million.

The following calendar tax years, listed by major jurisdiction, remain subject to examination:

U.S. Federal Corporation Income Tax	2000	2006 (1)
Significant State and Local Jurisdictions (2)	1999	2006

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(1) Our U. S. federal corporation income tax returns filed for calendar years 1999 through 2005 are currently being examined by the Internal Revenue Service (IRS). The IRS is asserting that the 1999 tax year remains open for examination under IRC Section 6501(e). With regard to the 1999 tax year, we have agreed to extend the statute of limitations for the assessment of tax to June 30, 2008. The extension of the statute of limitations is contingent upon the IRS s successful application of the provisions of IRC Section 6501(e). With regard to tax years 2000 through 2003, we have also agreed to extend the statute of limitations for the assessment of tax to June 30, 2008. All such statute of limitation extensions, including the 1999 calendar year extension, have limited the scope of the examinations to the recognition of certain tax benefits that were generated through our investment in a portfolio of residual interests in Real Estate Mortgage Investment Conduits (REMICs).

(2) Arizona, California, Florida, Georgia, New York, Ohio, Pennsylvania, Texas and New York City

The IRS examination remains in the discovery phase and no formal notice of proposed adjustment has been received. The IRS has indicated that it opposes the recognition of certain tax losses that were generated through our investment in a portfolio of residual interests in REMICs. A formal notice of proposed adjustment is expected upon the completion of discovery, which is anticipated to conclude during the third or fourth quarter of 2007. We will contest any proposed adjustment relating to the IRS s opposition of the tax losses in question. Upon receipt of the IRS s proposed adjustment, we may make a payment with the United States Department of the Treasury to avoid the accrual of the above-market-rate interest associated with our estimate of the potentially unsettled adjustment. We anticipate making this payment within 30 days of receiving a formal notice of proposed adjustment, and the cash requirement for such payment is expected to be approximately $84.0 million. Any ultimate overpayment associated with the payment on account would be recovered through a formal claim for refund process.

9 Long-Term Debt

In February 2003, we issued $250 million of unsecured senior notes. These notes bear interest at the rate of 5.625% per annum, payable semi-annually on February 15 and August 15. These notes mature in February 2013. We have the option to redeem some or all of the notes at any time with not less than 30 days notice at a redemption price equal to the greater of the principal amount of the notes or the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed. In April 2004, we entered into interest-rate swap contracts that effectively convert the interest rate on this fixed-rate debt to a variable rate based on a spread over the six-month LIBOR for the remaining term of the debt.

The composition of our long-term debt at June 30, 2007 and December 31, 2006 was as follows:

	June 30	December 31
(In thousands)	**2007**	**2006**
5.625% Senior Notes due 2013	$ 248,768	$ 248,677
7.75% Debentures due 2011	249,533	249,483
5.375% Senior Notes due 2015	249,628	249,610
	$ 747,929	$ 747,770

10 Stock-Based Compensation

We have an equity compensation plan, the Radian Group Inc. Equity Compensation Plan (the Plan), under which we may provide grants of incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights (referred to as SARs), performance shares and phantom stock. To date, all awards granted

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

under the Plan have been in the form of non-qualified stock options, restricted stock and phantom stock. Officers and other employees (of Radian or its affiliates) are eligible to participate in the Plan. Non-employee directors are also eligible to participate in the Plan, but are not permitted to receive grants of incentive stock options. The plan will expire on December 31, 2008.

On January 1, 2006, we adopted SFAS No. 123R using a modified prospective application as permitted by SFAS No. 123R. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation cost is recognized over the periods that an employee provides service in exchange for the award.

Stock Options

Unless otherwise specified, each option vests ratably over four years, beginning one year after the date of grant. We generally issue shares from unissued reserved shares for exercises with an exercise price less than the treasury stock repurchase price and from treasury stock when the exercise price is greater than the treasury stock repurchase price. During the first six months of 2007, there were no stock options granted compared to 1,030,650 shares granted during the first six months of 2006. During the three and six month periods ended June 30, 2007, we recorded $1.1 million and $2.7 million, respectively, of net expense related to stock options compared to $1.7 million and $5.8 million, respectively, of net expense in the comparable 2006 periods.

Restricted Stock

The Compensation and Human Resources Committee of our board of directors may issue shares of our common stock under a grant of restricted stock under the Plan. The shares underlying a grant are issued in consideration for services rendered having a value, as determined by our board of directors, at least equal to the par value of the common stock. While shares are subject to restrictions, a grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of our common stock, except to a successor grantee in the event of the grantee s death. All restrictions imposed under a restricted stock grant lapse after the applicable restriction period or as the Compensation Committee may determine. Restricted shares granted on or after February 5, 2007 generally vest three years from the date of grant, but may vest earlier, if, during the three year period following completion of the merger with MGIC, the employee s employment is terminated by us without cause or by the employee for good reason (as those terms are defined in the applicable award agreements).

We granted, under the Plan, 587,530 shares of restricted stock during the first six months of 2007 compared to 41,300 shares of restricted stock during all of 2006, in the case of each grant, vesting over three to four years.

The amount recorded as net stock-based compensation expense related to restricted stock for the three and six months ended June 30, 2007 was $2.0 million and $2.8 million, respectively.

Phantom Stock

The Compensation Committee may grant phantom stock awards under the Plan, which entitle grantees to receive shares of our common stock on a vesting date (referred to in the Plan as the conversion date) established by the Compensation Committee. All phantom stock will be paid in whole shares of our common stock, with fractional shares paid in cash. The amount recorded as stock-based compensation expense related to phantom stock awards granted for the three and six months ended June 30, 2007 was $(0.1) million and $0.9 million, respectively, compared to $0.2 and $1.6 million, respectively, for the three and six months ended June 30, 2006.

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Employee Stock Purchase Plan

We have an Employee Stock Purchase Plan (the ESPP). A total of 400,000 shares of our authorized unissued common stock have been made available under the ESPP. The ESPP allows eligible employees to purchase shares of our stock at a discount of 15% of the beginning-of-period or end-of-period (each period being the first and second six calendar months) fair market value of the stock, whichever is lower. Eligibility under the ESPP is determined based on standard weekly work hours and tenure with us and eligible employees are limited to a maximum contribution of $400 per payroll period toward the purchase of our stock. The effect of the issuance of shares under the ESPP on our net income and earnings per share was immaterial for the three and six month periods ended June 30, 2007 and 2006.

On May 8, 2007, our board of directors amended the ESPP: (1) to extend the expiration date of the plan from July 15, 2007 to July 15, 2009; and (2) notwithstanding the extension, (a) to suspend the ESPP effective upon the consummation of the purchase of shares of common stock in connection with the expiration of the current offering and purchase periods under the plan on June 30, 2007; and (b) to terminate the plan immediately prior to the effective time of our merger with MGIC. Both the suspension and termination of the plan are required pursuant to our merger agreement with MGIC.

Performance Shares

We have a Performance Share Plan (the Program). The Program is intended to motivate our executive officers by focusing their attention on critical financial indicators that measure our success. We are currently using phantom stock grants to fund awards under the Program. The Compensation Committee grants performance share awards to eligible participants with respect to performance periods of overlapping durations. Both the first and second performance periods under the Program are three-year periods that began on January 1, 2005 and January 1, 2006, respectively. At the establishment of each performance period, a target number of performance shares are established for each participant in the Program. The performance shares are denominated in shares of common stock and are settled in common shares. The amount of stock-based compensation expense related to performance shares for the three and six months ended June 30, 2007 and 2006 was $(1.3) million and $(0.1) million, respectively, and $0.5 million and $1.2 million, respectively.

11 Recent Accounting Pronouncements

In April 2006, the FASB issued FASB Staff Position (FSP) No. FIN 46(R)-6 Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) (FSP FIN 46(R)-6), which addresses how a reporting enterprise should determine the variability to be considered in applying FASB Interpretation No. 46(R) (FIN 46R). The variability that is considered in applying FIN 46R affects the determination of (i) whether the entity is a variable interest entity, (ii) which interests are variable interests in the entity and (iii) which party, if any, is the primary beneficiary of the variable interest entity. That variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary. FSP No. FIN 46(R)-6 became effective July 1, 2006. The adoption of this FSP did not have a material impact on our condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 (i) defines fair value, (ii) establishes a framework for measuring fair value in GAAP and (iii) expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. Management currently is considering the impact that may result from the adoption of SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires us to recognize the funded status of a

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benefit plan measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation in our condensed consolidated balance sheets. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. SFAS No. 158 also requires us to recognize as a component of accumulated other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements. In addition, SFAS No. 158 requires us to measure defined benefit plan assets and obligations as of the date of our fiscal year-end statement of financial position (with limited exceptions), and to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Employers with publicly traded equity securities were required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We adopted this statement effective December 31, 2006. The implementation of SFAS No. 158 had an immaterial affect on our condensed consolidated financial statements. See Note 13.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value. Items eligible for fair value measurement option established by this statement are (i) recognized financial assets and financial liabilities (with some exceptions), (ii) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments, (iii) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services and (iv) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Management currently is considering the impact, if any, that may result from the adoption of SFAS No. 159.

In April 2007, the FASB issued FSP FIN 39-1, an amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts . FSP FIN 39-1 replaces the terms conditional contracts and exchange contracts with the term derivative instruments and permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in the statement of financial position. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. Management currently is considering the impact, if any, that may result from the adoption of FSP FIN 39-1.

In September 2005, Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (SOP 05-1), was issued. This SOP provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments . SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 on January 1, 2007, did not have a material impact on our condensed consolidated financial statements.

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The Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-4, The Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 addresses whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions and Accounting Principles Board (APB) Opinion No. 12 Omnibus Opinion 1967 upon entering into such an arrangement. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Management is considering the impact, if any, that may result from the adoption of EITF 06-4.

The EITF reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4 (EITF 06-5). EITF 06-5 addresses (i) whether a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4, (ii) whether a policyholder should consider the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4 Accounting for Purchases of Life Insurance and (iii) whether the cash surrender value component of the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4 should be discounted in accordance with APB Opinion No. 21 Interest on Receivables and Payables , when contractual limitations on the ability to surrender a policy exist. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The impact of adopting EITF 06-5 effective January 1, 2007, was not material to our condensed consolidated financial statements.

In May 2007, the FASB issued FSP No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1), which clarifies when a tax position is considered settled under FIN 48. FSP FIN 48-1 is applicable at the adoption of FIN 48, which was January 1, 2007 for us, and did not have an impact on our tax position at June 30, 2007.

12 Other Information

Since September 2002, our board of directors has authorized five separate repurchase programs, including the current 6.0 million share program, for the repurchase, in the aggregate, of up to 21.5 million shares of our common stock on the open market. At June 30, 2007, we had repurchased approximately 20.4 million shares under these programs for a total cost of approximately $1.0 billion, including 0.4 million shares during the first six months of 2007 at a cost of approximately $22.8 million. The board did not set an expiration date for the current program. All share repurchases made to date were funded from available working capital, and were made from time to time depending on market conditions, share price and other factors.

We also may purchase shares on the open market to meet option exercise obligations and to fund 401(k) matches and purchases under our ESPP and may consider additional stock repurchase programs in the future.

Until September 30, 2004, our financial guaranty segment also included our ownership interest in Primus Guaranty, Ltd. (Primus), a Bermuda holding company and parent to Primus Financial Products, LLC, a provider of credit risk protection to derivatives dealers and credit portfolio managers on individual investment-grade entities. In September 2004, Primus issued shares of its common stock in an initial public offering. We sold a portion of our shares in Primus as part of this offering. As a result of our reduced ownership and influence over Primus after the initial public offering, we reclassified our investment in Primus to our equity securities portfolio. Accordingly, beginning with the fourth quarter of 2004, we began recording changes in the fair value of the Primus securities as other comprehensive income rather than recording income or loss as equity in net

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income of affiliates. In 2005 and during the first quarter of 2006, we sold all of our remaining interest in Primus, recording a total pre-tax gain of $2.8 million in the last half of 2005 and a pre-tax gain of $21.4 million in the first quarter of 2006.

In January 2007, one of our insurance subsidiaries received a $51.5 million dividend from Sherman. Our insurance subsidiaries may be limited in the amount that they may pay in dividends to us during the next 12 months without first obtaining insurance department approval.

On February 6, 2007, we and MGIC entered into an Agreement and Plan of Merger pursuant to which we agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC, with the combined company to be re-named MGIC Radian Financial Group Inc.

On August 7, 2007, MGIC publicly announced that it had advised the New York Insurance Department that based on MGIC management s preliminary assessment, MGIC is not obligated to complete the merger in light of the C-BASS impairment. MGIC also announced that it was reviewing other developments that, in its opinion, may affect its obligation to close.

Upon completion of the merger, certain of our financial guaranty reinsurance customers will have the right to recapture financial guaranty reinsurance business previously assumed by us. Based on the balances at June 30, 2007, these customers will be able to recapture an aggregate of up to $10.7 billion par in force and up to approximately $91.0 million of unearned premium reserves (on a statutory accounting basis). If all this reinsurance business were recaptured, we estimate that we would have to disburse $65.5 million in cash to settle the recaptures.

On July 17, 2007, C-BASS acquired Fieldstone Investment Corporation (Fieldstone), a mortgage banking company that originates, sells, and invests primarily in non-conforming single-family residential mortgage loans, for approximately $187 million including closing costs.

On July 19, 2007, we and MGIC, each entered into a $50 million unsecured revolving credit facility agreement with C-BASS that is payable on demand and is scheduled to expire December 31, 2007. Amounts drawn on this facility bear interest at a rate of one-month LIBOR at the date the amount is drawn plus 2.875%. In addition, a 0.375% facility fee is payable to us. C-BASS has drawn down the entire $50 million on this facility. In accordance with the terms of the loan, on July 30, 2007, we demanded full and immediate payment of all amounts owed to us under the loan. Those amounts currently remain outstanding as we continue to cooperate with C-BASS while they search for additional liquidity as discussed above.

13 Benefit Plans

We maintain a noncontributory defined benefit pension plan (the Pension Plan) covering substantially all of our full-time employees. Effective December 31, 2006, we (1) froze all benefits accruing under the Pension

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Plan and (2) suspended all forms of participation under the Pension Plan. Prior to the suspension, all salaried and hourly employees of Radian and its participating subsidiaries were eligible to participate in the Pension Plan upon attaining 20 1/2 years of age and one year of eligible service. We recorded a curtailment loss of approximately $370,000 in the fourth quarter of 2006 as a result of the freezing of the Pension Plan.

The Pension Plan suspension was aimed at preparing for the future termination of the Pension Plan, and reflects a broader reliance on the Radian Group Inc. Savings Incentive Plan (the Savings Plan) as the primary retirement vehicle for our employees. On February 5, 2007, our board of directors approved the termination of the Pension Plan, effective June 1, 2007. We expect to record an immaterial settlement loss upon termination of the Pension Plan, which remains subject to regulatory approval.

In the first quarter of 2007, we amended the Pension Plan to (1) accelerate the vesting in accrued benefits under the Pension Plan for all participants in the plan who are employees of Radian or its affiliates at any time between December 31, 2006 and the termination date of June 1, 2007; and (2) enhance the distribution options under the Pension Plan to offer an immediate annuity option and an immediate lump sum option in connection with the June 1, 2007 termination date.

We terminated the Radian Group Inc. Supplemental Executive Retirement Plan (the SERP) effective December 31, 2006, and adopted a new nonqualified restoration plan (the Benefit Restoration Plan or BRP), effective January 1, 2007. The BRP is intended to provide additional retirement benefits to Radian employees that are eligible to participate in the Savings Plan and whose benefits under the Savings Plan are limited by applicable IRS limits on eligible compensation.

In addition, we discontinued the split-dollar life insurance policies used to finance the SERP. Each participant in the SERP received an initial balance in the BRP equal to the present value of the participant s SERP benefit as of January 1, 2007.

The assumed discount rate is based on assumptions intended to estimate the actual termination liability of the plan. The discount rate is a composite rate used to approximate the actual termination liability comprised of lump sum payments and an annuity purchase.

The components of the Pension Plan/SERP benefit and net periodic postretirement benefit costs are as follows (in thousands):

	Three Months Ended June 30			
	Pension Plan/ SERP		Postretirement Welfare Plan	
	2007	2006	2007	2006
Service cost	$	$ 1,321	$ 3	$ 2
Interest cost	390	542	15	16
Expected return on plan assets	(349)	(377)		
Amortization of prior service cost		63	(2)	(2)
Recognized net actuarial loss (gain)		94	(2)	(1)
Net periodic benefit cost	$ 41	$ 1,643	$ 14	$ 15

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Six Months Ended June 30			
	Pension Plan/SERP		Postretirement Welfare Plan	
	2007	2006	2007	2006
Service cost	$	$ 2,642	$ 6	$ 5
Interest cost	780	1,084	30	31
Expected return on plan assets	(698)	(754)		
Amortization of prior service cost		126	(4)	(3)
Recognized net actuarial loss (gain)		188	(4)	(3)
Net periodic benefit cost	$ 82	$ 3,286	$ 28	$ 30

14 Selected Financial Information of Registrant Radian Group Inc.

The following is selected financial information for the parent company:

	June 30	December 31
(In thousands)	**2007**	**2006**
Investment in subsidiaries, at equity in net assets	$ 4,776,972	$ 4,774,918
Total assets	4,937,542	4,865,381
Long-term debt	747,929	747,770
Total liabilities	794,824	797,824
Total stockholders equity	4,142,718	4,067,557
Total liabilities and stockholders equity	4,937,542	4,865,381

15 Commitments, Contingencies and Off-Balance-Sheet Arrangements

As previously disclosed in the joint proxy statement/prospectus for our 2007 annual meeting of stockholders, on February 8, 2007, a purported stockholder class action lawsuit related to our pending merger with MGIC (the Action) was filed in the Court of Common Pleas, Philadelphia County, Civil Trial Division in the State of Pennsylvania (the Court of Common Pleas) by Catherine Rubery against Radian and its directors. The lawsuit alleges, among other things, that the merger consideration to be received by Radian stockholders was inadequate and that the individual defendants, among other things, breached their duties of care, loyalty, good faith and independence to the stockholders in connection with the merger. The complaint seeks class action status as well as injunctive, declaratory and other equitable relief.

On March 19, 2007, defendants removed the Action to the United States District Court for the Eastern District of Pennsylvania (the Eastern District), and on March 26, 2007, defendants moved to dismiss the Action, or, in the alternative, for a briefing schedule in connection with any potential motion by the plaintiff to remand the Action to the Court of Common Pleas. On April 18, 2007, plaintiff moved to remand the Action to the Court of Common Pleas, which motion defendants opposed. On May 31, 2007, the motion to remand was granted, and the case is now back in the Court of Common Pleas, where the parties are preparing initial pleadings. The motion is presently pending in the Eastern District, and a briefing schedule for the motion has been established. We believe this lawsuit is without merit and intend to continue to vigorously defend the Action.

In addition to the above litigation, we are involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and believe, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial position and results of operations.

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Radian Group Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

We guarantee the payment of up to $25.0 million of a revolving credit facility issued to Sherman, which expires in December 2007. Our guaranty facilitates the issuance and renewal of the facility, which Sherman may use for general corporate purposes. There were no amounts outstanding under this facility at June 30, 2007.

As part of the non-investment-grade allocation component of our investment program, we have committed to invest $55 million in alternative investments that are primarily private equity structures. At June 30, 2007, we had unfunded commitments of $27.7 million. These commitments have capital calls over a period of at least six years, and certain fixed expiration dates or other termination clauses.

Our mortgage insurance business utilizes its underwriting skills to provide an outsourced underwriting service to its customers. We give recourse to our customers on loans we underwrite for compliance. Typically, we agree that if we make a material error in underwriting a loan, we will remedy, indemnify, make whole, repurchase, or place additional mortgage insurance coverage on the loan. Providing these remedies means we assume some credit risk and interest-rate risk if an error is found during the limited remedy period in the agreements governing these services. We paid losses for sales and remedies from reserves in the first six months of 2007 of approximately $2.4 million and our reserve for such expenses at June 30, 2007 was $3.5 million. We closely monitor this risk and negotiate our underwriting fee structure and recourse agreements on a client-by-client basis.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in this report and our audited financial statements, notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K for the fiscal year ended December 31, 2006 for a more complete understanding of our financial position and results of operations.

Business Summary

Our principal business segments are mortgage insurance, financial guaranty and financial services. The following table shows the percentage contributions to net income and equity allocated to each business segment as of and for the six months ended June 30, 2007:

	Net Income	Equity
Mortgage Insurance	12%	55%
Financial Guaranty	60%	35%
Financial Services	28%	10%

Mortgage Insurance

Our mortgage insurance segment provides credit-related insurance coverage, principally through private mortgage insurance, and risk management services to mortgage lending institutions located throughout the United States and select countries outside the United States. We provide these products and services primarily through our wholly-owned subsidiaries, Radian Guaranty Inc., Amerin Guaranty Corporation, Radian Insurance Inc. and our mortgage insurance subsidiaries located outside the United States, Radian Europe Limited and Radian Australia Limited (which we refer to as Radian Guaranty, Amerin Guaranty, Radian Insurance, Radian Europe and Radian Australia, respectively). Pr mortgage insurance protects mortgage lenders from all or a portion of default-related losses on residential mortgage loans made mostly to home buyers who make down payments of less than 20% of the home s purchase price. Private mortgage insurance also facilitates the sale of these mortgage loans in the secondary mortgage market, most of which are sold to Federal Home Loan Mortgage Corp. (Freddie Mac) and Federal National Mortgage Association (Fannie Mae). We sometimes refer to Freddie Mac and Fannie Mae collectively as Government Sponsored Enterprises or GSEs .

Our mortgage insurance segment, through Radian Guaranty, offers primary and pool mortgage insurance coverage on residential first-lien mortgages. At June 30, 2007, primary insurance on domestic first-lien mortgages made up approximately 90% of our total domestic first-lien mortgage insurance risk in force, and pool insurance on domestic first-lien mortgages made up approximately 10% of our total domestic first-lien mortgage insurance risk in force. We use Radian Insurance to provide credit enhancement for mortgage-related capital market transactions and to write credit insurance on mortgage-related assets that monoline mortgage guaranty insurers are not permitted to insure, including net interest margin securities (NIMs), international insurance and reinsurance transactions, second-lien mortgages, home equity loans and credit default swaps (collectively, we refer to the risk associated with these transactions as other risk in force). We also insure second-lien mortgages through Amerin Guaranty. We expect to use Radian Europe to offer a variety of mortgage credit risk solutions, including traditional mortgage insurance, financial guaranty and other structured transactions involving residential mortgage assets, to clients outside the United States.

Financial Guaranty

Our financial guaranty segment mainly insures and reinsures credit-based risks. Financial guaranty insurance provides an unconditional and irrevocable guaranty to the holder of a financial obligation of full and timely payment of principal and interest when due.

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Our financial guaranty segment offers the following products:

- insurance of public finance obligations, including tax-exempt and taxable indebtedness of states, counties, cities, special service districts, other political subdivisions and tribal finance and for enterprises such as airports, public and private higher education and health care facilities and private finance initiative assets in sectors such as schools, healthcare and infrastructure projects. The issuers of public finance obligations we insure are typically rated investment-grade (BBB-/Baa3 or higher) at the time we issue our insurance policy, without the benefit of our insurance;

- insurance of structured finance obligations, including collateralized debt obligations (CDOs) and asset-backed securities, consisting of funded and non-funded (synthetic) executions that are payable from or tied to the performance of a specific pool of assets. Examples of the pools of assets that underlie structured finance obligations include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds, equipment receivables and real and personal property leases. The structured finance obligations we insure are generally rated investment-grade at the time we issue our insurance policy, without the benefit of our insurance;

- financial solutions products (which we group as part of our structured finance business), including guaranties of securities exchange clearing houses, excess-Securities Investor Protection Corporation insurance for brokerage firms and excess-Federal Deposit Insurance Corporation insurance for banks; and

- reinsurance of domestic and international public finance obligations, including those issued by sovereign and sub-sovereign entities, as well as reinsurance of structured finance, financial solutions and trade credit reinsurance obligations (currently in run-off).

We provide these products and services mainly through Radian Asset Assurance Inc., our principal financial guaranty subsidiary (Radian Asset Assurance) and through Radian Asset Assurance Limited (RAAL), an insurance subsidiary of Radian Asset Assurance authorized to conduct financial guaranty business in the United Kingdom. Through RAAL, we have additional opportunities to write financial guaranty insurance in the United Kingdom and, subject to compliance with the European passporting rules, other European Union jurisdictions. In particular, we expect that RAAL will continue to build its structured products business in the United Kingdom and throughout the European Union. RAAL accounted for $3.2 million and $6.8 million of direct premiums written in the second quarter and first six months of 2007 (or 11.9% and 11.7% of financial guaranty s direct premiums written in the second quarter and first six months of 2007), which is a $1.1 million and $2.7 million increase, respectively, from the $2.1 million and $4.1 million of direct premiums written in the corresponding periods of 2006 (or 4.5% and 5.3% of financial guaranty s direct premiums written in the second quarter and first six months of 2006).

In October 2005, we announced that we would be exiting the trade credit reinsurance line of business. Accordingly, this line of business has been placed into run-off and we have ceased initiating new trade credit reinsurance contracts. For the first six months of 2007, there were no material trade credit reinsurance premiums written, compared to $4.5 million or 3.2% of financial guaranty s net premiums written in the first six months of 2006.

On May 3, 2007, Fitch reported the results of its Matrix capital model for the financial guaranty industry, as of September 30, 2006. Fitch launched the model in January 2007 and applied it retroactively to our existing financial guaranty business. Prior to the release of the Matrix capital model, we wrote business in accordance with the relevant Fitch capital adequacy measures in effect at the time such business was written. Along with a general decline in the excess capital position for a majority of financial guarantors from March 31, 2006 to September 30, 2006, Fitch noted that Radian Asset Assurance maintained capital well below Fitch s threshold level for an AA-rated financial guarantor. Fitch attributed this shortfall mainly to the growth in Radian Asset Assurance s portfolio of mezzanine-layered, pooled CDOs and collateralized debt securities written at very high

attachment points, well above the minimum AAA levels. We have provided Fitch with a capital enhancement plan to address this shortfall; however, we cannot be certain that we will be able to implement the capital enhancement plan fully or achieve the minimum thresholds for a AA-rated financial guarantor under the new capital model. See also Recent Ratings Actions below.

Upon completion of our merger with MGIC Investment Corporation (MGIC) as discussed below, certain of our financial guaranty reinsurance customers will have the right to recapture financial guaranty reinsurance business previously assumed by us. Based on the balances at June 30, 2007, these customers will be able to recapture an aggregate of up to $10.7 billion par in force and up to approximately $91.0 million of unearned premium reserves (on a statutory accounting basis). If all this reinsurance business were recaptured, we estimate that we would have to disburse $65.5 million in cash to settle the recaptures. We cannot be certain whether any of these customers will recapture all or any portion of this business or the exact impact of the actual recapture, if any, if the merger is not completed.

Financial Services

The financial services segment includes the credit-based businesses conducted through our affiliates, C-BASS and Sherman Financial Services Group LLC (Sherman). We own a 46% interest in C-BASS and an interest in Sherman, which consists of 40.96% of the Class A Common Units of Sherman (Class A Common Units represent 94% of the total equity in Sherman) and 50% of the Preferred Units of Sherman. Our preferred equity interest in Sherman entitles us to (1) three percent of the first $200 million of Sherman s annual pre-tax earnings, which amount is allocated to the Preferred Units on a cumulative basis before any amounts are allocated to the Class B Common Units (owned entirely by entities controlled by Sherman s management), and 1.5% of Sherman s annual pre-tax earnings above $200 million; and (2) a preference in the proceeds received upon a liquidation or sale of Sherman equal to the tax basis in the preferred equity.

Sherman is a consumer asset and servicing firm specializing in charged-off and bankruptcy plan consumer assets that it generally purchases at deep discounts from national financial institutions and major retail corporations and subsequently collects upon these receivables. In addition, Sherman originates credit card receivables through its subsidiary CreditOne and has a variety of other similar ventures related to consumer assets.

C-BASS is a mortgage investment and servicing company specializing in the credit risk of subprime single-family residential mortgages. On July 29, 2007, we concluded that a material charge for impairment of our investment in C-BASS was required under accounting principles generally accepted in the United States of America (GAAP).

Since February 2007, the market for subprime mortgages has experienced significant turmoil, with market dislocations accelerating to unprecedented levels beginning in mid-July 2007. C-BASS reported a loss of $14.7 million in the first quarter of 2007 before returning to profitability in the second quarter as credit spreads briefly stabilized before widening dramatically again in July. During the five month period from February 1, 2007 through June 30, 2007, C-BASS paid approximately $290.3 million to satisfy lenders margin calls on loans to C-BASS. From July 1st though July 29th, C-BASS received an additional $362.7 million in margin calls, most of which (approximately $200 million) was called on July 26th and July 27th. As of the close of business on July 27th, we understand that C-BASS had paid only $263.5 million of the $362.7 million in outstanding margin calls.

Prior to July 29, 2007, a number of qualified buyers showed a strong interest in C-BASS, and both we and MGIC received multiple preliminary indications of interest above C-BASS s book value. Due diligence was ongoing until July 29th when the increase in margin calls over the prior few days significantly jeopardized C-BASS s liquidity position, resulting in a withdrawal of all interested buyers at that time. Giving consideration to C-BASS s inability to meet the accelerating amount of margin calls they were receiving, as well as the withdrawal of any potential buyers at the time, we concluded on July 29, 2007 that a material charge for impairment of our interest in C-BASS was required.

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Our total investment in C-BASS consists of approximately $468 million of equity as of June 30, 2007 and $50 million under an unsecured credit facility provided to C-BASS on July 19th as further discussed below. At June 30, 2007, on a pro forma basis reflecting the amounts drawn under our facility with C-BASS, Radian s investment in C-BASS was approximately $518 million.

We have not yet determined an estimate of the amount or range of amounts of the potential impairment, although the impairment charge could be our entire investment in C-BASS. Following our impairment determination, C-BASS faced significant additional margin calls and its liquidity position continued to deteriorate. With the cooperation of its lenders, including Radian and MGIC, C-BASS is actively working with The Blackstone Group L.P., its financial advisor, and potential investors to explore opportunities to secure additional liquidity. It remains uncertain to us at this point whether C-BASS will be able to secure the continued cooperation of its lenders or to secure additional liquidity or on what terms such liquidity will be obtained. The net impact to us of the impairment charge will include any associated tax benefit.

On July 17, 2007, C-BASS completed its acquisition of Fieldstone Investment Corporation (Fieldstone), a mortgage banking company that originates, sells, and invests primarily in non-conforming single family residential mortgage loans, for approximately $187 million including closing costs. The transaction supports C-BASS s strategy of aligning with companies that have significant investments in mortgage securities, where C-BASS s wholly-owned subsidiary, Litton Loan Servicing, as servicer, can enhance the underlying value of these securities. In addition, the transaction provides C-BASS with a platform for loan originations.

As discussed above, on July 19, 2007, we and MGIC, each entered into a $50 million unsecured revolving credit facility agreement with C-BASS that is payable on demand and is scheduled to expire December 31, 2007. Amounts drawn on these facilities bear interest at a rate of one-month LIBOR at the date the amount is drawn plus 2.875%. In addition, a 0.375% facility fee is payable to us and MGIC. C-BASS drew down the entire $50 million on each facility ($100 million in total) on July 20th and 23rd. In accordance with the terms of the loan, on July 30, 2007, we demanded full and immediate payment of all amounts owed to us under the loan. These amounts currently remain outstanding as we continue to cooperate with C-BASS while they search for additional liquidity as discussed above.

Pending Merger with MGIC

On February 6, 2007, we and MGIC entered into an Agreement and Plan of Merger pursuant to which we agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC, with the combined company to be re-named MGIC Radian Financial Group Inc.

Upon the completion of the merger, the merger agreement provides that each share of Radian common stock will be converted into 0.9658 shares of MGIC common stock, with cash to be paid in lieu of fractional shares of MGIC common stock. Radian stock options and other equity awards will automatically convert upon completion of the merger into stock options and equity awards with respect to MGIC common stock, subject to adjustment to reflect the exchange ratio.

To date, the following conditions to closing the merger have been satisfied:

The merger agreement between Radian and MGIC was approved by the requisite affirmative votes of Radian s stockholders on May 9, 2007 and MGIC s stockholders on May 10, 2007.

Radian and MGIC each filed a notice on March 6, 2007 with the U.S. Federal Trade Commission and the U.S. Department of Justice in satisfaction of the filing requirements under the Hart-Scott-Rodino Act. The 30-day waiting period for the proposed merger was not extended and expired on April 5, 2007.

Receipt of insurance regulatory approval from Pennsylvania, where both Radian Guaranty and Radian Insurance are domiciled, and Wisconsin, where MGIC s principal mortgage insurance subsidiary is domiciled. We are still waiting to receive approvals from the New York and Texas insurance departments.

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On August 7, 2007, MGIC publicly announced that it had advised the New York Insurance Department that it was MGIC management s preliminary assessment that MGIC is not obligated to complete the merger in light of the C-BASS impairment. MGIC also announced that it was reviewing other developments that, in its opinion, may affect its obligation to close.

We do not believe the impairments related to C-BASS affect MGIC s obligation to go forward with the merger agreement, and we are not aware of any developments that would impact MGIC s obligation to close the merger. We believe we have fully complied with all of our obligations under the merger agreement.

Recent Ratings Actions

On July 31, 2007, Fitch placed the long term debt rating of Radian Group and the insurer financial strength ratings of all of our insurance subsidiaries on Ratings Watch Negative. Additionally, all obligations insured by Radian Asset Assurance and RAAL have been placed on Ratings Watch Negative. Fitch attributed this rating action to the significant impairment of our investment in C-BASS and Fitch s assessment of our financial position as a result of the situation with C-BASS. Fitch has indicated that it expects to affirm the ratings of Radian Group and its mortgage insurance subsidiaries at their present level following completion of the merger with MGIC. However, Fitch stated that the resolution of the Ratings Watch status for our financial guaranty insurance subsidiaries, Radian Asset Assurance and RAAL, will depend in large part on the financial condition and capital strength of such entities combined with Fitch s view of the long-term commitment to the financial guaranty business by the management group of the combined company upon completion of our merger with MGIC.

On July 31, 2007, Standard & Poor s Ratings Service (S&P) affirmed the ratings of Radian Group and its insurance subsidiaries. On August 1, 2007, Moody s also affirmed the insurance financial strength ratings of our insurance subsidiaries and the senior debt rating of Radian Group, but changed the outlook for Radian Group to stable from under review for possible upgrade based on its anticipation of the completion of the merger with MGIC.

On August 7, 2007, in response to MGIC s public comments on the status of the merger as discussed above, S&P placed the insurance financial strength ratings of our mortgage insurance subsidiaries on CreditWatch with negative implications and placed the credit rating of Radian Group on CreditWatch Negative. S&P commented that its ratings for Radian Group and its mortgage insurance subsidiaries would likely be removed from CreditWatch and affirmed if the merger is completed, and that it would evaluate Radian s competitive position, management and strategy, operating performance, and capitalization if the merger is not completed, which could result in a downgrade of up to two notches. S&P maintained its financial strength ratings and stable outlooks for Radian Asset Assurance and RAAL. On August 8, 2007, Fitch announced that it would not be taking any ratings action with respect to Radian Group or its insured subsidiaries as a result of MGIC s comments regarding the merger.

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The following table illustrates the current financial strength ratings assigned to our principal insurance subsidiaries in light of recent ratings actions discussed above:

	MOODY S	MOODY S OUTLOOK	S&P	S&P OUTLOOK	FITCH	FITCH OUTLOOK
Radian Guaranty	Aa3	Stable	AA	(1)	AA	(2)
Radian Insurance	Aa3	Stable	AA	(1)	AA	(2)
Amerin Guaranty	Aa3	Stable	AA	(1)	AA	(2)
Radian Europe Limited			AA	(1)	AA	(2)
Radian Australia Limited						
Radian Asset Assurance	Aa3	Stable	AA	Stable	AA	(2)
Radian Asset Assurance Limited	Aa3	Stable	AA	Stable	AA	(2)

(1) Each S&P rating for our mortgage insurance subsidiaries is currently on CreditWatch with negative implications.

(2) Each Fitch rating is currently on Ratings Watch Negative.

In addition, Radian Group currently has been assigned a senior debt rating of A+ (Ratings Watch Negative) by Fitch, A (CreditWatch Negative) by S&P and A2 by Moody s.

Overview of Business Results

As a holder of credit risk, our results are subject to macroeconomic conditions and specific events that impact the production environment and credit performance of our underlying insured assets. Our mortgage insurance business experienced poor financial results during the second quarter of 2007 as declining home prices, the poor performance of the late 2005 and 2006 subprime books of business and Alternative A (Alt-A) mortgage books of business, and significant resets in adjustable rate mortgages (ARMs) due to rising interest rates led to an increase in delinquencies and higher projected future claims. In addition, we experienced a large credit reserve on our NIMs portfolio that was mainly a result of the poor performance of second-lien loans contained within select deals. Our financial guaranty business performed well during the quarter. In financial services, Sherman had a strong quarter, while C-BASS returned to profitability, before significant disruptions in the subprime mortgage market seriously jeopardized their liquidity position in late July.

Our primary mortgage insurance portfolio was impacted by the conditions in the mortgage and housing markets, particularly in California, Florida and the Midwest. An increase in delinquencies, higher loan balances on delinquent loans, and higher roll rates of delinquencies into claim status also contributed to the increases in loss reserves. In addition, a single second-lien structured transaction continued to produce high losses. See Results of Operations Mortgage Insurance Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2006 Provision for Losses . Given the current trends, we believe that paid claims in each of the third and fourth quarters of 2007 will be between $130 million and $135 million and claims paid for 2008 will be in the range of $550 million to $650 million.

Positively, the market disruptions have led to a tightening of mortgage underwriting standards and a continued increased demand for the traditional mortgage insurance product. We expect this trend to continue for the balance of 2007 and into 2008. Alternative products, such as 80-10-10 mortgages, which were a common alternative to mortgage insurance in 2005 and 2006, have declined significantly, due to higher interest rates and the lack of either a secondary market for such loans or the desire for originators to hold such loans in portfolio.

The persistency rate, which is defined as the percentage of insurance in force that remains on our books after any 12-month period was 71.1% for the twelve months ended June 30, 2007, compared to 62.8% for the twelve months ended June 30, 2006. This increase was due to a decline in refinancing activity from the high levels in 2005 and 2006, mainly due to rising mortgage interest rates. The persistency rate for structured products during the twelve months ended June 30, 2007 was 65.8% compared to 73.3% for our flow business. We anticipate a continued gradual improvement in persistency rates during the remainder of 2007.

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There is a strong demand from lenders for structured transactions and non-traditional products, although the volume we write typically fluctuates between periods and is driven by market factors such as credit spreads and competition from capital market transactions. The amount of structured business written in the first six months of 2007 includes one large transaction written as modified pool insurance, in which we are in a second-loss position. Revenues were down from the prior year due mainly to lower premium rates on much of the recently written structured business and by the run-off of the higher premium, first-loss mortgage insurance on loans written primarily between 2003 and 2005.

During the first six months of 2007, we continued to write the majority of our structured primary mortgage insurance business in a second-loss risk position. There is a lower average premium rate associated with this business, reflecting the more remote risk resulting from the existence of deductibles in front of our risk position. As a result, premium growth will not equal the growth in new insurance written from these lower premium products. Positively, the capital allocation requirements resulting from these transactions are lower, commensurate with the more remote risk, and we believe these products are less directly vulnerable to the housing decline than higher premium, first-loss products.

We remain cautious about the outlook for the overall housing market, especially in certain parts of the country including the Midwest and the East and West Coasts. In addition, as has been the case for the last several years, much of our business has not yet reached its peak claim period. The mortgage insurance mix of business has continued to include a higher percentage of Alt-A and A minus mortgages and unproven products such as interest-only loans. Premiums received for these products are generally higher than more traditional products to compensate for the additional risk and often have structuring features such as deductibles that benefit our risk position.

We protect against losses in excess of our expectations on some of the risk associated with more risk sensitive and unproven products by reinsuring it through Smart Home transactions. In 2004, we developed Smart Home as a way to effectively transfer risk from our portfolio to investors in the capital markets. Ceded premiums written for the three and six months ended June 30, 2007 and 2006 include $3.2 million and $6.4 million, respectively, and $2.9 million and $5.1 million, respectively, related to the Smart Home transactions. As of June 30, 2007, there have been no ceded losses as a result of the Smart Home transactions.

Since August 2004, we have completed four Smart Home arrangements. Details of these transactions (aggregated) as of the initial closing of each transaction and as of June 30, 2007 are as follows:

	Initial	As of June 30, 2007
Pool of mortgages (par value)	$ 14.72 billion	$ 7.97 billion
Risk in force (par value)	$ 3.90 billion	$ 2.02 billion
Notes sold to investors/risk ceded (principal amount)	$ 718.6 million	$ 621.9 million

Smart Home protects us against catastrophic loss as we continue to take on higher risk, concentrated positions and unproven products. As a result, we consider Smart Home arrangements to be important to our ability to effectively manage our risk profile. At June 30, 2007 and December 31, 2006, approximately 7% and 10%, respectively, of our primary risk in force was included in Smart Home arrangements. In these transactions, we reinsure the middle layer risk positions, while retaining a significant portion of the total risk comprising the first-loss and most remote risk positions.

In the financial guaranty segment, business production was strong during the first six months led by our ability to write credit protection on super-senior tranches of synthetic corporate CDOs. Credit performance also was very good during the first six months and we were able to reverse some non-specific loss reserves due to favorable loss development and trade credit loss reserves for which we no longer have an exposure. We wrote less structured finance business in the second quarter of 2007, as premium rates continued to fall. During the second half of 2007, we expect to continue to write structured super-senior business backed by corporate bonds,

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and we expect premiums rates to increase and the profitability of this business to improve. We expect that the loss and expense activity in our financial guaranty business for the balance of the year will be in the range that we experienced in the second half of 2006.

For the six months ended June 30, 2007, the financial services segment had mixed results. Sherman continued its consistently strong earnings. C-BASS incurred a loss of $15 million in the first quarter and pretax income of approximately $50 million in the second quarter as spreads briefly stabilized in the second quarter. Sherman s results for the balance of 2007 are expected to remain fairly consistent with the first half of the year. C-BASS s liquidity position became materially stressed in late July due to excess margin calls from their lenders, resulting in our concluding that our investment has been materially impaired in the third quarter of 2007.

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Results of Operations Consolidated

Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2006

The following table summarizes our consolidated results of operations for the quarters and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended			Six Months Ended		
	June 30		% Change	June 30		% Change
	2007	2006	2007 vs. 2006	2007	2006	2007 vs. 2006
Net income	$ 21.1	$ 148.1	(85.8)%	$ 134.6	$ 311.8	(56.8)%
Net premiums written	267.6	298.9	(10.5)	545.2	578.5	(5.8)
Net premiums earned insurance	218.0	233.5	(6.6)	432.5	460.8	(6.1)
Net premiums earned credit derivatives	36.9	25.6	44.1	71.5	52.0	37.5
Net premiums earned total	254.9	259.1	(1.6)	504.0	512.8	(1.7)
Net investment income	62.7	59.7	5.0	123.7	113.9	8.6
Net gains on securities	25.7	5.3	n/m	39.4	28.2	39.7
Change in fair value of derivative instruments	(103.1)	(25.3)	n/m	(89.3)	(7.7)	n/m
Other income	3.1	5.8	(46.6)	6.9	11.0	(37.3)
Provision for losses	174.0	84.9	n/m	281.0	163.5	71.9
Policy acquisition costs	24.2	26.8	(9.7)	52.5	54.2	(3.1)
Other operating expenses	57.6	58.1	n/m	115.3	118.4	(2.6)
Interest expense	12.4	12.5	n/m	25.4	24.3	4.5
Equity in net income of affiliates	49.5	72.0	(31.3)	72.3	130.4	(44.6)
Income tax provision	3.5	46.2	(92.4)	48.2	116.3	(58.6)

n/m = not meaningful

Net Income. Our net income for the three and six months ended June 30, 2007 was $21.1 million and $134.6 million, respectively, or $0.26 and $1.68 per share (diluted), compared to $148.1 million and $311.8 million or $1.79 and $3.75 per share (diluted) for the corresponding periods of 2006. The decrease in net income for 2007 was mainly due to a significant decrease in the change in fair value of derivative instruments, a significant increase in the provision for losses and a decrease in equity in net income of affiliates, partially offset by a decrease in other operating expenses, an increase in net investment income and a lower income tax provision coinciding with the decrease in pre-tax income.

Net Premiums Written and Earned. Consolidated net premiums written for the three and six months ended June 30, 2007 were $267.6 million and $545.2 million, respectively, compared to $298.9 million and $578.5 million for the corresponding periods of 2006. Consolidated net premiums earned were $254.9 million and $504.0 million, respectively, for the three and six months ended June 30, 2007 compared to $259.1 million and $512.8 million for the corresponding periods of 2006. The year over year decline in premiums earned was mainly due to the run-off of higher premium structured mortgage insurance business. Our mortgage insurance business experienced an increase in flow business written during the first six months of 2007, reflecting an increase in demand for our traditional mortgage insurance product in the current uncertain housing market. Our financial guaranty business experienced a $13.0 million increase in premiums earned from public finance transactions, during the first six months of 2007, which includes refundings, partially offset by a $14.0 million decrease in premiums earned from trade credit reinsurance, which is in run-off.

Net Investment Income. Net investment income was $62.7 million and $123.7 million, respectively, for the three and six months ended June 30, 2007 compared to $59.7 million and $113.9 million, respectively, in the corresponding periods of 2006. This increase was mainly due to an increase in investable assets resulting from a higher yield on bonds in our investment portfolio.

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Net Gains on Securities. Net gains on securities for the three and six months ended June 30, 2007 were $25.7 million and $39.4 million, respectively, compared to $5.3 million and $28.2 million, respectively, for the corresponding periods of 2006. Included in the six months ended 2006 was a $21.4 million pre-tax gain as a result of the sale of our remaining interest in Primus Guaranty, Ltd. (Primus). Included in the three and six months ended June 30, 2007 were $7.2 million and $3.5 million of gains related to changes in the fair value of convertible securities and equity securities and a $23.2 million net gain related to the sale of hybrid securities.

Change in Fair Value of Derivative Instruments. For the three and six months ended June 30, 2007, the change in fair value of derivative instruments was a net loss of $103.1 million and $89.3 million, respectively, compared to net losses of $25.3 million and $7.7 million, respectively, for the corresponding periods of 2006. The amount for the six months ended June 30, 2006 includes a $17.2 million charge related to a payment made in March 2006 in connection with the termination of a financial guaranty contract. The decrease in the change in fair value of derivative instruments in 2007 was mainly a result of a $61.0 million credit reserve related to our NIMs portfolio, significant widening of corporate credit spreads and the implementation of Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments , an amendment of SFAS No. 133 and 140 (SFAS No. 155). SFAS No 155 allows us to discontinue the bifurcation of the equity derivative component of our convertible securities and recognize the total change in fair value of our convertible securities as net gains on securities. See Results of Operations Mortgage Insurance Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2007 Change in Fair Value of Derivative Instruments for more information regarding the loss on our NIMs book of business.

Other Income. Other income decreased to $3.1 million and $6.9 million, respectively, for the three and six months ended June 30, 2007 from $5.8 million and $11.0 million, respectively, for the corresponding periods of 2006, mainly due to a decrease in mortgage insurance contract underwriting income as a result of lower demand for this business and lower fee income from equity affiliates.

Provision for Losses. The provision for losses for the three and six months ended June 30, 2007 was $174.0 million and $281.0 million, respectively, compared to $84.9 million and $163.5 million, respectively, for the corresponding periods of 2006. Our mortgage insurance segment experienced an increase in delinquencies compared to the same period a year ago, as well as an increase in delinquent loan sizes, a continuation of the aging on existing delinquencies and an increase in the projected rates at which delinquencies move to claim, which require a higher reserve. See Results of Operations Mortgage Insurance Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2006 Provision for Losses below. The provision for losses in our financial guaranty segment decreased in 2007 compared to the same period a year ago, mainly attributable to favorable loss development and a reversal of reserves on the trade credit reinsurance business.

Policy Acquisition Costs. Policy acquisition costs were $24.2 million and $52.5 million, respectively, for the three and six months ended June 30, 2007 compared to $26.8 million and $54.2 million reported for the corresponding periods of 2006. In the second quarter of 2007, we updated our persistency assumptions, which resulted in a reduction of previously recorded amortization expense of $3.7 million and will also result in a slow down of future amortization due to the higher persistency. In our mortgage insurance segment, estimates of expected gross profit, which are driven in part by persistency and loss development for each underwriting year and product type, are used as a basis for amortization and are evaluated regularly. The total amortization recorded to date is adjusted by a charge or credit to our consolidated statements of income, if actual experience or other evidence suggests that earlier estimates should be revised.

Other Operating Expenses. Other operating expenses were $57.6 million and $115.3 million, respectively, for the three and six months ended June 30, 2007 compared to $58.1 million and $118.4 million, respectively, in the corresponding periods of 2006. Included in the three and six month periods of 2007 are $9.4 million and $12.7 million, respectively, of merger related expenses. The year over year decrease in other operating expenses was mainly due to a decrease in depreciation expense on office equipment and software expense and a shift toward deferred acquisition costs as a higher percentage of total expenses.

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Interest Expense. Interest expense for the three and six months ended June 30, 2007 was $12.4 million and $25.4 million, respectively, compared to $12.5 million and $24.3 million, respectively, for the corresponding periods of 2006. These amounts included the impact from interest rate swaps that we entered into in 2004. The interest rate swaps effectively convert the interest rate on our 5.625% Senior Notes due 2013 to a variable rate based on a spread over the London Interbank Offered Rate (LIBOR).

Equity in Net Income of Affiliates. Equity in net income of affiliates was $49.5 million and $72.3 million for the three and six months ended June 30, 2007, respectively, down from $72.0 million and $130.4 million, respectively, in the corresponding periods of 2006. The decrease was driven by lower earnings at C-BASS as a result of the significant disruption in the subprime market occurring during the first half of 2007, while Sherman s earnings remained stable year over year. Included in equity in net income of affiliates for the three and six months ended June 30, 2007 is $23.2 million and $16.4 million, respectively, in earnings related to C-BASS, compared to $44.9 million and $74.9 million in earnings in the corresponding periods of 2006. Sherman contributed $26.3 million and $55.9 million, respectively, of equity in net income of affiliates in the three and six months ended June 30, 2007 compared to $27.2 million and $55.5 million, respectively, for the corresponding periods of 2006. For more information, see Results of Operations Financial Services below.

Income Tax Provision. The consolidated effective tax rate was 14.3% and 26.4% for the three and six months ended June 30, 2007, compared to 23.8% and 27.2% for the corresponding periods of 2006. The lower tax rate for the second quarter and first six months of 2007 reflects a lower level of pre-tax income and an increase in the ratio of income generated from tax-advantaged investment securities compared to income generated from operations. Partially offsetting this decrease is a $6.4 million increase in the provision for income taxes related to the implementation of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes during the first six months of 2007. See Critical Accounting Policies Recent Accounting Pronouncements below. During the quarter ended June 30, 2006, we determined that certain liabilities to taxing authorities were no longer probable due to the expiration of the statute of limitations on the related tax positions. As a result, approximately $10 million in tax liabilities were reversed through the income tax provision in the second quarter of 2006.

Results of Operations Mortgage Insurance

Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2006

The following table summarizes our mortgage insurance segment s results of operations for the quarters and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended			Six Months Ended		
	June 30		% Change	June 30		% Change
	2007	2006	2007 vs. 2006	2007	2006	2007 vs. 2006
Net income (loss)	$ (28.2)	$ 83.2	n/m	$ 16.5	$ 171.3	n/m
Net premiums written	217.0	217.1	n/m	439.3	440.8	n/m
Net premiums earned insurance	185.6	200.6	(7.5)%	365.8	393.6	(7.1)%
Net premiums earned credit derivatives	21.1	8.0	n/m	36.8	17.8	n/m
Net premiums earned total	206.7	208.7	(1.0)	402.6	411.4	(2.1)
Net investment income	36.3	36.2	n/m	71.8	67.8	5.9
Net gains on securities	19.4	3.7	n/m	30.5	17.3	76.3
Change in fair value of derivative instruments	(70.5)	(4.0)	n/m	(81.8)	5.1	n/m
Other income	2.7	3.5	(22.9)	5.6	7.1	(21.1)
Provision for losses	180.2	77.6	n/m	293.0	148.7	97.0
Policy acquisition costs	12.6	15.7	(19.7)	29.1	29.1	n/m
Other operating expenses	43.0	40.5	6.2	82.6	84.8	(2.6)
Interest expense	6.3	7.0	(10.0)	13.2	13.7	(3.6)
Income tax provision (benefit)	(19.3)	24.0	n/m	(5.7)	61.1	n/m

n/m = not meaningful

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Net Income. Our mortgage insurance segment had a net loss for the three months ended June 30, 2007 of $28.2 million, compared to $83.2 million of net income for the three months ended June 30, 2006. Our mortgage insurance segment s net income for the six months ended June 30, 2007 and 2006 was $16.5 million and $171.3 million, respectively. The 2007 decreases were mainly due to a significant decrease in change in fair value of derivative instruments and a significant increase in the provision for losses, partially offset by higher net gains on securities and a decrease in the income tax provision coinciding with the decrease in pre-tax income.

Net Premiums Written and Earned. Net premiums written were $217.0 million and $439.3 million, respectively, for the three and six months ended June 30, 2007 compared to $217.1 million and $440.8 million, respectively, for the three and six months ended June 30, 2006. Net premiums earned for the three and six months ended June 30, 2007 were $206.7 million and $402.6 million, respectively, compared to $208.7 million and $411.4 million, respectively, in the corresponding periods of 2006. Net premiums earned in 2007 reflect the continued run-off of higher premium structured business and a significant decrease in premiums from second-lien business due to a lower amount of business originated in 2006. This has been partially offset by an increase of $19.0 million in premiums earned from credit derivatives, primarily NIMs, during the first six months of 2007 compared to 2006. Premiums earned from all non-traditional products (including derivatives) were $32.5 million and $61.3 million, respectively, in the second quarter and first six months of 2007, compared to $23.7 million and $50.5 million, respectively, in the corresponding periods of 2006. We anticipate modest growth in mortgage insurance earned premiums toward the end of 2007 and into 2008 as insurance in force continues to grow.

The following table provides additional information related to premiums written and earned for the three and six month periods indicated:

	Three Months Ended June 30		**Six Months Ended**	
	June 30 2007	**2006**	**June 30 2007**	**June 30 2006**
Net premiums written (in thousands)				
Primary and Pool Insurance	$ 184,492	$ 187,686	$ 376,600	$ 381,132
Seconds	6,450	15,245	17,629	25,784
International	6,565	2,276	9,689	4,196
Net premiums written insurance	197,507	205,207	403,918	411,112
Net premiums written credit derivatives	19,533	11,843	35,411	29,704
Net premiums written	$ 217,040	$ 217,050	$ 439,329	$ 440,816
Net premiums earned (in thousands)				
Primary and Pool Insurance	$ 174,174	$ 185,020	$ 341,329	$ 360,828
Seconds	8,723	13,848	17,895	28,758
International	2,691	1,773	6,607	4,026
Net premiums earned insurance	185,588	200,641	365,831	393,612
Net premiums earned credit derivatives	21,090	8,029	36,779	17,764
Net premiums earned	$ 206,678	$ 208,670	$ 402,610	$ 411,376
Smart Home (in thousands)				
Ceded premiums written	$ 3,217	$ 2,890	$ 6,412	$ 5,085
Ceded premiums earned	$ 3,157	$ 2,838	$ 6,015	$ 5,247

Net Investment Income. Net investment income attributable to our mortgage insurance segment for the three and six months ended June 30, 2007 was $36.3 million and $71.8 million, respectively, compared to $36.2 million and $67.8 million, respectively, for the corresponding periods of 2006. Investment income during the first six months of 2007 reflects an increase in investable assets and higher interest rates.

Net Gains on Securities. Net gains on securities in our mortgage insurance business were $19.4 million and $30.5 million, respectively, for the three and six months ended June 30, 2007, compared to $3.7 million and

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$17.3 million, respectively, for the corresponding periods of 2006. Included in the three and six months ended June 30, 2007 are gains related to changes in the fair value of convertible securities and equity securities of $5.4 million and $3.7 million, respectively. Also included in the year to date period of 2007 is a net gain of approximately $15.3 million related to the sale of hybrid securities. Included in the six month period ended June 30, 2006 is an allocation of the gain from the sale of our remaining interest in Primus.

Change in Fair Value of Derivative Instruments. The change in the fair value of derivative instruments was a loss of $70.5 million and $81.8 million, respectively, for the three and six months ended June 30, 2007, compared to a loss of $4.0 million and a gain of $5.1 million for the corresponding periods of 2006. The decrease in 2007 compared to the corresponding periods of 2006 is mainly due to a $61.0 million net loss on our NIMs book, which represents a credit reserve on this book. This loss is derived primarily from a few transactions, which contain a higher concentration of second-lien mortgage collateral that have been more susceptible to the disruption in the subprime mortgage market occurring during the first half of 2007. We expect to pay losses during the next several years approximately equal to the $61.0 million negative mark resulting from these transactions, although actual losses could differ materially from estimated losses, depending on market conditions and the performance of the insured bonds. In accordance with GAAP, we do not establish loss reserves on our derivative financial guaranty contracts. Instead, gains and losses on derivative financial guaranty contracts are derived from internally generated models that take into account both credit and market spreads and are recorded through our condensed consolidated statements of income. See Critical Accounting Policies Derivative Instruments and Hedging Activity for a discussion of how we account for derivatives under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133).

Other Income. Other income for the three and six months ended June 30, 2007 was $2.7 million and $5.6 million, respectively, compared to $3.5 million and $7.1 million for the corresponding periods of 2006. Other income mostly includes income related to contract underwriting services, which was lower in the second quarter and first six months of 2007 as a result of lower contract underwriting volume.

Provision for Losses. The provision for losses for the three and six month periods ended June 30, 2007 was $180.2 million and $293.0 million, respectively, compared to $77.6 million and $148.7 million, respectively, for the corresponding periods of 2006. The increase in 2007 was mainly attributable to increases in claims paid and mortgage insurance reserves. Following a seasonal decrease in delinquencies during the first quarter of 2007, rising interest rates and home price declines resulted in a significant increase in delinquencies in the second quarter of 2007, particularly among Alt-A and 2005 and 2006 subprime loans, with primary areas of deteriorating performance in California, Florida and several Midwestern states. In addition, the ARM portion of our portfolio also contributed to the rise in delinquencies in the second quarter of 2007 as resets forced many homeowners into default without the ability to refinance. In addition to new delinquencies, mortgage insurance reserves also were impacted in the second quarter of 2007 by a continuing aging of existing delinquencies, an increase in claim rates and an increase in the average size of delinquent loans.

Claims paid during 2007 included claims from a structured transaction covering the first 10% of aggregate losses on a pool of subprime second-lien mortgages. As structured, we split losses with our counterparty under this policy on a 50-50 basis. We began experiencing a significant increase in filed claims on this policy during the third quarter of 2006 and have paid approximately $36.0 million in net claims on this policy as of June 30, 2007. At June 30, 2007, our net exposure remaining under this policy was approximately $42.0 million or half of the $84.0 million in gross remaining exposure. Approximately $29.5 million of this $42.0 million was contained within our net loss reserve at June 30, 2007. In addition to this policy, we also have a supplemental policy on the same pool of mortgages that covers certain losses in excess of the 10% aggregate stop-loss.

Based on currently available information, we continue to expect that losses will likely exceed the 10% aggregate threshold of the initial policy, and when combined with the supplemental policy, total losses will likely exceed premiums over the life of the two policies. It is still too early to determine with any degree of certainty the total amount of losses that may result from the supplemental policy. Our current estimate of losses for both

policies is reflected in our expectations for total mortgage insurance paid claims for 2007 and 2008, as discussed in the Overview of Business Results. We are working constructively with our counterparty to attempt to satisfy all claims issues in a fair way that mitigates overall losses as much as possible.

Policy Acquisition Costs. Policy acquisition costs represent the amortization of expenses that relate directly to the acquisition of new business. The amortization of these expenses is related to the recognition of gross profits over the life of the policies and is influenced by such factors as persistency and estimated loss rates. Policy acquisition costs were $12.6 million and $29.1 million, respectively, for the second quarter and first six months of 2007, compared to $15.7 million and $29.1 million, respectively, in the corresponding periods of 2006. The 2007 amounts include a reduction of previously recorded amortization expense of $3.7 million as a result of increased persistency, which will also result in lower amortization expense in the future.

Other Operating Expenses. Other operating expenses were $43.0 million and $82.6 million, respectively, for the second quarter and first six months of 2007, compared to $40.5 million and $84.8 million, respectively, for the corresponding periods of 2006. Included in operating expenses for the second quarter and first six months of 2007 were $9.0 million and $12.3 million, respectively, of merger related expenses. The decrease in other operating expenses during 2007 reflects certain expense reductions made in our mortgage insurance business in 2006, such as employee costs, lower software expense due the write-down of capitalized software that was deemed impaired in 2006 and lower office equipment expense and outside services. Contract underwriting expenses for the second quarter and first six months of 2007, including the impact of reserves for remedies in other operating expenses, were $6.0 million and $11.1 million, respectively, compared to $7.4 million and $14.4 million, respectively, for the corresponding periods of 2006. During the first six months of 2007, loans underwritten via contract underwriting for flow business accounted for 12.5% of applications, 11.8% of commitments for insurance and 10.2% of insurance certificates issued, compared to 12.3%, 12.1% and 11.6%, respectively, for the first six months of 2006.

Interest Expense. Interest expense attributable to our mortgage insurance segment for the second quarter and first six months of 2007 was $6.3 million and $13.2 million, respectively, compared to $7.0 million and $13.7 million, respectively, for the corresponding periods of 2006. Both periods include interest on our long-term debt that was allocated to the mortgage insurance segment as well as the impact of interest-rate swaps.

Income Tax Provision (Benefit). The effective tax rate for the second quarter and first six months of 2007 was (40.7)% and (53.4)%, respectively, compared to of 22.4% and 26.3% in the corresponding periods of 2006. The lower tax rate reflects a lower level of pre-tax income and an overall increase in the ratio of income generated from tax-advantaged investment securities compared to income generated from operations. The tax rate for the second quarter and first six months of 2006 reflects an allocation of the reversal of prior years tax exposures that expired June 30, 2006, as discussed above.

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The following tables provide selected information as of and for the periods indicated for our mortgage insurance segment. Certain statistical information included in the following tables is recorded based on information received from lenders and other third parties.

	Three Months Ended					
	June 30 2007		March 31 2007		June 30 2006	
Primary new insurance written (NIW) ($ in millions)						
Flow	$ 10,639	63.1%	$ 7,049	53.3%	$ 6,662	57.7%
Structured	6,211	36.9	6,178	46.7	4,886	42.3
Total Primary	$ 16,850	100.0%	$ 13,227	100.0%	$ 11,548	100.0%
Flow						
Prime	$ 7,673	72.1%	$ 5,050	71.6%	$ 4,879	73.2%
Alt-A	2,026	19.1	1,401	19.9	1,266	19.0
A minus and below	940	8.8	598	8.5	517	7.8
Total Flow	$ 10,639	100.0%	$ 7,049	100.0%	$ 6,662	100.0%
Structured						
Prime	$ 581	9.4%	$ 93	1.5%	$ 1,287	26.3%
Alt-A	5,200	83.7	5,905	95.6	3,555	72.8
A minus and below	430	6.9	180	2.9	44	0.9
Total Structured	$ 6,211	100.0%	$ 6,178	100.0%	$ 4,886	100.0%
Total						
Prime	$ 8,254	49.0%	$ 5,143	38.9%	$ 6,166	53.4%
Alt-A	7,226	42.9	7,306	55.2	4,821	41.7
A minus and below	1,370	8.1	778	5.9	561	4.9
Total Primary	$ 16,850	100.0%	$ 13,227	100.0%	$ 11,548	100.0%

	Six Months Ended			
	June 30 2007		June 30 2006	
Primary new insurance written (NIW) ($ in millions)				
Flow	$ 17,688	58.8%	$ 11,896	48.9%
Structured	12,389	41.2	12,455	51.1
Total Primary	$ 30,077	100.0%	$ 24,351	100.0%
Flow				
Prime	$ 12,723	71.9%	$ 8,650	72.7%
Alt-A	3,427	19.4	2,371	19.9
A minus and below	1,538	8.7	875	7.4

Total Flow	$ 17,688	100.0%	$ 11,896	100.0%
Structured				
Prime	$ 674	5.5%	$ 3,551	28.5%
Alt-A	11,105	89.6	7,472	60.0
A minus and below	610	4.9	1,432	11.5
Total Structured	$ 12,389	100.0%	$ 12,455	100.0%
Total				
Prime	$ 13,397	44.6%	$ 12,201	50.1%
Alt-A	14,532	48.3	9,843	40.4
A minus and below	2,148	7.1	2,307	9.5
Total Primary	$ 30,077	100.0%	$ 24,351	100.0%

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We continue to write a significant amount of our primary structured business in a second-loss position. At June 30, 2007, approximately half of the $37.2 billion of structured primary insurance in force had a deductible in front of our loss position.

	Three Months Ended					
	June 30 2007		March 31 2007		June 30 2006	
Total Primary New Insurance Written by FICO						
(a) Score ($ in millions)						
Flow						
<=619	$ 641	6.0%	$ 486	6.9%	$ 387	5.8%
620-679	3,397	32.0	2,255	32.0	2,010	30.2
680-739	3,854	36.2	2,479	35.2	2,448	36.7
>=740	2,747	25.8	1,829	25.9	1,817	27.3
Total Flow	$ 10,639	100.0%	$ 7,049	100.0%	$ 6,662	100.0%
Structured						
<=619	$ 283	4.6%	$ 126	2.0%	$ 57	1.2%
620-679	2,090	33.6	1,376	22.3	1,604	32.8
680-739	2,761	44.5	3,068	49.7	2,214	45.3
>=740	1,077	17.3	1,608	26.0	1,011	20.7
Total Structured	$ 6,211	100.0%	$ 6,178	100.0%	$ 4,886	100.0%
Total						
<=619	$ 924	5.5%	$ 612	4.6%	$ 444	3.8%
620-679	5,487	32.6	3,631	27.5	3,614	31.3
680-739	6,615	39.2	5,547	41.9	4,662	40.4
>=740	3,824	22.7	3,437	26.0	2,828	24.5
Total Primary	$ 16,850	100.0%	$ 13,227	100.0%	$ 11,548	100.0%

(a) FICO credit scoring model.

	Three Months Ended					
	June 30 2007		March 31 2007		June 30 2006	
Percentage of primary new insurance written						
Refinances	41%		37%		35%	
95.01% LTV (b) and above	21%		16%		13%	
ARMS						
Less than 5 years	7%		42%		12%	
5 years and longer	10%		5%		17%	
Primary risk written ($ in millions)						
Flow	$ 2,699	83.4%	$ 1,746	90.0%	$ 1,695	94.1%
Structured	537	16.6	194	10.0	107	5.9
Total	$ 3,236	100.0%	$ 1,940	100.0%	$ 1,802	100.0%

(b) Loan-to-value ratios. The ratio of the original loan amount to the original value of the property.

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	Three Months Ended		
	June 30 2007	March 31 2007	June 30 2006
Pool risk written (in millions)	$ 96	$ 89	$ 208
Other risk written (in millions)			
Seconds			
1st loss	$ 3	$ 3	$ 18
2nd loss		21	45
NIMs	109	268	17
International			
1st loss-Hong Kong primary mortgage insurance	31	19	5
Reinsurance	17	17	3
Other			
Domestic credit default swaps			12
Total other risk written	$ 160	$ 328	$ 100

	Six Months Ended			
	June 30 2007		June 30 2006	
Total Primary New Insurance Written by FICO (a) Score ($ in millions)				
Flow				
<=619	$ 1,127	6.4%	$ 665	5.6%
620-679	5,652	31.9	3,557	29.9
680-739	6,333	35.8	4,439	37.3
>=740	4,576	25.9	3,235	27.2
Total Flow	$ 17,688	100.0%	$ 11,896	100.0%
Structured				
<=619	$ 409	3.3%	$ 1,445	11.6%
620-679	3,466	28.0	3,785	30.4
680-739	5,829	47.0	4,719	37.9
>=740	2,685	21.7	2,506	20.1
Total Structured	$ 12,389	100.0%	$ 12,455	100.0%
Total				
<=619	$ 1,536	5.1%	$ 2,110	8.7%
620-679	9,118	30.3	7,342	30.1
680-739	12,162	40.4	9,158	37.6
>=740	7,261	24.2	5,741	23.6
Total Primary	$ 30,777	100.0%	$ 24,351	100.0%
Percentage of primary new insurance written				
Refinances	46%		37%	
95.01% LTV (b) and above	19%		10%	
ARMS				
Less than 5 years	23%		27%	

5 years and longer	8%		18%	
Primary risk written ($ in millions)				
Flow	$ 4,445	85.9%	$ 3,024	72.3%
Structured	731	14.1	1,157	27.7
Total	$ 5,176	100.0%	$ 4,181	100.0%

Of the pool risk written in 2007, a significant portion was written in a second-loss position. In these transactions, we will only pay claims if pool losses are greater than any applicable deductible.

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	Six Months Ended	
	June 30	June 30
	2007	2006
Pool risk written (in millions)	$ 185	$ 269
Other risk written (in millions)		
Seconds		
1st loss	$ 6	$ 42
2nd loss	21	177
NIMs	377	106
International		
1st loss-Hong Kong primary mortgage insurance	50	22
Reinsurance	34	5
Other		
Domestic credit default swaps		32
Total other risk written	$ 488	$ 384

	Three Months Ended					
	June 30		March 31		June 30	
	2007		2007		2006	
Primary insurance in force ($ in millions)						
Flow	$ 91,098	71.0%	$ 85,649	71.5%	$ 81,828	70.5%
Structured	37,172	29.0	34,063	28.5	34,168	29.5
Total Primary	$ 128,270	100.0%	$ 119,712	100.0%	$ 115,996	100.0%
Prime	$ 80,984	63.1%	$ 77,414	64.7%	$ 76,868	66.3%
Alt-A	35,671	27.8	31,023	25.9	25,998	22.4
A minus and below	11,615	9.1	11,275	9.4	13,130	11.3
Total Primary	$ 128,270	100.0%	$ 119,712	100.0%	$ 115,996	100.0%
Primary risk in force ($ in millions)						
Flow	$ 22,702	83.2%	$ 21,267	82.7%	$ 20,191	78.5%
Structured	4,580	16.8	4,446	17.3	5,528	21.5
Total Primary	$ 27,282	100.0%	$ 25,713	100.0%	$ 25,719	100.0%
Flow						
Prime	$ 17,677	77.9%	$ 16,653	78.3%	$ 15,756	78.0%
Alt-A	3,305	14.5	3,015	14.2	2,902	14.4
A minus and below	1,720	7.6	1,599	7.5	1,533	7.6
Total Flow	$ 22,702	100.0%	$ 21,267	100.0%	$ 20,191	100.0%
Structured						
Prime	$ 1,653	36.1%	$ 1,797	40.4%	$ 2,207	39.9%
Alt-A	1,756	38.3	1,442	32.4	1,540	27.9
A minus and below	1,171	25.6	1,207	27.2	1,781	32.2
Total Structured	$ 4,580	100.0%	$ 4,446	100.0%	$ 5,528	100.0%

Total								
Prime	$	19,330	70.9%	$	18,450	71.8%	$	17,963	69.8%
Alt-A		5,061	18.5		4,457	17.3		4,442	17.3
A minus and below		2,891	10.6		2,806	10.9		3,314	12.9
Total Primary	$	27,282	100.0%	$	25,713	100.0%	$	25,719	100.0%

Direct primary insurance in force was $128.3 billion at June 30, 2007, compared to $113.9 billion at December 31, 2006 and $116.0 billion at June 30, 2006. The increase in primary insurance in force was primarily

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attributable to a single structured transaction written as modified pool insurance in the first quarter of 2007 and a significant increase in flow business generated during the second quarter of 2007. We anticipate that the mix of mortgage business and non-traditional insurance products will continue to fluctuate as a result of structural changes, competitive pricing differentials and competitive products in the mortgage lending and mortgage insurance business.

	Three Months Ended					
	June 30		March 31		June 30	
	2007		2007		2006	
Total Primary Risk in Force by FICO Score ($ in millions)						
Flow						
<=619	$ 1,458	6.4%	$ 1,381	6.5%	$ 1,285	6.4%
620-679	7,037	31.0	6,574	30.9	6,245	30.9
680-739	8,264	36.4	7,733	36.4	7,410	36.7
>=740	5,943	26.2	5,579	26.2	5,251	26.0
Total Flow	$ 22,702	100.0%	$ 21,267	100.0%	$ 20,191	100.0%
Structured						
<=619	$ 1,121	24.5%	$ 1,205	27.1%	$ 1,782	32.2%
620-679	1,571	34.3	1,539	34.6	1,993	36.1
680-739	1,262	27.5	1,130	25.4	1,209	21.9
>=740	626	13.7	572	12.9	544	9.8
Total Structured	$ 4,580	100.0%	$ 4,446	100.0%	$ 5,528	100.0%
Total						
<=619	$ 2,579	9.4%	$ 2,586	10.0%	$ 3,067	11.9%
620-679	8,608	31.6	8,113	31.6	8,238	32.1
680-739	9,526	34.9	8,863	34.5	8,619	33.5
>=740	6,569	24.1	6,151	23.9	5,795	22.5
Total Primary	$ 27,282	100.0%	$ 25,713	100.0%	$ 25,719	100.0%
Percentage of primary risk in force						
Refinances	33%		33%		35%	
95.01% LTV and above	20%		19%		15%	
ARMs						
Less than 5 years	16%		18%		23%	
5 years and longer	9%		9%		9%	
Total primary risk in force by LTV ($ in millions)						
95.01% and above	$ 5,549	20.3%	$ 4,795	18.6%	$ 3,901	15.2%
90.01% to 95.00%	8,227	30.2	7,965	31.0	8,293	32.2
85.01% to 90.00%	9,497	34.8	9,157	35.6	9,291	36.1
85.00% and below	4,009	14.7	3,796	14.8	4,234	16.5
Total Primary	$ 27,282	100.0%	$ 25,713	100.0%	$ 25,719	100.0%
Total primary risk in force by policy year ($ in millions)						
2003 and prior	$ 6,196	22.7%	$ 6,653	25.9%	$ 8,484	33.0%
2004	3,833	14.0	4,198	16.3	5,761	22.4
2005	5,704	20.9	6,137	23.9	7,496	29.1
2006	6,482	23.8	6,815	26.5	3,978	15.5

2007	5,067	18.6	1,910	7.4		
Total Primary	$ 27,282	100.0%	$ 25,713	100.0%	$ 25,719	100.0%

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	Three Months Ended					
	June 30		March 31		June 30	
	2007		2007		2006	
Pool risk in force ($ in millions)						
Prime	$ 2,206	70.2%	$ 2,207	72.0%	$ 2,210	75.0%
Alt-A	297	9.5	301	9.8	266	9.0
A minus and below	638	20.3	558	18.2	470	16.0
Total pool risk in force	$ 3,141	100.0%	$ 3,066	100.0%	$ 2,946	100.0%

	Three Months Ended		
	June 30	March 31	June 30
	2007	2007	2006
Other risk in force (in millions)			
Seconds			
1st loss	$ 495	$ 555	$ 653
2nd loss	590	605	776
NIMs	796	783	289
International			
1st loss-Hong Kong primary mortgage insurance	384	353	293
Reinsurance	79	61	31
Credit default swaps	7,872	7,875	7,889
Other			
Domestic credit default swaps	212	212	224
Financial guaranty wrap			159
Total other risk in force	$ 10,428	$ 10,444	$ 10,314

A NIM represents the securitization of a portion of the excess cash flow and prepayment penalties from a mortgage backed security. The majority of this excess cash flow consists of the spread between the interest rate on the mortgage-backed security and the interest generated from the underlying mortgage collateral. Historically, issuers of mortgage backed securities would have earned this excess interest over time as the collateral ages, but market efficiencies have enabled these issuers to sell a portion of their residual interests to investors in the form of NIM bonds. Typically, the issuer will retain a significant portion of the residual interests, which is subordinated to the NIM bond in a first loss position so that the issuer will suffer losses associated with any shortfalls in residual cash flows before the NIM experiences any losses.

When we provide credit enhancement on a NIM bond, our policy covers any principal and interest shortfalls on the insured bonds. For certain deals, we only insure a portion of the NIM that was issued. These transactions are typically rated BBB or BB based on the amount of subordination and other factors. The $796 million of risk in force associated with NIMs at June 30, 2007 comprises 42 deals with an average notional balance of $23 million ($66 million at origination) and a total notional balance of $975 million. At July 31, 2007, our risk in force related to NIMs had decreased by $24 million from June 30, 2007, to $772 million, reflecting the normal, rapid paydown of the insured securities. The average expiration of our existing NIMs transactions is approximately 2 years.

$377 million or approximately half of the total NIMs risk in force as of June 30, 2007 was written in the first half of 2007. Almost all of our 2007 NIMs business was with large national lenders as we continue to diversify away from doing NIMs with monoline subprime lenders. In addition, the 2007 NIM bonds and the underlying mortgage securities upon which they are based, have been structured more conservatively with more over-collateralization to meet adjustments to the ratings methodologies employed by the major ratings agencies. Despite these positive characteristics performance, NIMs are a relatively unproven product with little performance history, in particular in a down housing market, and we cannot be certain that the 2007 vintage NIM bonds will perform any better or worse than earlier vintages.

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	Three Months Ended		
	June 30	March 31	June 30
	2007	2007	2006
Default Statistics			
Primary Insurance:			
Flow			
Prime			
Number of insured loans	520,488	504,941	499,435
Number of loans in default	14,795	14,013	14,283
Percentage of total loans in default	2.84%	2.78%	2.86%
Alt-A			
Number of insured loans	68,454	65,075	63,985
Number of loans in default	5,034	4,513	4,167
Percentage of total loans in default	7.35%	6.94%	6.51%
A minus and below			
Number of insured loans	56,073	53,379	52,348
Number of loans in default	7,456	6,704	6,765
Percentage of total loans in default	13.30%	12.56%	12.92%
Total Flow			
Number of insured loans	645,015	623,395	615,768
Number of loans in default	27,285	25,230	25,215
Percentage of total loans in default	4.23%	4.05%	4.09%

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	Three Months Ended		
	June 30	March 31	June 30
	2007	2007	2006
Structured			
Prime			
Number of insured loans	57,500	59,194	70,416
Number of loans in default	3,612	3,231	2,540
Percentage of total loans in default	6.28%	5.46%	3.61%
Alt-A			
Number of insured loans	98,242	84,050	76,131
Number of loans in default	4,992	3,922	2,589
Percentage of total loans in default	5.08%	4.67%	3.40%
A minus and below			
Number of insured loans	32,612	34,429	46,500
Number of loans in default	8,278	7,971	8,193
Percentage of total loans in default	25.38%	23.15%	17.62%
Total Structured			
Number of insured loans	188,354	177,673	193,047
Number of loans in default	16,882	15,124	13,322
Percentage of total loans in default	8.96%	8.51%	6.90%
Total Primary Insurance			
Prime			
Number of insured loans	577,988	564,135	569,851
Number of loans in default	18,407	17,244	16,823
Percentage of total loans in default	3.18%	3.06%	2.95%
Alt-A			
Number of insured loans	166,696	149,125	140,116
Number of loans in default	10,026	8,435	6,756
Percentage of total loans in default	6.01%	5.66%	4.82%
A minus and below			
Number of insured loans	88,685	87,808	98,848
Number of loans in default	15,734	14,675	14,958
Percentage of loans in default	17.74%	16.71%	15.13%
Total Primary			
Number of insured loans	833,369	801,068	808,815
Number of loans in default	44,167(1)	40,354(1)	38,537(1)
Percentage of loans in default	5.30%	5.04%	4.76%
Pool insurance			
Number of loans in default	21,409(2)	17,989(2)	15,338(2)

(1) Includes approximately 2,318, 1,541 and 551 defaults at June 30, 2007, March 31, 2007 and June 30, 2006, respectively, where reserves had not been established because no claim payment was anticipated.

(2) Includes approximately 16,101, 13,036 and 9,867 defaults at June 30, 2007, March 31, 2007 and June 30, 2006, respectively, where reserves had not been established because no claim payment was anticipated.

The default and claim cycle in the mortgage insurance business begins with our receipt of a default notice from the insured. A default is defined under our master policy as a borrower s failure to make a payment equal to or greater than one monthly regular payment under a loan. Generally, our master policy of insurance requires the insured to notify us of a default within 15 days of (1) the loan s having been in default for three months or

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(2) the occurrence of an early default in which the borrower fails to make any one of the initial twelve monthly payments under a loan so that an amount equal to two monthly payments has not been paid. For reporting and internal tracking purposes, we consider a loan to be in default when the loan has been in default for 60 days.

The total number of loans in default increased from 67,173 at December 31, 2006 to 71,541 at June 30, 2007. The average loss reserve per default increased from $9,725 at December 31, 2006 to $10,429 at June 30, 2007. Primary and pool defaults at June 30, 2007 included approximately 2,318 and 16,101 defaults, respectively, on loans where reserves had not been established because no claim payment was anticipated. At December 31, 2006, primary and pool defaults included approximately 1,161 and 13,309 defaults, respectively, on loans where no reserve has been established. Excluding those defaults without a related reserve, the average loss reserve per default was $14,045 and $12,395 at June 30, 2007 and December 31, 2006, respectively. The loss reserve as a percentage of risk in force was 1.8% at June 30, 2007 compared to 1.5% at December 31, 2006.

	Three Months Ended			**Six Months Ended**	
	June 30	**March 31**	**June 30**	**June 30**	**June 30**
(In thousands)	**2007**	**2007**	**2006**	**2007**	**2006**
Direct claims paid:					
Prime	$ 34,226	$ 33,125	$ 29,722	$ 67,351	$ 59,831
Alt-A	21,755	19,998	15,231	41,753	34,021
A minus and below	35,027	29,080	22,390	64,107	45,781
Seconds	21,071	13,621	10,264	34,692	18,167
Total	$ 112,079	$ 95,824	$ 77,607	$ 207,903	$ 157,800
Average claim paid:					
Prime	$ 28.4	$ 28.1	$ 25.3	$ 28.2	$ 26.1
Alt-A	40.9	39.7	33.7	40.3	37.1
A minus and below	31.1	29.6	26.7	30.4	27.9
Seconds	27.8	28.8	28.4	28.2	25.7
Total	$ 30.9	$ 30.6	$ 27.4	$ 30.8	$ 28.4

Claim activity is not spread evenly throughout the coverage period of a book of business. Historically, relatively few claims on prime business are received during the first two years following issuance of a policy and on other than prime business, relatively few claims are received during the first year. Claim activity on prime loans typically reaches its highest level in the third through fifth years after the year of policy origination, and on loans other than prime this level occurs in the second through fourth years. Approximately 65.3% of the primary risk in force and approximately 35.7% of the pool risk in force at June 30, 2007 had not yet reached its highest claim frequency years. Because it is difficult to predict both the timing of originating new business and the cancellation rate of existing business, it is also difficult to predict, at any given time, the percentage of risk in force that will reach its highest claim frequency years on any future date. Direct claims paid for the three and six months ended June 30, 2007 were $112.1 million and $207.9 million, respectively, up from $77.6 million and $157.8 million, respectively, for the three and six months ended June 30, 2006. The average claim paid has fluctuated over the past few years mostly due to differing coverage amounts and loan balances. In addition, changes in real estate values may also affect the amount of the average claim paid.

($ in thousands)	Three Months Ended June 30 2007	March 31 2007	June 30 2006	Six Months Ended June 30 2007	June 30 2006
States with highest claims paid:					
Michigan	$ 11,623	$ 10,262	$ 7,837	$ 21,885	$ 14,870
Ohio	11,142	8,645	7,145	19,787	14,928
Texas	8,386	8,789	7,648	17,175	15,772
Georgia	6,136	7,755	7,626	13,891	14,759
Colorado	4,587	4,977	4,375	9,564	9,822
Percentage of total claims paid:					
Michigan	10.4%	10.7%	10.1%	10.5%	9.4%
Ohio	9.9	9.2	9.2	9.5	9.5
Texas	7.5	9.0	9.9	8.3	10.0
Georgia	5.5	8.1	9.8	6.7	9.4
Colorado	4.1	5.2	5.6	4.6	6.2

A higher level of claims exist in the auto states of Ohio, Michigan and Indiana, as problems with the domestic auto industry and related industries have depressed economic growth, employment and house prices in these states.

A higher level of claims in Texas resulted, in part, from unemployment levels that were higher than the national average and lower home price appreciation. We believe that claims in the Midwest and Southeast have been rising (and will continue to rise) due to the weak industrial sector of the economy. We also believe that increased claims in Michigan and North Carolina are a result of declining economic conditions in those areas and that in Colorado, increased claims are a result of a significant decline in property values in that area.

A higher incidence of claims in Georgia is directly related to what our risk management department believes to be questionable property values. Our risk management department implemented several property valuation checks and balances to mitigate the risk of this issue recurring, and now applies these same techniques to all mortgage insurance transactions. We expect this higher incidence of claims in Georgia to continue until loans originated in Georgia before the implementation of these preventive measures become sufficiently seasoned.

Since August 29, 2005, the date that Hurricane Katrina first struck and caused extensive property damage to the U.S. Gulf Coast, we have paid approximately $25.0 million in claims on mortgage insurance written in areas damaged by Hurricanes Katrina and Rita (as designated by Freddie Mac, the designated areas) as of June 30, 2007, including approximately $21.3 million for claims received after August 29, 2005.

Defaults in mortgage insurance in designated areas in the months following the hurricanes have been stable or decreasing since then approximately 3,382 defaults as of June 30, 2007, which is up slightly from 3,240 defaults as of March 31, 2007 and down from 3,613 defaults as of December 31, 2006. We remain uncertain as to how many claims we ultimately may have to pay on these defaults. Limitations exist in our master policy of insurance that could prevent us from paying all or part of a claim. For example, we are permitted to adjust a claim where the property underlying a mortgage in default is subject to unrestored physical damage. We have taken a view that these loans will not perform better or worse than any other delinquencies. As of June 30, 2007 we had established a related mortgage insurance loss reserve of $30.4 million related to the 3,382 Hurricane Katrina- and Rita-related defaults, including a reserve of $7.2 million for 736 defaults associated with heavily-damaged areas.

A higher proportion of new delinquencies in 2007 are from loans in California and Florida, which would indicate that claims paid in those states, should increase, perhaps significantly, over the balance of 2007 and into 2008.

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	Three Months Ended		
	June 30 2007	March 31 2007	June 30 2006
Primary risk in force: (in millions)			
Florida	$ 2,462	$ 2,320	$ 2,402
California	2,284	2,044	2,242
Texas	1,737	1,659	1,604
Ohio	1,346	1,268	1,144
Georgia	1,299	1,241	1,224
New York	1,287	1,260	1,382
Illinois	1,215	1,134	1,143
Michigan	1,035	990	941
Pennsylvania	935	904	882
New Jersey	930	869	873
Total primary risk in force:	$ 27,282	$ 25,713	$ 25,719
Percentage of total primary risk in force:			
Florida	9.0%	9.0%	9.3%
California	8.4	7.9	8.7
Texas	6.4	6.5	6.2
Ohio	4.9	4.9	4.4
Georgia	4.8	4.8	4.8
New York	4.7	4.9	5.4
Illinois	4.4	4.4	4.4
Michigan	3.8	3.9	3.7
Pennsylvania	3.4	3.5	3.4
New Jersey	3.4	3.4	3.4

In the mortgage insurance segment, the highest state concentration of primary risk in force at June 30, 2007 was Florida at 9.0% compared to 9.3% at June 30, 2006. The percentage of direct primary new insurance written in California for the six months ended 2007 was 21.0%, which increased from 13.7% for the six months ended 2006 primarily due to a large structured transaction originated in the first quarter of 2007 as modified pool where we are in a second-loss position.

The largest single customer of our mortgage insurance segment (including branches and affiliates of such customer), measured by primary new insurance written, accounted for 26.3% of primary new insurance written for the six months ended June 30, 2007, compared to 8.5% for the six months ended June 30, 2006, due to the large structured transaction written as modified pool in a second-loss position as mentioned above.

	Three Months Ended			Six Months Ended	
			June 30		
($ thousands, unless specified otherwise)	June 30 2007	March 31 2007	2006	June 30 2007	June 30 2006
Provision for losses	$ 180,152	$ 112,854	$ 77,577	$ 293,006	$ 148,674
Reserve for losses	$ 746,095	$ 676,691	$ 592,526		
Reserves for losses by category:					
Primary Insurance					
Prime	$ 212,191	$ 200,262	$ 177,692		
Alt-A	182,537	146,329	134,940		
A minus and below	246,062	228,066	207,077		
Pool insurance	37,531	34,599	33,149		
Seconds	37,251	38,347	30,862		
Other	1,004	900	8,806		
Reserve for losses, net	716,576	648,503	592,526		
Reinsurance recoverable (1)	29,519	28,188			

Total	$ 746,095	$ 676,691	$ 592,526

(1) Primarily related to a first-loss, second-lien captive originated as a quota-share transaction.

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The following table reconciles our mortgage insurance segment s beginning and ending reserves for losses and LAE for the six months ended June 30, 2007 (in thousands):

Mortgage Insurance	
Balance at January 1, 2007	$ 653,236
Less Reinsurance recoverables	21,763
Balance at January 1, 2007, net	631,473
Add total losses and LAE incurred in respect of default notices received	293,006
Deduct total losses and LAE paid in respect of default notices received	207,903
Balance at June 30, 2007, net	716,576
Add Reinsurance recoverables	29,519
Balance at June 30, 2007	$ 746,095

	June 30 2007	**March 31 2007**	**June 30 2006**	**June 30 2007**	**June 30 2006**
Captives					
Premiums ceded to captives (in millions)	$ 30.0	$ 28.1	$ 24.3	$ 58.1	$ 47.2
% of total premiums	14.5%	14.2%	11.4%	14.3%	11.4%
NIW subject to captives (in millions)	$ 6,146	$ 4,994	$ 3,764	$ 11,140	$ 6,540
% of primary NIW	36.5%	37.8%	32.6%	37.0%	26.9%
IIF (c) subject to captives	34.6%	34.3%	32.1%		
RIF (d) subject to captives	40.5%	39.7%	36.5%		
Persistency (twelve months ended)	71.1%	69.5%	62.8%		

(c) Insurance in force.

(d) Risk in force.

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	Three Months Ended				Six Months Ended			
	June 30 2007		June 30 2006		June 30 2007		June 30 2006	
Alt-A Information								
Primary new insurance written by FICO score ($ in millions)								
<=619	$ 84	1.2%	$ 17	0.4%	$ 92	0.6%	$ 23	0.2%
620-659	1,090	15.1	550	11.4	1,679	11.6	1,259	12.8
660-679	1,221	16.9	754	15.6	2,386	16.4	1,388	14.1
680-739	3,383	46.8	2,369	49.1	7,023	48.3	4,693	47.7
>=740	1,448	20.0	1,131	23.5	3,352	23.1	2,480	25.2
Total	$ 7,226	100.0%	$ 4,821	100.0%	$ 14,532	100.0%	$ 9,843	100.0%
Primary risk in force by FICO score ($ in millions)								
<=619	$ 38	0.7%	$ 32	0.7%				
620-659	767	15.2	865	19.5				
660-679	811	16.0	730	16.4				
680-739	2,313	45.7	1,933	43.5				
>=740	1,132	22.4	882	19.9				
Total	$ 5,061	100.0%	$ 4,442	100.0%				
Primary risk in force by LTV ($ in millions)								
95.01% and above	$ 239	4.7%	$ 142	3.2%				
90.01% to 95.00%	1,299	25.7	1,309	29.5				
85.01% to 90.00%	2,044	40.4	1,882	42.3				
85.00% and below	1,479	29.2	1,109	25.0				
Total	$ 5,061	100.0%	$ 4,442	100.0%				
Primary risk in force by policy year ($ in millions)								
2003 and prior	$ 721	14.2%	$ 1,064	24.0%				
2004	551	10.9	1,008	22.7				
2005	966	19.1	1,391	31.3				
2006	1,389	27.5	979	22.0				
2007	1,434	28.3						
Total	$ 5,061	100.0%	$ 4,442	100.0%				

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Results of Operations Financial Guaranty

Quarter and Six Months Ended June 30, 2007 Compared to Quarter and Six Months Ended June 30, 2006

The following table summarizes the results of operations for our financial guaranty segment for the quarters and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended			Six Months Ended		
	June 30		% Change	June 30		% Change
	2007	2006	2007 vs. 2006	2007	2006	2007 vs. 2006
Net income	$ 22.0	$ 19.0	15.8%	$ 79.9	$ 55.9	42.9%
Net premiums written	50.5	81.8	(38.3)	105.9	137.7	(23.1)
Net premiums earned insurance	32.4	32.9	(1.5)	66.7	67.1	n/m
Net premiums earned credit derivatives	15.8	17.5	(9.7)	34.7	34.3	1.2
Net premiums earned total	48.2	50.4	(4.4)	101.4	101.4	
Net investment income	26.3	23.5	11.9	51.8	46.0	12.6
Net gains on securities	5.6	1.7	n/m	8.4	8.9	(5.6)
Change in fair value of derivative instruments	(32.6)	(21.3)	53.1	(7.5)	(12.8)	41.4
Other income	0.1	0.1		0.3	0.3	
Provision for losses	(6.2)	7.3	n/m	(12.0)	14.8	n/m
Policy acquisition costs	11.6	11.1	4.5	23.4	25.1	(6.8)
Other operating expenses	12.9	15.3	(15.7)	27.1	30.1	(10.0)
Interest expense	4.5	4.3	4.7	9.1	8.4	8.3
Income tax provision (benefit)	2.8	(2.6)	n/m	26.8	9.6	n/m

n/m not meaningful

Net Income. Our financial guaranty segment s net income for the second quarter and first six months of 2007 was $22.0 million and $79.9 million, respectively, compared to $19.0 million and $55.9 million, respectively, for the corresponding periods of 2006. The increase for the six months ended June 30, 2007 was mainly due to higher net investment income, an increase in the change in fair value of derivative instruments and a decrease in the provision for losses, partially offset by an increase in the income tax provision due to a higher level of pre-tax income.

Net Premiums Written and Earned. Our financial guaranty segment s net premiums written for the second quarter and first six months of 2007 were $50.5 million and $105.9 million, respectively, compared to $81.8 million and $137.7 million, respectively, for the corresponding periods of 2006. Net premiums earned for the second quarter and first six months of 2007 were $48.2 million and $101.4 million, respectively, compared to $50.4 million and $101.4 million, respectively, for the corresponding periods of 2006. Our financial guaranty segment experienced a year over year decrease in premiums written on all lines of business, except for structured reinsurance. This decrease is primarily due to lower production in a tight spread environment in public finance and the selective termination of deals in our structured direct business. Our financial guaranty business experienced an increase in premiums earned in the second quarter and first six months of 2007 related to public finance products, which was offset entirely by the decrease in premiums earned from trade credit reinsurance. Premiums earned in 2007 were impacted by an additional $8.5 million in refundings from our public finance products in the first six months of 2007 compared to 2006. Included in net premiums earned for the second quarter and first six months of 2007 were refundings of $5.2 million and $11.8 million, respectively, compared to $0.9 million and $3.3 million, respectively, for the same periods of 2006. Included in net premiums written and earned for the second quarter and first six months of 2007 were $5.6 million and $15.8 million, and $18.9 million and $34.7 million, respectively of credit enhancement fees on derivative financial guaranty contracts, compared to $15.0 million and $17.5 million, and $29.4 million and $34.3 million, respectively, in the corresponding periods of 2006.

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The following table shows the breakdown of premiums written and earned by our financial guaranty segment s various products for each period:

	Quarter Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
	(In thousands)			
Net premiums written:				
Public finance direct	$ 18,130	$ 24,808	$ 30,910	$ 38,246
Public finance reinsurance	17,495	28,712	35,649	46,695
Structured direct	2,789	6,441	8,036	10,432
Structured reinsurance	5,693	5,404	11,605	8,409
Trade credit reinsurance	805	1,473	731	4,451
Net premiums written insurance	44,912	66,838	86,931	108,233
Net premiums written credit derivatives	5,604	14,987	18,930	29,431
Total net premiums written	$ 50,516	$ 81,825	$ 105,861	$ 137,664
Net premiums earned:				
Public finance direct	$ 9,961	$ 7,401	$ 21,546	$ 15,154
Public finance reinsurance	11,692	7,865	22,792	16,158
Structured direct	4,389	5,374	9,080	10,286
Structured reinsurance	5,742	5,594	11,936	10,188
Trade credit reinsurance	638	6,652	1,332	15,363
Net premiums earned insurance	32,422	32,886	66,686	67,149
Net premiums earned credit derivatives	15,784	17,530	34,723	34,258
Total net premiums earned	$ 48,206	$ 50,416	$ 101,409	$ 101,407

Net Investment Income. Net investment income attributable to our financial guaranty segment was $26.3 million and $51.8 million, respectively, for the second quarter and first six months of 2007 compared to $23.5 million and $46.0 million for the corresponding periods of 2006. The amount reported in the second quarter and first six months of 2007 reflects an increase in investment balances and slightly higher interest rates.

Net Gains on Securities. Net gains on securities were $5.6 million and $8.4 million for the second quarter and first six months of 2007 compared to $1.7 million and $8.9 million for the corresponding periods of 2006. The amounts reported for the second quarter and first six months of 2007 include a $1.8 million gain and $0.2 million loss, respectively, related to changes in the fair value of convertible securities and equity securities. The amount reported for the first six months of 2006 includes an allocation of the gain from the sale of our remaining interest in Primus.

Change in Fair Value of Derivative Instruments. Change in the fair value of derivative instruments was a loss of $32.6 million and $7.5 million, respectively, for the second quarter and first six months of 2007 compared to losses of $21.3 million and $12.8 million for the corresponding periods of 2006. Included in the change in fair value of derivative instruments for the first six months of 2006 is a $17.2 million charge related to the termination of a derivative contract. The decrease in the change in fair value of derivative instruments for the first six months of 2007 was mainly a result of spread widening related to corporate collateralized debt obligations, partially offset by the termination of one derivative contract. During the first six months of 2007, we received $27.4 million to terminate selected deals. During the first six months of 2006, we paid $68.0 million to terminate one derivative contract and received $2.6 million of recoveries of previous default payments.

Other Income. Other income was $0.1 million and $0.3 million, respectively, for the second quarter and first six months of 2007 and 2006.

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Provision for Losses. The provision for losses was $(6.2) million and $(12.0) million, respectively, for the second quarter and first six months of 2007 compared to $7.3 million and $14.8 million for the corresponding periods of 2006. The provision for losses reported for 2007 reflects favorable loss development on trade credit reinsurance and an adjustment to our unallocated non-specific reserves. Our financial guaranty segment paid $3.0 million and $6.1 million, respectively, in claims during the second quarter and first six months of 2007 and $4.4 million and $8.7 million, respectively, in claims during the corresponding periods of 2006 related to a single manufactured housing transaction with Conseco Finance Corp. that was fully reserved for in 2003. We expect that losses related to this transaction will be paid out over the next few years.

We closely monitor our financial guaranty obligations and we use an internal classification process to identify and track troubled credits. We classify credits as intensified surveillance credits when we determine that continued performance is questionable and, in the absence of a positive change, may result in a claim. At June 30, 2007 and 2006, the financial guaranty segment had the following exposure on credits classified as intensified surveillance credits:

	June 30 2007		June 30 2006	
($ in millions)	**# of credits**	**Par Outstanding**	**# of credits**	**Par Outstanding**
Less than $25	21	$ 169	17	$ 96
$25-$100	3	130	5	286
Total	24	$ 299	22	$ 382

We establish loss reserves on our non-derivative financial guaranty contracts as discussed in Critical Accounting Policies Reserve for Losses . We have allocated non-specific reserves of $27.7 million on seven intensified surveillance credits (representing an aggregate par amount of $106.2 million) at June 30, 2007. We expect that we will suffer losses with respect to these insured obligations approximately equal to the total amount reserved. In comparison, we had allocated non-specific reserves of $20.8 million on two credits at June 30, 2006.

There is one credit at June 30, 2007 for which we have not allocated a specific reserve that, without a positive change, is likely to default in the near-term and could potentially result in a claim. Based on currently available information, we expect that any claim from this credit, to the extent one arises, would range from a minimal amount up to slightly more than 50% of the $52 million in total par outstanding. The potential amount of any claim is not estimable at this point, in part, because of the availability of a number of strategic alternatives currently under consideration and other mitigating factors that could reduce or delay any payment from us.

There were no direct derivative financial guaranty contracts with $25 million or greater in exposure identified at June 30, 2007. One of the five intensified surveillance credits with $25 million or greater in exposure identified at June 30, 2006 was a derivative financial guaranty contract. This credit expired in November 2006, without claim. In accordance with GAAP, we do not establish loss reserves on our derivative financial guaranty contracts. Instead, gains and losses on derivative financial guaranty contracts are derived from internally generated models that take into account both credit and market spreads and are recorded through our condensed consolidated statements of income.

Policy Acquisition Costs. Policy acquisition costs were $11.6 million and $23.4 million, respectively, for the second quarter and first six months of 2007, compared to $11.1 million and $25.1 million for the corresponding periods of 2006. Included in policy acquisition costs for the second quarter and first six months of 2007 were $4.0 million and $7.8 million, respectively, of origination costs related to derivative financial guaranty contracts, compared to $2.8 million and $6.1 million for the corresponding periods of 2006. The costs to originate derivative financial guaranty contracts, unlike traditional financial guaranty insurance, are expensed immediately rather than deferred. The amortization of policy acquisition costs in 2006 includes $2.4 million related to the termination of one derivative financial guaranty contract.

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Other Operating Expenses. Other operating expenses were $12.9 million and $27.1 million, respectively, for the second quarter and first six months of 2007, compared to $15.3 million and $30.1 million for the corresponding periods of 2006. The expense ratio, which includes policy acquisition costs and other operating expenses, was 50.2% and 49.5% for the three and six month periods ended June 30, 2007 compared to 52.4% and 54.4% for the corresponding periods of 2006. Operating expenses for the second quarter of 2007 decreased from the comparable period of 2006 as a result of lower employee costs. Other operating expenses for the six months ended June 30, 2007 decreased from the comparable period of 2006 due to lower office equipment and software expense.

Interest Expense. Interest expense was $4.5 million and $9.1 million, respectively, for the second quarter and first six months of 2007 compared to $4.3 million and $8.4 million for the corresponding periods of 2006. Both periods include interest on our long-term debt, including the impact of interest-rate swaps, which was allocated to the financial guaranty segment.

Income Tax Provision (Benefit). The effective tax rate was 11.2% and 25.1% for the second quarter and first six months of 2007, compared to (15.6)% and 14.7% for the corresponding periods of 2006. The higher tax rates for 2007 reflect higher pre-tax income and a decrease in the ratio of income generated from tax-advantaged investment securities compared to income generated from operations. The tax rate for the second quarter of 2006 reflects an allocation of the reversal of prior years tax exposures that expired June 30, 2006. This resulted in a tax benefit in the second quarter of 2006.

The gross par originated by our financial guaranty segment for the periods indicated was as follows (in millions):

Type	Three Months Ended June 30 2007	Three Months Ended June 30 2006	Six Months Ended June 30 2007	Six Months Ended June 30 2006
Public finance:				
General obligation and other tax supported	$ 1,143	$ 611	$ 2,818	$ 1,747
Water/sewer/electric gas and investor-owned utilities	316	207	807	838
Healthcare and long-term care	319	444	689	970
Airports/transportation	442	203	872	268
Education	204	188	313	338
Other municipal	86	5	157	6
Housing	12	45	13	50
Total public finance	2,522	1,703	5,669	4,217
Structured finance:				
Collateralized debt obligations	569	5,617	11,190	10,908
Asset-backed obligations	176	1,065	687	1,485
Other structured	39	330	148	330
Total structured finance	784	7,012	12,025	12,723
Total	$ 3,306	$ 8,715	$ 17,694	$ 16,940

The net par originated and outstanding does not differ materially from the gross par originated and outstanding at June 30, 2007 and 2006 because we have not ceded a material amount of our financial guaranty business to reinsurers. The gross par originated includes both direct and assumed reinsurance business. Information regarding gross par originated for our assumed reinsurance business generally lags by one quarter. The reinsurance gross premiums written for any given period are on a one month lag, and therefore, exclude those gross premiums written from the last month of that period and include those gross premiums written from the last month of the immediately preceding period. Therefore, the gross par originated for this business does not precisely correspond to the premiums written in the periods presented.

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The following schedule depicts the expected amortization of unearned premiums for our financial guaranty portfolio, assuming no advance refundings, as of June 30, 2007. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay financial guaranty obligations. Unearned premium amounts are net of prepaid reinsurance.

($ in millions)	Ending Net Unearned Premiums	Unearned Premium Amortization	Future Installments	Total Premium Earnings
2007	$ 646.9	$ 51.9	$ 23.8	$ 75.7
2008	584.7	62.2	70.8	133.0
2009	530.9	53.8	63.7	117.5
2010	482.9	48.0	49.5	97.5
2011	438.3	44.6	46.2	90.8
2007 2011	438.3	260.5	254.0	514.5
2012 2016	254.7	183.6	121.6	305.2
2017 2021	128.0	126.7	38.0	164.7
2022 2026	50.2	77.8	26.5	104.3
After 2027		50.2	40.7	90.9
Total	$	$ 698.8	$ 480.8	$ 1,179.6

The following table shows the breakdown of claims paid and incurred losses for our financial guaranty segment for the periods indicated:

($ in thousands)	Three Months Ended June 30 2007	Three Months Ended June 30 2006	Six Months Ended June 30 2007	Six Months Ended June 30 2006
Claims Paid:				
Trade credit reinsurance	$ 2,625	$ 4,354	$ 5,271	$ 8,354
Other financial guaranty	803	6,919	734	6,809
Conseco Finance Corp.	3,011	4,428	6,119	8,745
	$ 6,439	$ 15,701	$ 12,124	$ 23,908
Incurred Losses:				
Trade credit reinsurance	$ (8,480)	$ 3,244	$ (11,616)	$ 7,194
Other financial guaranty	2,290	4,039	(386)	8,658
Conseco Finance Corp				(1,032)(1)
Total	$ (6,190)	$ 7,283	$ (12,002)	$ 14,820

(1) Resulted from favorable loss development.

Our financial guaranty portfolio includes $960.4 million of net par outstanding to U.S. residential mortgage-backed securities (RMBS) as of June 30, 2007. This exposure is spread among 291 transactions and represents 0.9% of financial guaranty s total net par outstanding of $110.5 billion as of June 30, 2007. Of this exposure, $560.7 million, which represents 0.5% of financial guaranty s total net par outstanding as of June 30, 2007, was subprime RMBS exposure.

Our financial guaranty subprime RMBS exposure is spread among 186 transactions with the largest individual exposure being $48.9 million. 69% of our financial guaranty subprime RMBS exposure has been assumed as reinsurance, while 31% has been insured directly, with no direct subprime RMBS having been directly insured since 2004. As of June 30, 2007, 20% of our financial guaranty subprime RMBS

exposure is from the 2006 vintage and 13% is from the 2007 vintage, all of which has been assumed as reinsurance from AAA-rated financial guarantors. All of the exposures from these vintages maintain investment grade ratings (63% of which are rated either between A and AAA from one or more of S&P and Moody s). We have no financial guaranty exposure to RMBS tranches that were downgraded or placed on negative watch by Moody s or S&P during their rating actions on RMBS transactions in July 2007.

$2.5 million of our financial guaranty subprime RMBS exposure (spread over 14 different transactions) is to NIMs, all of which has been assumed as reinsurance from one AAA-rated financial guarantor.

We have limited subprime RMBS exposure through three directly-insured CDOs of asset-backed securities (ABS) with an aggregate net par outstanding of $764.8 million (or 0.7% of financial guaranty s total net par outstanding as of June 30, 2007), all of which were underwritten prior to July 2006. 87% of this net par outstanding is currently rated AAA by S&P and the remaining 13% is rated BBB by S&P. Two RMBS credits in one CDO of ABS transaction, representing $10.5 million of exposure (or 1.6%) of the $640.3 million collateral pool for such transaction, were recently placed on Negative Watch for downgrade by S&P. The rating on this transaction remains AAA. We have no reinsurance exposure to CDOs of ABS.

At June 30, 2007, we had minimal financial guaranty exposure to C-BASS and Litton Loan Servicing, a wholly-owned subsidiary of C-BASS, in our insured financial guaranty portfolio. We expect that the levels of subordination in these transactions will be sufficient to avoid losses on our insured exposure under all reasonably likely scenarios.

Results of Operations Financial Services

Net income attributable to the financial services segment for the second quarter and first six months of 2007 was $27.3 million and $38.1 million, respectively, compared to $45.9 million and $84.6 million for the comparable periods of 2006. Equity in net income of affiliates was $49.5 million and $72.3 million, respectively, for the second quarter and first six months of 2007, compared to $72.0 million and $130.4 million, respectively, for the comparable periods of 2006. Sherman accounted for $26.3 million and $55.9 million, respectively, of the total equity in net income of affiliates for the second quarter and first six months of 2007, compared to $27.2 million and $55.5 million in the comparable periods of 2006. The amounts for 2007 reflect strong collections on Sherman s portfolio as well as strong performance by its origination business.

C-BASS accounted for $23.2 million and $16.4 million, respectively, of the total equity in net income of affiliates for the second quarter and first six months of 2007, compared to $44.9 million and $74.9 million for the comparable periods of 2006. The significant disruption of the subprime mortgage market in the first half of 2007 negatively impacted C-BASS s 2007 results. Throughout 2007, C-BASS experienced significant mark-to-market adjustments on its loan portfolio and a significant write-down of its existing securities portfolio due to wider credit spreads and increased loss assumptions. In addition, C-BASS experienced credit losses due to the financial instability of many subprime mortgage originators. See Business Summary Financial Services .

Other

Singer Asset Finance Company L.L.C. (Singer), a wholly-owned subsidiary of Enhance Financial Services Group Inc. (EFSG), the parent company of Radian Asset Assurance, is currently operating on a run-off basis. Singer had been engaged in the purchase, servicing, and securitization of assets, including state lottery awards and structured settlement payments. Singer s run-off operations consist of servicing and/or disposing of Singer s previously originated assets and servicing its non-consolidated special purpose vehicles. The results of this subsidiary are not material to our financial results. At June 30, 2007, we had approximately $262 million and $241 million of non-consolidated assets and liabilities, respectively, associated with Singer special-purpose vehicles. Our net investment in these special-purpose vehicles was $20.6 million at June 30, 2007.

Off-Balance-Sheet Arrangements

We guarantee the payment of up to $25.0 million of a revolving credit facility issued to Sherman, which expires in December 2007. Our guaranty facilitated the issuance and renewal of the facility, which Sherman may use for general corporate purposes. There were no amounts outstanding under this facility at June 30, 2007.

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As part of the non-investment-grade allocation component of our investment program, we have committed to invest $55 million in alternative investments that are primarily private equity structures, including $10 million in an investment co-managed by C-BASS. At June 30, 2007, we had unfunded commitments of $27.7 million. These commitments have capital calls over a period of at least six years, and certain fixed expiration dates or other termination clauses.

Investments

We are required to group assets in our investment portfolio into one of three main categories: held to maturity, available for sale or trading securities. Fixed-maturity securities for which we have the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Investments classified as available for sale are reported at fair value, with unrealized gains and losses (net of tax) reported as a separate component of stockholders equity as accumulated other comprehensive income. Investments classified as trading securities are reported at fair value, with unrealized gains and losses (net of tax) reported as a separate component of income. During the six months ended June 30, 2006, we began classifying certain new security purchases as trading securities. Similar securities were classified as available for sale for periods prior to 2006. Effective January 1, 2007, we began classifying convertible securities as hybrid securities. Hybrid securities generally combine both debt and equity characteristics. Prior to 2007, these securities were classified as convertible securities and redeemable preferred stock and unrealized gains and losses were recorded as accumulated other comprehensive income or loss. Our transition adjustment related to the adoption of SFAS No. 155 increased retained earnings at January 1, 2007 by $9.8 million, and reduced accumulated other comprehensive income by the same amount.

For securities classified as either available for sale or held to maturity, we conduct a quarterly evaluation of declines in market value of the securities to determine whether the decline is other-than-temporary.

If the fair value of a security is below the cost basis, and the decline is judged to be other-than-temporary, the cost basis of the individual security is written down to fair value through earnings as a realized loss and the fair value becomes the new basis. During the second quarter and first six months of 2007, we recorded approximately $0.2 million and $0.8 million, respectively, of charges, related to declines in fair value of securities (mainly small cap value stocks) considered to be other-than-temporary compared to $1.9 million in both the second quarter and six months ended June 30, 2006. At June 30, 2007 and 2006, there were no other investments held in the portfolio that were determined to be other-than-temporarily impaired. Realized gains and losses are determined on a specific identification method and are included in income.

Our evaluation of market declines for other-than-temporary impairment is based on management s case-by-case evaluation of the underlying reasons for the decline in fair value. We consider a wide range of factors about the security and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management s evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations used by us in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been below cost or amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) our ability and intent to hold the security for a period of time sufficient to allow for the full recovery of its value to an amount equal to or greater than cost or amortized cost; (vii) unfavorable changes in forecasted cash flows on asset-backed securities; and (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

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The following table shows the gross unrealized losses and fair value of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	**Value**	**Losses**	**Value**	**Losses**	**Value**	**Losses**
U.S. government securities	$ 29,439	$ 555	$ 31,561	$ 1,064	$ 61,000	$ 1,619
U.S. government-sponsored enterprises	4,772	58	14,794	483	19,566	541
State and municipal obligations	1,142,459	23,200	79,171	952	1,221,630	24,152
Corporate bonds and notes	38,972	1,133	32,754	1,084	71,726	2,217
Asset-backed securities	189,699	4,769	95,228	3,222	284,927	7,991
Private placements	5,884	132	3,588	91	9,472	223
Foreign governments	47,857	1,481	61,249	2,824	109,106	4,305
Total	$ 1,459,082	$ 31,328	$ 318,345	$ 9,720	$ 1,777,427	$ 41,048

U.S. government securities

The unrealized losses of 12 months or greater duration as of June 30, 2007 on our investments in U.S. Treasury obligations were caused by interest rate movement. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2007.

U.S. government-sponsored enterprises

The unrealized losses of 12 months or greater duration as of June 30, 2007 on our investments in U.S. agency mortgage-backed securities were also caused by interest rate movement. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of our investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2007.

State and municipal obligations

The unrealized losses of 12 months or greater duration as of June 30, 2007 on our investments in tax-exempt state and municipal securities were caused by interest rate movement. We believe that credit quality did not impact security pricing due to the relative high quality of the holdings (*i.e.*, the majority of the securities were either AAA/Aaa rated bonds, insured, partially pre-refunded or partially escrowed to maturity). Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2007.

Corporate bonds and notes

The unrealized losses of 12 months or greater duration as of June 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. A majority of the securities remained at an unrealized loss position. Unrealized losses for the remaining securities in this category are attributable to changes in business operations, resulting in widened credit spreads. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2007.

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Asset-backed securities

The unrealized losses of 12 months or greater duration as of June 30, 2007 on the securities in this category were caused by market interest rate movement. A majority of the securities remained at an unrealized loss position. Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at June 30, 2007.

Private placements

The unrealized losses of 12 months or greater duration as of June 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. A majority of the securities remained at an unrealized loss position. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at June 30, 2007.

Foreign governments

The unrealized losses of 12 months or greater duration as of June 30, 2007 on the majority of the securities in this category were caused by market interest rate movement. We believe that credit quality did not impact security pricing due to the relative high quality of the holdings (*i.e.*, the majority of the securities were highly-rated governments and government agencies or corporate issues with minimum ratings of single-A). Because we have the ability and intent to hold these investments until a full recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at June 30, 2007.

For all investment categories, unrealized losses of less than 12 months in duration are generally attributable to interest rate increases. All securities were evaluated in accordance with our impairment recognition policy covering various time and price decline scenarios. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider the investment in these securities to be other-than-temporarily impaired at June 30, 2007.

The contractual maturity of securities in an unrealized loss position at June 30, 2007 was as follows:

(In millions)	Fair Value	Amortized Cost	Unrealized Loss
2007	$ 9.7	$ 9.7	$
2008 2011	225.7	228.9	3.2
2012 2016	181.4	185.5	4.1
2017 and later	1,075.7	1,101.4	25.7
Mortgage-backed and other asset-backed securities	284.9	292.9	8.0
Total	$ 1,777.4	$ 1,818.4	$ 41.0

Liquidity and Capital Resources

We act mainly as a holding company for our insurance subsidiaries and do not have any significant operations of our own. Dividends from our subsidiaries, which have included dividends they have received from our affiliates (C-BASS and Sherman), and permitted payments to us under our tax- and expense-sharing arrangements with our subsidiaries, along with income from our investment portfolio are our principal sources of cash to pay stockholder dividends and to meet our obligations. These obligations include our operating expenses, including merger related expenses, taxes and interest and principal payments on our long-term debt. The payment of dividends and other distributions to us by our insurance subsidiaries are regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed extraordinary and require insurance

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regulatory approval. In addition, although we have expense-sharing arrangements in place with our principal operating subsidiaries that require those subsidiaries to pay their share of holding company-level expenses, including interest expense on long-term debt, these expense-sharing arrangements may be changed at any time by the applicable state insurance departments. In addition, our insurance subsidiaries ability to pay dividends to us, and our ability to pay dividends to our stockholders, is subject to various conditions imposed by the rating agencies for us to maintain our ratings. If the cash we receive from our subsidiaries pursuant to expense- and tax-sharing arrangements is insufficient for us to fund our obligations, we may be required to seek additional capital by incurring additional debt, by issuing additional equity or by selling assets, which we may be unable to do on favorable terms, if at all. The need to raise additional capital or the failure to make timely payments on our obligations could have a material adverse effect on our business, financial condition and operating results.

For the six months ended June 30, 2007, we did not receive any dividends from our operating subsidiaries compared to $10.0 million received for the six months ended June 30, 2006. Our insurance subsidiaries may be limited in the amount that they may pay in dividends to us during the next 12 months without first obtaining insurance department approval.

C-BASS did not pay us any dividends during the six months ended June 30, 2007 compared to dividends of $24.0 million paid to us during the six months ended June 30, 2006. We do not expect to receive any dividends from C-BASS during the remainder of 2007. Sherman paid $51.5 million and $60.5 million of dividends to us during the six months ended June 30, 2007 and 2006, respectively. All dividends from C-BASS and Sherman are initially distributed to our insurance subsidiaries, and therefore are subject to regulatory limitations, as discussed above. We do not believe that the material impairment to our investment in C-BASS will have a negative effect on the Company s future liquidity position.

We are currently under examination by the Internal Revenue Service (IRS) for the 1999 through 2005 tax years. To date, the IRS examination remains in the discovery phase and no formal notice of proposed adjustment has been received. However, the IRS has indicated that it opposes the recognition of certain tax losses that were generated through our investment in a portfolio of residual interests in Real Estate Mortgage Investment Conduits (REMICs). The IRS has indicated that it may issue a formal notice of proposed adjustment upon its completion of discovery, which is anticipated to conclude during the third or fourth quarter of 2007. We will contest any proposed adjustment relating to the IRS s opposition of the tax losses in question. Upon receipt of the IRS s proposed adjustment we may make a payment on account with the United States Department of the Treasury in order to avoid the accrual of the above-market-rate interest associated with management s estimate of the potentially unsettled adjustment. We currently anticipate making this payment on account within 30 days of receiving a formal notice of proposed adjustment, and we estimate the cash requirement for such payment to be approximately $84.0 million. Any ultimate overpayment associated with the payment on account would be recovered through a formal claim for refund process.

Our insurance subsidiaries are permitted to allocate capital resources within certain insurance department and rating agency guidelines by making direct investments.

Short-Term Liquidity Needs

Our liquidity needs over the next 12 months include funds for the payment of dividends on our common stock, debt service payments on our outstanding long-term debt, claim payments on our insured obligations, operating expenses, including merger related expenses and potentially, to fund a payment on account related to the IRS investigation described above. We expect to fund these requirements with amounts received under our expense-sharing arrangements or as dividends from our insurance operating subsidiaries, subject to regulatory requirements, which may include dividends to these subsidiaries from our affiliates (C-BASS and Sherman) from working capital, and from borrowings under our credit facility, all of which we expect to be sufficient to make such payments for at least the next 12 months.

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Based on our current intention to pay quarterly common stock dividends of approximately $0.02 per share and assuming that our common stock outstanding remains constant at 80,393,796 shares at June 30, 2007, we would require approximately $3.2 million to pay our quarterly dividends for the remainder of 2007. We will also require approximately $46.9 million annually to pay the debt service on our outstanding long-term debt.

Our sources of working capital consist mostly of premiums written by our insurance operating subsidiaries and investment income at both the parent company and operating subsidiary levels. Working capital is applied mainly to the payment of our insurance operating subsidiaries claims, operating expenses and to fund our stock repurchase programs. Cash flows from operating activities for the six months ended June 30, 2007 were $229.7 million, compared to $243.1 million for the six months ended June 30, 2006. Positive cash flows are invested pending future payments of claims and other expenses.

We believe that the operating cash flows generated by each of our insurance subsidiaries will provide those subsidiaries with sufficient funds to satisfy their claim payments and operating expenses for at least the next 12 months. In the event that claim payment obligations and operating expenses exceed the operating cash flows generated by our insurance operating subsidiaries, we believe that we have the ability to fund any excess from sales of short-term investments maintained at the parent company. At June 30, 2007, the parent company had cash and liquid investment securities of $78.6 million, and $50.0 million of this was used to support C-BASS in the form of a demand note as discussed above. In the event that we are unable to fund excess claim payments and operating expenses through the sale of short-term investments, we may be required to incur unanticipated capital losses or delays in connection with the sale of less liquid securities held by us.

Long-Term Liquidity Needs

Our most significant need for liquidity beyond the next twelve months is the repayment of the principal amount of our outstanding long-term debt, a portion of which is due in 2011. We expect to meet our long-term liquidity needs using excess working capital, sales of investments, borrowings under our credit facility or through the private or public issuance of debt or equity securities.

Reconciliation of Net Income to Cash Flows from Operations

The following table reconciles net income to cash flows from operations for the six months ended June 30, 2007 and 2006 (in thousands):

	June 30 2007	**June 30 2006**
Net income	$ 134,550	$ 311,843
Increase (decrease) in reserves	66,563	(12,772)
Deferred tax provision	(15,538)	85,859
Increase in unearned premiums	44,101	64,404
Increase in deferred policy acquisition costs	(10,773)	(7,298)
Early termination receipts (payments) (1)	27,400	(68,000)
Equity in earnings of affiliates	(72,279)	(130,378)
Distributions from affiliates (1)	51,512	84,409
Gains (losses) on sales and change in fair value of derivatives	49,892	(37,721)
Increase in prepaid federal income taxes (1)	(51,395)	(123,790)
Other	5,642	76,578
Cash flows from operations	$ 229,675	$ 243,134

(1) Cash item.

Cash flows from operations for the six months ended June 30, 2007 decreased from the comparable period of 2006. This decrease was mainly due to an increase in claims paid and lower distributions from affiliates. Cash

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flows from operations for 2007 include $27.4 million in receipts from the termination of certain financial guaranty derivative contracts, while 2006 includes a $68.0 million payment in the first six months of 2006 to terminate a derivative financial guaranty contract. We do not expect that net income will greatly exceed cash flows from operations in future periods.

Stock Repurchase Programs

Since September 2002, our board of directors has authorized five separate repurchase programs, including the current 6.0 million share program, for the repurchase, in the aggregate, of up to 21.5 million shares of our common stock on the open market. At June 30, 2007, we had repurchased approximately 20.4 million shares under these programs for a total cost of approximately $1.0 billion, including 0.4 million shares during the first six months of 2007 at a cost of approximately $22.8 million. The board did not set an expiration date for this program. All share purchases made to date were funded from available working capital and were made from time to time, depending on market conditions, stock price and other factors. We do not expect to repurchase any additional shares prior to the completion of our merger with MGIC.

We also may purchase shares on the open market to meet option exercise obligations and to fund 401(k) matches and purchases under our Employee Stock Purchase Plan and may consider additional stock repurchase programs in the future.

Stockholders Equity

Stockholders equity was $4.1 billion at June 30, 2007 and at December 31, 2006. Stockholders equity remained flat as a result of (1) our repurchase of 0.4 million shares of our common stock for approximately $22.8 million, (2) a decrease in the market value of securities available for sale of $57.3 million, (3) dividends paid of $3.2 million and (4) a $21.2 million reduction as a result of implementing FIN 48, which were partially offset by net income of $134.6 million and proceeds from issuance of common stock under incentive plans of $69.5 million.

Critical Accounting Policies

SEC guidance defines Critical Accounting Policies as those that require the application of management s most difficult, subjective, or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain and that may change in subsequent periods. In preparing our condensed consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing these financial statements, management has utilized available information including our past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments, giving due consideration to materiality. Actual results may differ from those estimates. In addition, other companies may utilize different estimates, which may impact comparability of our results of operations to those of companies in similar businesses. A summary of the accounting policies that management believes are critical to the preparation of our condensed consolidated financial statements is set forth below.

Reserve for Losses

We establish reserves to provide for losses and the estimated costs of settling claims in both the mortgage insurance and financial guaranty segments. Setting loss reserves in both businesses involves significant use of estimates with regard to the likelihood, magnitude and timing of a loss.

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In the mortgage insurance segment, reserves for losses generally are not established until we are notified that a borrower has missed two payments. We also establish reserves for associated loss adjustment expenses (LAE), consisting of the estimated cost of the claims administration process, including legal and other fees and expenses associated with administering the claims process. SFAS No. 60 Accounting and Reporting by Insurance Enterprises, (SFAS No. 60) specifically excludes mortgage guaranty insurance from its guidance relating to the reserve for losses. We maintain an extensive database of claim payment history and use models, based on a variety of loan characteristics, including the status of the loan as reported by its servicer, and macroeconomic factors such as regional economic conditions that involve significant variability over time, as well as more static factors such as the estimated foreclosure period in the area where the default exists, to help determine the likelihood that a default will result in a claim (referred to as the claim rate), the amount that we will pay if a default becomes a claim (referred to as claim severity) and based on these estimates, the appropriate loss reserve at any point in time.

With respect to delinquent loans that are in an early stage of delinquency, considerable judgment is exercised as to the adequacy of reserve levels. Adjustments in estimates for delinquent loans in the early stage of delinquency are more volatile in nature than for loans that are in the later stage of delinquency, which generally require a larger reserve. As the delinquency proceeds toward foreclosure, there is more certainty around these estimates as a result of the aged status of the delinquent loan, and adjustments are made to loss reserves to reflect this updated information. If a default cures (historically, a large percentage of defaulted loans have cured before going to claim), the reserve for that loan is removed from the reserve for losses and LAE. This curing process causes an appearance of a reduction in reserves from prior years if the reduction in reserves from cures is greater than the additional reserves for those loans that are nearing foreclosure or have become claims. We also reserve for defaults that we believe to have occurred but that have not been reported to us on a timely basis by lending institutions. All estimates are continually reviewed and adjustments are made as they become necessary. We generally do not establish reserves for loans that are in default if we believe that we will not be liable for the payment of a claim with respect to that default. For example, for those defaults in which we are in a second-loss position, we calculate what the reserve would have been if there had been no deductible. If the existing deductible is greater than the reserve amount for any given default, we do not establish a reserve for the default. Consistent with GAAP and industry accounting practices, we do not establish loss reserves for expected future claims on insured mortgages that are not in default or believed to be in default.

Our model differentiates between prime and other products and takes into account the different loss development patterns and borrower behavior that is inherent in these products, whether we are in a first- or second-loss position and whether there are deductibles on the loan. We use actuarial projection methodologies to produce a range of reserves by product and a midpoint for each product based on historical factors such as ultimate claim rates and claim severity. In determining the amount of reserve to be recorded, we begin with the calculated midpoint and then we evaluate other conditions, such as current economic conditions, regional housing conditions and the reliability of historical data for new products, to determine if an adjustment to the midpoint calculated by the model is necessary.

The following table shows the mortgage insurance range of loss and LAE reserves, as determined by our actuaries, and recorded reserves for losses and LAE, as of June 30, 2007 and December 31, 2006:

	As of June 30, 2007			As of December 31, 2006		
Loss and LAE Reserves (in millions)	**Low**	**High**	**Recorded**	**Low**	**High**	**Recorded**
Mortgage Insurance Operations	$ 676.8	$ 793.1	$ 746.1	$ 592.0	$ 693.7	$ 653.2

At June 30, 2007 and December 31, 2006, we made a judgment to reserve at a level above the midpoint, given the uncertainty around the ultimate performance of our defaulted products and the potential overpricing in certain housing markets.

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We considered the sensitivity on loss reserve estimates at June 30, 2007, by assessing the potential changes resulting from a hypothetical parallel shift in severity and claim rate. For example, assuming all other factors remain constant, for every 1% change in claim severity or claim rate, we estimated a $6.7 million change in our loss reserves at June 30, 2007.

In the financial guaranty segment, we establish loss reserves on our non-derivative financial guaranty contracts. We establish case reserves for specifically identified impaired credits that have defaulted and allocated non-specific reserves for specific credits that we expect to default. In addition, we establish unallocated non-specific reserves for our entire portfolio based on estimated statistical loss probabilities. As discussed below, the reserving policies used by the financial guaranty industry are continuing to evolve and are subject to change.

The following table shows the breakdown of the reserve for losses and loss adjustment expenses for our financial guaranty segment at the end of each period indicated:

(In thousands)	June 30 2007	March 31 2007	June 30 2006
Financial Guaranty:			
Case reserves	$ 38,742	$ 42,018	$ 50,820
Allocated non-specific	27,706	23,500	20,750
Unallocated non-specific	59,708	60,655	60,934
Trade Credit and Other:			
Case reserves	18,387	21,859	26,742
IBNR (1)	18,733	27,739	37,929
Total	$ 163,276	$ 175,771	$ 197,175

(1) Incurred but not reported.

Our financial guaranty loss reserve policy requires management to make the following key estimates and judgments:

Setting both case reserves and allocated non-specific reserves requires us to exercise judgment in estimating the severity of the claim that is likely to result from an identified reserving event, which may be any amount up to the full amount of the insured obligation. The reliability of this estimate depends on the reliability of the information regarding the likely severity of the claim and the judgments made by management with respect to that information. Even when we are aware of the occurrence of an event that requires the establishment of a reserve, our estimate of the severity of the claim that is likely to result from that event may not ultimately be correct.

- At June 30, 2007, we had case reserves and LAE reserves on financial guaranty policies of $38.7 million. Of this amount, $27.9 million was attributable to a single manufactured housing transaction originated and serviced by Conseco Finance Corp. We have a high degree of certainty that we will suffer losses with respect to this insured obligation equal to the amount reserved, which equals the total amount of the remaining insured obligation. The case and LAE reserves also include $9.2 million attributable to 23 reinsured obligations on which our total par outstanding is $25.8 million. These reserves are established based on amounts conveyed to us by the ceding companies and confirmed by us. We do not have any reasonable expectation that the ultimate losses will deviate materially from the amount reserved. The remaining $1.6 million represents LAE reserves attributable to five insured obligations, partially offset by salvage recoveries on two other insured obligations.

- At June 30, 2007, seven credits were included in our allocated non-specific reserves of $27.7 million. We expect that we will suffer losses with respect to these insured obligations approximately equal to the amount reserved of $27.7 million. These credits have a par amount of $106.2 million.

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Our unallocated non-specific reserves are established over time by applying expected default factors to the premiums earned during each reporting period. The expected lifetime losses for each credit are determined by multiplying the expected frequency of losses on that credit by the expected severity of losses on that credit and multiplying this number, the loss factor, by that credit s outstanding par amount. The expected frequency and severity of losses for each credit is generated from three sources two that are published by major rating agencies and one that is generated by a proprietary internal model based on the product class, published rating and term to maturity for each credit. We set the expected lifetime losses for each credit at a point in the range between the highest and lowest expected lifetime loss factors generated by the rating agency and internally generated models. The default rates published by rating agencies tend to be very low because we mostly insure investment-grade obligations that, historically, have a very low probability of default. Although the default rate is low, the amount of losses upon default can be very high because we tend to insure large financial obligations. Because of the low incidence of losses on financial guaranty obligations, it is also very difficult to estimate the timing of losses on our insured obligations for which we have not yet established a case reserve or allocated non-specific reserve. The default factors for the six months ended June 30, 2007 approximated 10% of earned premiums on public finance credits and 15% of earned premiums on structured finance credits. As a result of favorable loss development during the past year, during the first six months of 2007, we reversed some unallocated non-specific reserves and lowered the default factor for structured finance credits from 20% to 15%.

Our unallocated non-specific loss reserve at June 30, 2007, was $59.7 million. The range between the unallocated non-specific reserves that would have resulted from applying the highest and lowest default factors generated by any of the three models was approximately $25 million to $63 million, which we believe provides a reasonably likely range of expected losses. None of the product types that we insure accounted for a materially disproportionate share of the variability within that range.

- At each balance sheet date, we also evaluate both the model-generated default factors and our unallocated non-specific reserves against management s subjective view of qualitative factors to ensure that the default factors and the unallocated non-specific reserves represent management s best estimate of the expected losses on our portfolio of credits for which we have not established a case reserve or an allocated non-specific reserve. These qualitative factors include existing economic and business conditions, overall credit quality trends resulting from industry, geographic, economic and political conditions, recent loss experience in particular segments of the portfolio, changes in underwriting policies and procedures and seasoning of the book of business. The macroeconomic factors that we evaluate are outside of our control and are subject to considerable variability. The company-specific factors that we evaluate also require us to make subjective judgments. In addition, a significant change in the size of our portfolio underlying the unallocated non-specific reserves, such as through the expiration of policies or the refunding or recapture of insured exposures, could require an adjustment to the default factors or our level of unallocated non-specific reserves. Our estimates of our reserves for losses and LAE for our financial guaranty segment s other lines of business, mainly trade credit reinsurance, depend upon the receipt of accurate information on claims and loss estimates from ceding companies. In addition, a reserve is included for losses and LAE incurred but not reported (IBNR), on trade credit reinsurance. As the business is now in run-off, the receipt of information from ceding companies is likely to be more sporadic and the setting of reserves will be more reliant on management estimates. We use historical loss information and make inquiries to the cedants of known events as a means of validating our loss assumptions.

Setting the loss reserves in both business segments involves significant reliance upon estimates with regard to the likelihood, magnitude and timing of a loss. The models and estimates we use to establish loss reserves may not prove to be accurate, especially during an extended economic downturn. We cannot be certain that we have correctly estimated the necessary amount of reserves or that the reserves established will be adequate to cover ultimate losses on incurred defaults.

On April 18, 2007, the FASB issued an exposure draft Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60 . The proposed statement provides guidance with respect to the timing of claim liability recognition, premium recognition and the related amortization of deferred policy acquisition costs, specifically for financial guaranty contracts issued by insurance companies that are not accounted for as derivative contracts under SFAS No. 133. The goal of the proposed statement is to reduce diversity in accounting by financial guaranty insurers, thereby enabling users to better understand and more readily compare insurers financial statements. The FASB is also expected to examine the appropriate accounting model for other insurance products with similar characteristics, such as mortgage guaranty contracts and trade credit insurance. Final guidance from the FASB regarding accounting for financial guaranty insurance is expected to be issued sometime in late 2007. When the FASB or the SEC reaches a conclusion on these issues, we and the rest of the financial guaranty industry may be required to change some aspects of our accounting policies. Management is unable to estimate at this time what impact, if any, the ultimate resolution of this issue may have on our financial condition or operating results.

Derivative Instruments and Hedging Activity

We account for derivatives under SFAS No. 133, as amended and interpreted. In general, SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their respective fair values. All derivative instruments are recognized in our condensed consolidated balance sheets as either assets or liabilities, depending on the rights or obligations under the contracts. The interest rate swaps that we have entered into qualify as hedges and are accounted for as fair value hedges. Our forward foreign currency contracts, credit protection in the form of credit default swaps and NIMs do not qualify as hedges under SFAS No. 133, so changes in their fair value are included in current earnings in our condensed consolidated statements of income. Net unrealized gains and losses on credit default swaps and certain other derivative contracts are included in either other assets or accounts payable and accrued expenses on our condensed consolidated balance sheets.

In February 2006, the FASB issued SFAS No. 155, an amendment of SFAS Nos. 133 and 140. SFAS No. 155, (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends FASB Statement No. 140 to eliminate the exemption from applying the requirements of FASB Statement No. 133 on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

We adopted SFAS No. 155 on January 1, 2007. Accordingly, securities that were previously classified as trading securities on our condensed consolidated balance sheets were reclassified to hybrid securities on our condensed consolidated balance sheets on the date of adoption. In addition, in accordance with the provisions of SFAS No. 155, we elected to record convertible securities at fair value and changes in the fair value are recorded as net gains or losses on securities. At adoption, we recorded an after-tax reclassification to retained earnings from other comprehensive income of approximately $9.8 million, which represented the cumulative adjustment to fair value that had previously been reported as a component of other comprehensive income.

Our NIMs have features that require that we report them as derivatives. We have a model that uses observed market data to set a spread or price related mark on the portfolio. We observe the credit performance of each NIM bond. If the performance is within our expected range, no loss reserve is established. If the performance is worse than expected, we re-evaluate the expected cash flows available for paying interest and principal on the NIM bond using actual performance, and estimate the claim amount that we believe we ultimately may be required to pay. We continually update our analysis for actual performance. Changes in our estimated fair value marks are recorded as gain/loss on derivatives. Because NIM guarantees are not market traded instruments, considerable judgment is required in estimating fair value. The use of different assumptions and/or estimation techniques may have a significant effect on the estimated fair value amounts.

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The gains and losses on direct derivative financial guaranty contracts are derived from internally generated models. The gains and losses on assumed derivative financial guaranty contracts are provided by the primary insurance companies. With respect to our direct derivative financial guaranty contracts, estimated fair value amounts are determined by us using market information to the extent available, and appropriate valuation methodologies. For CDOs, credit spreads on individual names in our collateral pool are used to determine an equivalent risk tranche on an industry standard credit default swap index. We then estimate the price of our equivalent risk tranche based on observable market prices of standard risk tranches on the industry standard credit default swap index. When credit spreads on individual names are not available, the average credit spread of companies with similar credit ratings is used. For certain structured transactions, dealer quotes on similar structured transactions are used. Significant differences may exist with respect to the available market information and assumptions used to determine gains and losses on derivative financial guaranty contracts. Considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of amounts we could realize in a current market exchange due to the lack of a liquid market. The use of different market assumptions and/or estimation methodologies may have a significant effect on the estimated fair value amounts.

A summary of our derivative information, as of and for the periods indicated, is as follows:

Balance Sheets (In millions)	June 30 2007	December 31 2006	June 30 2006
Trading Securities			
Cost	$	$ 66.9	$ 64.1
Fair value	0.2	106.3	93.7
Derivative financial guaranty contracts			
Notional value	$ 56,045.0	$ 52,563.0	$ 42,526.0
Gross unrealized gains	$ 81.9	$ 119.3	$ 109.9
Gross unrealized losses	110.8	31.7	34.7
Net unrealized (losses) gains	$ (28.9)	$ 87.6	$ 75.2

The components of the change in fair value of derivative instruments are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
Statements of Income (In millions)	2007	2006	2007	2006
Trading Securities	$ 0.3	$ (6.1)	$	$ 8.7
Derivative financial guaranty contracts	(103.4)	(19.2)	(89.3)	(16.4)
Net losses	$ (103.1)	$ (25.3)	$ (89.3)	$ (7.7)

The following table presents information at June 30, 2007 and December 31, 2006 related to net unrealized gains or losses on derivative financial guaranty contracts (included in other assets and accounts payable and accrued expenses on our condensed consolidated balance sheets).

	June 30 2007	December 31 2006
	(In millions)	
Balance at January 1	$ 87.6	$ 26.2
Net losses recorded	(89.1)	(2.2)
Defaults		

Recoveries	(0.1)	(4.6)
Payments	0.1	0.2
Early termination (receipts)/payments	(27.4)	68.0
Balance at end of period	$ (28.9)	$ 87.6

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The application of SFAS No. 133, as amended, could result in volatility from period to period in gains and losses as reported on our condensed consolidated statements of income. These gains and losses result mostly from changes in corporate credit or asset-backed spreads and changes in the creditworthiness of underlying corporate entities or the credit performance of the assets underlying an asset-backed security. Any incurred gains or losses on such contracts would be recognized as a change in the fair value of derivative instruments. We are unable to predict the effect this volatility may have on our financial position or results of operations.

We record premiums and origination costs related to credit default swaps and certain other derivative contracts in premiums written and policy acquisition costs, respectively, on our condensed consolidated statements of income. Our classification of these contracts is the same whether we are a direct insurer or we assume these contracts.

In accordance with our risk management policies, we may enter into derivatives to hedge the interest rate risk related to our long-term debt. As of June 30, 2007, we were a party to two interest rate swap contracts relating to our 5.625% unsecured senior notes due 2013. These interest rate swaps are designed as fair value hedges that hedge the change in fair value of our long-term debt arising from interest rate increases. During 2007 and 2006, the fair value hedges were 100% effective. Therefore, the change in the fair value of the derivative instruments in our condensed consolidated statements of income was offset by the change in the fair value of the hedged debt. These interest-rate swap contracts mature in February 2013.

Terms of the interest rate swap contracts at June 30, 2007 were as follows (dollars in thousands):

Notional amount	$	250,000
Rate received Fixed		5.625%
Rate paid Floating (a)		6.251%
Maturity date		February 15, 2013
Unrealized loss	$	9,807

(a) The June 30, 2007 six-month LIBOR forward rate at the next swap payment date plus 87.4 basis points.

Deferred Policy Acquisition Costs

Costs associated with the acquisition of mortgage insurance business, consisting of compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred policy acquisition costs. Because SFAS No. 60 specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of deferred policy acquisition costs, amortization of these costs for each underwriting year book of business is charged against revenue in proportion to estimated gross profits over the estimated life of the policies using the guidance provided by SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. This includes accruing interest on the unamortized balance of deferred policy acquisition costs. Estimates of expected gross profit, which are driven in part by persistency and loss development for each underwriting year and product type, are used as a basis for amortization are evaluated regularly, and the total amortization recorded to date is adjusted by a charge or credit to our condensed consolidated statements of income if actual experience or other evidence suggests that earlier estimates should be revised. Considerable judgment is used in evaluating these factors when updating the assumptions. The use of different assumptions would have a significant effect on the amortization of deferred policy acquisition costs.

Deferred policy acquisition costs in the financial guaranty business are comprised of those expenses that vary with, and are principally related to, the production of insurance premiums, including: commissions paid on reinsurance assumed, salaries and related costs of underwriting and marketing personnel, rating agency fees, premium taxes and certain other underwriting expenses, offset by commission income on premiums ceded to reinsurers. Acquisition costs are deferred and amortized over the period in which the related premiums are earned

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for each underwriting year. The amortization of deferred policy acquisition costs is adjusted regularly based on the expected timing of both upfront and installment-based premiums. The estimation of installment-based premiums requires considerable judgment, and different assumptions could produce different results.

Origination costs for derivative mortgage and financial guaranty contracts are expensed as incurred.

As noted under Reserve for Losses above, the FASB is considering the accounting model used by the financial guaranty industry for deferred policy acquisition costs.

Recent Accounting Pronouncements

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46(R)-6 Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R) (FSP FIN 46(R)-6), which addresses how a reporting enterprise should determine the variability to be considered in applying FASB Interpretation No. 46(R) (FIN 46R). The variability that is considered in applying FIN 46R affects the determination of (i) whether the entity is a variable interest entity, (ii) which interests are variable interests in the entity and (iii) which party, if any, is the primary beneficiary of the variable interest entity. That variability will affect any calculation of expected losses and expected residual returns, if such a calculation is necessary. FSP No. FIN 46(R)-6 became effective July 1, 2006. The adoption of this FSP did not have a material impact on our condensed consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 in the first quarter of 2007. The cumulative effect of applying the provisions of FIN 48 was an increase of approximately $218 million in current income taxes payable, a decrease of approximately $197 million in the deferred federal income taxes payable and a corresponding decrease of approximately $21 million in beginning retained earnings. Our policy for the recognition of interest and penalties associated with uncertain tax positions is to record such items as a component of our income tax provision.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 (i) defines fair value, (ii) establishes a framework for measuring fair value in GAAP and (iii) expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. Management currently is considering the impact, if any, that may result from the adoption of SFAS No. 157.

In September 2006, the FASB issued SFAS No. 158, Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires us to recognize the funded status of a benefit plan measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation in our consolidated balance sheets. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. SFAS No. 158 also requires us to recognize as a component of accumulated other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those statements. In addition, SFAS No. 158 requires us to measure defined benefit plan assets and obligations as of the

date of our fiscal year-end statement of financial position (with limited exceptions), and to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Employers with publicly traded equity securities are required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We adopted this statement effective December 31, 2006. The implementation of SFAS No. 158 had an immaterial affect on our condensed consolidated financial statements. See Note 13 of notes to condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value. Items eligible for fair value measurement option established by this statement are (i) recognized financial assets and financial liabilities (with some exceptions), (ii) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments, (iii) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services, and (iv) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Management currently is considering the impact, if any, that may result from the adoption of SFAS No. 159.

In April 2007, the FASB issued FSP FIN 39-1, an amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts . FSP FIN 39-1 replaces the terms conditional contracts and exchange contracts with the term derivative instruments and permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in the statement of financial position. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. Management currently is considering the impact, if any, that may result from the adoption of FSP FIN 39-1.

In September 2005, Statement of Position (SOP) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts (SOP 05-1), was issued. This SOP provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments . SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The adoption of SOP 05-1 on January 1, 2007, did not have a material impact on our condensed consolidated financial statements.

The Emerging Issues Tax Force (EITF) reached a consensus on EITF Issue No. 06-4, The Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 addresses whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions and Accounting Principles Board (APB) Opinion No. 12 Omnibus Opinion 1967 upon entering into such an arrangement. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Management is considering the impact, if any, that may result from the adoption of EITF 06-4.

The EITF reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No. 85-4 (EITF 06-5). EITF 06-5 addresses (i) whether a policyholder should consider any additional amounts included in the

contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4, (ii) whether a policyholder should consider the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4, Accounting for Purchases of Life Insurance and (iii) whether the cash surrender value component of the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4 should be discounted in accordance with APB Opinion No. 21, Interest on Receivables and Payables , when contractual limitations on the ability to surrender a policy exist. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The impact as a result of our adopting EITF 06-5 effective January 1, 2007, was not material to our condensed consolidated financial statements.

In May 2007, the FASB issued FSP No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1) which clarifies when a tax position is considered settled under FIN 48. FSP FIN 48-1 is applicable at the adoption of FIN 48, which was January 1, 2007 for us and did not have an impact on our tax position at June 30, 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the potential for loss due to adverse changes in the value of financial instruments as a result of changes in market conditions. Examples of market risk include changes in interest rates, foreign currency exchange rates, credit spreads and equity prices. We perform, on an annual basis, a sensitivity analysis to determine the effects of market risk exposures on our financial instruments, including in particular, investment securities and certain financial guaranty insurance contracts. This analysis is performed by expressing the potential loss in future earnings, fair values or cash flows of market risk sensitive instruments resulting from one or more selected hypothetical changes in interest rates, foreign currency exchange rates, credit spreads and equity prices. Our sensitivity analysis is sometimes referred to as a parallel shift in yield curve with all other factors remaining constant. In addition, on a quarterly basis, we review changes in interest rates, foreign currency exchange rates, credit spreads and equity prices to determine whether there has been a material change in our market risk since that presented in connection with our annual sensitivity analysis. For the six months ended June 30, 2007, there were no material changes in our market risk.

As discussed above, since February 2007, the market for subprime mortgages has experienced significant turmoil, with market disruptions accelerating to unprecedented levels beginning in mid-July 2007. Credit spreads were highly volatile during this period briefly stabilizing during the second quarter before widening dramatically again in July 2007. On July 29, 2007, we concluded that a material charge for impairment of our investment in C-BASS was required under GAAP as discussed above under Management s Discussion and Analysis of Financial Condition and Results of Operations Business Summary Financial Services.

Interest Rate Risk

The primary market risk in our investment portfolio is interest rate risk, namely the fair value sensitivity of a fixed-income security to changes in interest rates. We manage our investment portfolio to minimize exposure to interest rates by monitoring our investments to ensure a proper mix of the types of securities held and to stagger the maturities of fixed-income securities. We estimate the changes in fair value of our fixed-income securities by projecting an instantaneous increase and decrease in interest rates. The carrying value of our total investment portfolio at June 30, 2007 and December 31, 2006, was $5.9 billion and $5.7 billion, respectively, of which 78.8% and 88.1%, respectively, was invested in fixed maturities. Our analysts estimate the payout pattern of the mortgage insurance loss reserves to determine their duration, which is measured by the weighted average payments expressed in years. At June 30, 2007, the average duration of the fixed-income portfolio was 5.97 years.

In April 2004, we entered into interest-rate swaps that, in effect, converted a portion of our fixed-rate long-term debt to a variable rate based on a spread over the six-month LIBOR for the remaining term of the debt.

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The market value and cost of our long-term debt at June 30, 2007 was $747.3 million and $747.9 million, respectively.

Foreign Exchange Rate Risk

One means of assessing exposure to changes in foreign currency exchange rates on market sensitive instruments is to model effects on reported earnings using a sensitivity analysis. We analyze our currency exposure annually by identifying our investment portfolio denominated in currencies other than the U.S. dollar. There have been no material changes in our foreign exchange rate risk during the six months ended June 30, 2007.

Equity Market Price

Exposure to changes in equity market prices can be estimated by assessing the potential changes in market values on our equity investments resulting from a hypothetical broad-based decline in equity market prices of 10%. At June 30, 2007, the market value and cost of our equity securities were $306.4 million and $215.5 million, respectively. There have been no material changes in our equity market price risk during the six months ended June 30, 2007.

Credit Derivative Risk

We enter into credit default swaps, which include certain derivative financial guaranty contracts written through our mortgage insurance and financial guaranty segments. Gains and losses on our credit default swaps are derived from market pricing when available; otherwise, we use internally generated pricing models. Both methods take into account credit and market spreads and are recorded on our condensed consolidated financial statements. See Critical Accounting Policies Derivative Instruments and Hedging Activity for a discussion of how we account for derivatives under SFAS No. 133.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that the information we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported on a timely basis, and that this information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

As previously disclosed in the joint proxy statement/prospectus for our 2007 annual meeting of stockholders, on February 8, 2007, a purported stockholder class action lawsuit related to our pending merger with MGIC (the Action) was filed in the Court of Common Pleas, Philadelphia County, Civil Trial Division in the State of Pennsylvania (the Court of Common Pleas) by Catherine Rubery against Radian and its directors. The lawsuit alleges, among other things, that the merger consideration to be received by Radian stockholders was inadequate and that the individual defendants, among other things, breached their duties of care, loyalty, good faith and independence to the stockholders in connection with the merger. The complaint seeks class action status as well as injunctive, declaratory and other equitable relief.

On March 19, 2007, defendants removed the Action to the United States District Court for the Eastern District of Pennsylvania (the Eastern District), and on March 26, 2007, defendants moved to dismiss the Action, or, in the alternative, for a briefing schedule in connection with any potential motion by the plaintiff to remand the Action to the Court of Common Pleas. On April 18, 2007, plaintiff moved to remand the Action to the Court of Common Pleas, which motion defendants opposed. On May 31, 2007, the motion to remand was granted, and the case is now back in the Court of Common Pleas, where the parties are preparing initial pleadings. We believe this lawsuit is without merit and intend to continue to vigorously defend the Action.

In addition to the above litigation, we are involved in litigation that has arisen in the normal course of our business. We are contesting the allegations in each such pending action and believe, based on current knowledge and after consultation with counsel, that the outcome of such litigation will not have a material adverse effect on our consolidated financial position and results of operations.

Item 1A. Risk Factors.

There have been no material changes in the risks affecting us or our subsidiaries as reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table provides information about repurchases by us during the quarter ended June 30, 2007 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
4/01/2007 to 4/30/2007	234,724	$ 56.72	234,724	1,194,308
5/01/2007 to 5/31/2007	92,953	59.47	92,953	1,101,355
6/01/2007 to 6/30/2007				1,101,355
Total	327,677	$ 57.50	327,677	

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(1) On February 8, 2006, our board of directors authorized the repurchase of up to 4.0 million shares of our common stock on the open market under a new repurchase plan. On November 9, 2006, our board of directors authorized the purchase of an additional 2.0 million shares as part of an expansion of the existing stock repurchase program. Stock purchases under this program are funded from available working capital and are made from time to time, depending on market conditions, stock price and other factors. The board did not set an expiration date for this program.

(2) Amounts shown in this column reflect the number of shares remaining under the additional 2.0 million share authorization referenced in Note 1 above.

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Item 4. Submission of Matters to a Vote of Security Holders.

On May 9, 2007, we held our Annual Meeting of Stockholders. At the meeting, the following proposals were submitted to a vote of our stockholders, with the voting results indicated below:

1) Adoption of the Agreement and Plan of Merger between us and MGIC as discussed in Item 2 of Part I above:

For	Against	Abstain	Broker Non-Vote
67,923,102	275,005	93,727	4,106,487

2) Election of ten directors for a term of one year each, to serve until their successors have been duly elected and have qualified or until their earlier removal and resignation:

	For	Withheld
Herbert Wender	71,020,550	1,377,771
David C. Carney	70,784,730	1,613,591
Howard B. Culang	72,089,566	308,755
Stephen T. Hopkins	72,078,996	319,325
Sanford A. Ibrahim	71,024,933	1,373,388
James W. Jennings	70,784,708	1,613,613
Ronald W. Moore	70,786,060	1,612,261
Jan Nicholson	72,090,183	308,138
Robert W. Richards	70,778,978	1,619,343
Anthony W. Schweiger	70,787,447	1,610,874

3) Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2007.

For	Against	Abstain
72,338,944	50,985	8,392

4) Approval of the adjournment of our annual meeting, if necessary or appropriate, to solicit additional proxies:

For	Against	Abstain	Broker Non-Vote
65,425,142	6,915,426	57,753	0

Item 6. Exhibits.

Exhibit No.	Exhibit Name
*11	Statement re: Computation of Per Share Earnings
*31	Rule 13a 14(a) Certifications
*32	Section 1350 Certifications

* Filed herewith.

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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.

Radian Group Inc.

Date: August 9, 2007

/s/ C. Robert Quint

C. Robert Quint

Executive Vice President and Chief Financial Officer

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Item 6. Exhibits.

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*32	Section 1350 Certifications

* Filed herewith.

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