

**UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF PENNSYLVANIA**

JOHN CORTESE, Individually and On Behalf )  
of All Others Similarly Situated, )

Plaintiffs, )

vs. )

RADIAN GROUP INC., S.A. IBRAHIM and )  
C. ROBERT QUINT, )

Defendant. )  
\_\_\_\_\_)

**CLASS ACTION COMPLAINT  
FOR VIOLATIONS OF  
FEDERAL SECURITIES LAWS**

**JURY TRIAL DEMANDED**

Plaintiff has alleged the following based upon the investigation of plaintiff's counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings by Radian Group Inc. ("Radian" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company, and plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

### **NATURE OF THE ACTION**

1. This is a federal class action on behalf of purchasers of the securities of Radian between January 23, 2007 and July 31, 2007, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

### **JURISDICTION AND VENUE**

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the Securities and Exchange Commission ("SEC") [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and Section 27 of the Exchange Act [15 U.S.C. §78aa].

4. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b), as many of the acts and practices complained of herein occurred in substantial part in this District.

5. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

## **PARTIES**

6. Plaintiff John Cortese, as set forth in the accompanying certification, incorporated by reference herein, purchased the securities of Radian at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant Radian operates, through its subsidiaries and affiliates, as a credit enhancement company that provides credit protection products and financial services to mortgage lenders and other financial institutions. Radian's principal executive office is located at 1601 Market Street, Philadelphia, Pennsylvania. Radian's common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the New York Stock Exchange ("NYSE").

8. (a) Defendant S.A. Ibrahim ("Ibrahim") served as Radian's Chief Executive Officer ("CEO") during the Class Period.

(b) Defendant C. Robert Quint ("Quint") served as Radian's Chief Financial Officer, Principal Accounting Officer and Executive Vice President during the Class Period

(c) Defendants Ibrahim and Quint are collectively referred to herein as the "Individual Defendants."

9. Because of the Individual Defendants' positions with the Company, they had access to the adverse undisclosed information about the Company's business, operations, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

10. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company's

public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of Radian, by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

11. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was, and is, traded on the New York Stock Exchange (“NYSE”), and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly, accurate and truthful information with respect to the Company’s financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company’s publicly-traded common stock would be based upon truthful and accurate information. The Individual Defendants’ misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

12. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of

their Board membership and/or executive and managerial positions with Radian, each of the Individual Defendants had access to the adverse undisclosed information about Radian's business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Radian and its business issued or adopted by the Company materially false and misleading.

13. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

14. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Radian common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Radian's business, operations, management and the intrinsic value of Radian common stock; and (ii) caused plaintiff and other members of the Class to purchase Radian common stock at artificially inflated prices.

#### **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

15. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the securities of Radian during the Class Period, inclusive (the "Class") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant

times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

16. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Radian common shares were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Radian or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

17. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

18. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

19. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Radian; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

20. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

### **SUBSTANTIVE ALLEGATIONS**

21. Defendant Radian operates, through its subsidiaries and affiliates, as a credit enhancement company that provides credit protection products and financial services to mortgage lenders and other financial institutions.

22. One of Radian's principal affiliates is Credit-Based Asset Servicing and Securitization, known as C-BASS. C-BASS is an investor in the credit risk of subprime single-family residential mortgages. C-BASS is owned by Radian, MGIC Investment Corp. ("MGIC"), and the management of C-BASS.

23. The Class Period commences on January 23, 2007. On that date, Radian issued a press release announcing its financial results for the fourth quarter of 2006 and fiscal year 2006, the periods ending December 31, 2006. For fiscal year 2006, the Company reported "record" net income of \$582.2 million and diluted net income of \$7.08 per share. Defendant Ibrahim commented on the announcement and represented that the Company was "well positioned" to "benefit" from "both cyclical and structural opportunities in the mortgage market" stating in pertinent part as follows:

Radian delivered record net income and grew book value by 16.1 percent, despite a challenging operating environment for our businesses including tight credit-spreads and competition from alternative products . . . This performance demonstrates that our strategy to focus on diversification while maintaining a strict risk management culture continues to deliver long-term value.

\* \* \*

Forecasts for interest rate stability, strong employment and improved persistency bode well for the mortgage insurance industry. . . In this environment, we believe we are well positioned to benefit over the long term from both cyclical and structural opportunities in the mortgage market.

\* \* \*

During the year, we achieved an important milestone for our financial guaranty business when S&P affirmed the AA financial strength rating for Radian Asset Assurance, and revised its outlook upward to stable. . . In the fourth quarter, we exceeded \$100 billion in net par outstanding. We believe that these milestones, along with the outstanding performance throughout the year, validate our AA franchise strategy. Our goal in 2007 is to continue to prudently grow our financial guaranty business.

24. On February 6, 2007, Radian and MGIC jointly issued a press release announcing that they had agreed to merge their companies. According to the press release, the merger agreement provides for a stock-for-stock merger in which 0.9658 shares of MGIC common stock will be exchanged for each share of Radian stock.

25. On February 8, 2007, Defendant Quint sold 129,000 shares of his personally-held common stock generating proceeds of \$8,105,070.

26. On April 24, 2007, Radian issued a press release announcing its financial results for its first quarter of 2007, the period ending March 31, 2007. For the quarter, the Company reported net income of \$113.5 million and diluted net income per share of \$1.42. Defendant Ibrahim commented on the results stating in pertinent part as follows:

Our core mortgage insurance and financial guaranty businesses had strong production performance this quarter, with a 35 percent jump in flow MI over last year and strong growth in written and earned premium. Our primary book was not significantly affected by the disruptions in the sub-prime market in recent months. I believe this is a validation of our long-term approach to risk management in all areas, including the sub-prime and Alt A, where we have remained disciplined in diversifying our book of business across geographies, products, clients and origination years.

In the Financial Services segment, net income was \$10.8 million, down from the \$38.7 million for the same period last year, primarily as a result of an operating loss at C-BASS.

27. On May 9, 2007, Radian issued a press release announcing that its shareholders had approved the merger with MGIC.

28. On July 24, 2007, Radian issued a press release announcing its financial results for its second quarter of 2007, the period ending June 30, 2007. For the quarter, the Company reported net income of \$21.1 million and diluted net income per share of \$0.26. Defendant Ibrahim commented on the announcement stating in pertinent part as follows:

Our second quarter results clearly illustrate the credit challenges in today's mortgage market, but I believe they also reflect long-term positive trends for our business. Market conditions, particularly in California and Florida, led to an increase in defaults that impacts our results.

The company experienced top-line growth, improved persistency and renewed demand for our traditional mortgage insurance product. Our balance sheet remains solid, with a highly rated investment portfolio of more than \$6 billion and total loss reserves of more than \$900 million....In the Financial Services segment, net income was \$27.3 million, down from \$45.9 million for the same period last year.

29. The statements referenced above in ¶¶23, 26 and 28 were each materially false and misleading because they failed to disclose and misrepresented the following material adverse facts:

(a) that the Company's \$468 million investment in C-BASS was materially impaired as C-BASS was experiencing increasing margin calls and C-BASS's investments were declining in value at a significant rate;

(b) that the Company was materially overstating its financial results by failing to properly value its investment in C-BASS and by failing to write-down that investment in a timely fashion; and

(c) as a result of the foregoing, the Company's financial statements were not prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and, therefore, were materially false and misleading.

30. On July 30, 2007, after the market closed, Radian issued a press release announcing that "it has concluded that the value of its investment in" C-BASS has been "materially impaired."

According to the press release, “Since February 2007, the market for subprime mortgages has experienced significant turmoil. . . .” The Company further disclosed that its investment in C-BASS consists of approximately \$468 million of equity as of June 30, 2007 and an additional \$50 million drawn on July 20 and 23, 2007 under a \$50 million unsecured credit facility that Radian provides to C-BASS. The Company also represented that although it had not determined the level of the impairment charge it “could be Radian’s entire investment, less any associated tax benefit.”

Defendant Ibrahim commented on the announcement stating in pertinent part as follows:

While this action clearly reflects the continuing credit challenges in today’s mortgage market, we are moving forward, as planned, with our proposed merger with MGIC, which we expect to close late in the current quarter, or early in the next.

31. In response to this announcement, the price of Radian common stock declined from \$40.20 per share to \$33.71 per share on extremely heavy trading volume.

32. On July 31, 2007, before the market opened, C-BASS issued a press release concerning Radian’s announcement of the impairment charge (and a similar announcement made by MGIC). According to C-BASS, at the beginning of 2007, it had \$302 million of liquidity, representing more than 30% of its capital of \$926 million. Thereafter, as 2007 unfolded and the subprime mortgage market crisis deepened, C-BASS received and met \$290 million in margin calls from its lenders, leaving it with virtually no liquidity. However, the margin calls kept coming into C-BASS and C-BASS did not have the liquidity to meet them. For example, in the first few weeks of June 2007 alone, C-BASS received margin calls of \$290 million from its lenders.

33. In response to this announcement, the price of Radian stock declined from \$33.71 per share to \$27.51 per share on extremely heavy trading volume.

34. The market for Radian’s common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Radian’s common stock traded at artificially inflated prices during the Class Period.

Plaintiff and other members of the Class purchased or otherwise acquired Radian common stock relying upon the integrity of the market price of Radian's common stock and market information relating to Radian, and have been damaged thereby.

35. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Radian's common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

36. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Radian's business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Radian and its business, prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's common stock at artificially inflated prices, thus causing the damages complained of herein.

#### **Additional Scienter Allegations**

37. As alleged herein, Defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or

disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Radian, their control over, and/or receipt and/or modification of Radian's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Radian, participated in the fraudulent scheme alleged herein.

**Applicability of Presumption of Reliance:  
Fraud on the Market Doctrine**

38. At all relevant times, the market for Radian's common stock was an efficient market for the following reasons, among others:

(a) Radian stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, Radian filed periodic public reports with the SEC and the NYSE;

(c) Radian regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Radian was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

39. As a result of the foregoing, the market for Radian's common stock promptly digested current information regarding Radian from all publicly available sources and reflected such

information in Radian's stock price. Under these circumstances, all purchasers of Radian's common stock during the Class Period suffered similar injury through their purchase of Radian's common stock at artificially inflated prices and a presumption of reliance applies.

### **NO SAFE HARBOR**

40. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Radian who knew that those statements were false when made.

### **FIRST CLAIM**

#### **Violation of Section 10(b) of the Exchange Act Against and Rule 10b-5 Promulgated Thereunder Against All Defendants**

41. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

42. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

43. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

44. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Radian common stock. Plaintiff and the Class would not have purchased Radian common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

45. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of Radian common stock during the Class Period.

## **SECOND CLAIM**

### **Violation of Section 20(a) of the Exchange Act Against the Individual Defendants**

46. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

47. The Individual Defendants acted as controlling persons of Radian within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of Radian, and their ownership of Radian stock, the Individual Defendants had the power and authority to cause Radian to engage in the wrongful conduct complained of herein. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

DATED: August 15, 2007

LAW OFFICES BERNARD M. GROSS, P.C.  
DEBORAH R. GROSS  
ROBERT P. FRUTKIN

---

DEBORAH R. GROSS

Wanamaker Building, Suite 450  
100 Penn Square East  
Philadelphia, PA 19107  
Telephone: 215/561-3600

LERACH COUGHLIN STOIA GELLER  
RUDMAN & ROBBINS LLP  
SAMUEL H. RUDMAN  
58 South Service Road, Suite 200  
Melville, NY 11747  
Telephone: 631/367-7100  
631/367-1173 (fax)

Attorneys for Plaintiff