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13 UNITED STATES DISTRICT COURT  
14 NORTHERN DISTRICT OF CALIFORNIA

15 LORI WEINRIB, Individually and on Behalf ) No.  
of All Others Similarly Situated, )  
16 ) CLASS ACTION  
Plaintiff, )  
17 ) COMPLAINT FOR VIOLATION OF THE  
vs. ) SECURITIES LAWS  
18 )  
19 THE PMI GROUP, INC., L. STEPHEN )  
SMITH, DAVID H. KATKOV and DONALD )  
P. LOFE, JR., )  
20 )  
Defendants. )  
21 )  
22 ) DEMAND FOR JURY TRIAL

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1 **INTRODUCTION**

2 1. This is a securities class action on behalf of all persons who purchased or otherwise  
3 acquired the common stock of The PMI Group, Inc. (“PMI” or the “Company”) between November  
4 2, 2006 and March 3, 2008, inclusive (the “Class Period”), against PMI and certain of its officers  
5 and/or directors for violations of the Securities Exchange Act of 1934 (“1934 Act”).

6 2. PMI, through its subsidiaries, provides credit enhancement products designed to  
7 promote homeownership and facilitate mortgage transactions in the capital markets in the United  
8 States, Australia, New Zealand and the European Union.

9 3. During the Class Period, defendants issued materially false and misleading statements  
10 regarding the Company’s business and financial results. As a result of defendants’ false statements,  
11 PMI stock traded at artificially inflated prices during the Class Period, reaching its Class Period high  
12 of \$50.21 per share in February 2007.

13 4. As the real estate and credit markets softened in late 2006 and into 2007, defendants  
14 repeatedly assured PMI investors that the Company had been very selective in its underwriting  
15 standards in the past and maintained adequate loss reserves to weather the deteriorating real estate  
16 and credit markets. Defendants further issued materially false and misleading statements regarding  
17 the Company’s business and financial results related to its investment in FGIC Corporation  
18 (“FGIC”) and FGIC’s bond insurance arm Financial Guaranty Insurance Company (“Financial  
19 Guaranty”).

20 5. As late as the summer of 2007, as the housing and credit crisis deepened, defendants  
21 continued to play down and conceal PMI’s growing exposure to these problems. As a result, PMI’s  
22 stock continued to be artificially inflated due to defendants’ false statements.

23 6. Beginning in late July 2007 and continuing throughout the Fall of 2007, PMI began to  
24 acknowledge that issues surrounding its exposure to anticipated losses and defaults related to its  
25 book of business written in 2005 through most of 2007 were more serious than previously  
26 represented due to a failure to engage in proper underwriting practices. PMI further announced  
27 mounting losses due to a large increase in both the amount and severity of defaults and due to its  
28 investment in FGIC and the problems that FGIC was experiencing as a bond insurer.

1           7.       As the truth about PMI's financials and business outlook emerged, the artificial  
2 inflation in the Company's stock came out and the stock began to drop.

3           8.       On January 17, 2008, the U.S. Commerce Department reported a significant decline  
4 in new-home construction in the previous year. The Commerce Department reported that work  
5 began on 1.35 million houses and apartments in 2007, down 24.8% from 2006. This decline was  
6 the second-biggest annual decline on record, exceeded only by a 26% percent plunge in 1980.  
7 Additionally, on the same date, Moody's Investors Service announced that it had placed Ambac  
8 Financial Group Inc., one of the nation's leading bond insurers and a close competitor of FGIC, on  
9 review for possible downgrades due to much higher than expected losses on mortgage-related bonds.  
10 These announcements were strong indicators as to the depth and severity of the problems in the  
11 housing market.

12           9.       Upon this news, shares in the Company's stock closed down \$1.29 per share to close  
13 at \$6.48 per share on January 17, 2008, a one-day decline of 17%.

14           10.      Then, on March 3, 2008, after the market closed, PMI issued a press release entitled  
15 "The PMI Group, Inc. Reports Preliminary Fourth Quarter 2007 Financial Results for Certain  
16 Segments." The release stated in part:

17           PMI Group, Inc. (the "Company") today announced that due to delays in obtaining  
18 2007 financial results from FGIC Corporation ("FGIC") the Company has filed a  
19 Form 12b-25 with the Securities and Exchange Commission ("SEC") for a late filing  
20 of its 2007 Form 10-K. In this SEC filing and as outlined below in financial  
21 highlights, the Company provides financial results for its U.S. Mortgage Insurance  
Operations and International Operations and discusses its expectations for its  
Financial Guaranty segment. The Company plans to issue its financial results for the  
fourth quarter of 2007 before the financial markets open (approximately 6:00 AM  
ET) on Wednesday, March 12, 2008, followed by a conference call at 11:30 AM ET.

22           "Our preliminary fourth quarter results for our U.S. Mortgage Insurance and  
23 International Operations demonstrate that we are facing challenging market  
24 conditions, particularly in the U.S. housing market," said The PMI Group Inc.'s  
25 Chairman and CEO Steve Smith. "We have implemented a plan to address these  
26 challenges, which we will discuss in detail on our conference call next week. A  
27 cornerstone of the plan and our strategic focus going forward is our core business,  
28 mortgage insurance, which we believe offers PMI long term opportunities for growth  
and profitability. Within our Financial Guaranty segment, we will continue to work  
to stabilize our equity investments in FGIC and RAM Re, but we will not be  
contributing any additional capital to these companies."

1 **Financial Highlights of U.S. and International Mortgage Insurance Operations**

- 2 • *U.S. Mortgage Insurance Operations – reported a net loss of \$236.0*  
3 *million in the fourth quarter of 2007 compared to net income of*  
4 *\$77.2 million in the fourth quarter of 2006. The loss in the fourth*  
5 *quarter of 2007 was driven in large part by an increase in losses*  
6 *and loss adjustment expenses resulting from an increase in our*  
7 *default inventory, higher claim rates and higher average claim*  
8 *sizes. For the full year ended December 31, 2007, U.S. Mortgage*  
9 *Insurance Operations reported a net loss of \$190.8 million compared*  
10 *to net income of \$290.3 million for the full year of 2006. The*  
11 *Company estimates that U.S. Mortgage Insurance Operations’ losses*  
12 *and loss adjustment expenses in 2007 were approximately \$1.1*  
13 *billion.*
- 14 • International Operations – reported a net loss of \$10.1 million in the  
15 fourth quarter of 2007 compared to net income of \$20.0 million in the  
16 fourth quarter of 2006. Fourth quarter 2007 results were driven  
17 primarily by a loss of \$29.6 million in PMI Europe as a result of  
18 increases in losses and loss adjustment expenses and mark-to-market  
19 losses associated with credit default swap derivative contracts, net  
20 income of \$17.8 million in PMI Australia and net income of \$2.9  
21 million in PMI Asia. For the full year ended December 31, 2007,  
22 International Operations reported net income of \$55.0 million  
23 compared to net income of \$103.5 million for the full year of 2006.
- 24 • Corporate and Other – reported a net loss of \$3.8 million in the fourth  
25 quarter of 2007 compared to a net loss of \$25.1 million in the fourth  
26 quarter of 2006. For the full year ended December 31, 2007,  
27 Corporate and Other reported a net loss of \$49.5 million compared to  
28 a net loss of \$71.4 million for the full year of 2006.

19 **Financial Guaranty Segment**

20 Because the Company lacks the necessary financial information from FGIC  
21 to complete its consolidated financial statements, the Company is not yet able to  
22 calculate its consolidated results of operations for the full year ended 2007 and also is  
23 not able to calculate the financial results of its Financial Guaranty segment. *The*  
24 *Company expects that its Financial Guaranty segment will report a significant net*  
25 *loss for the fourth quarter of 2007 and the year ended December 31, 2007, driven*  
26 *by equity in losses of FGIC, resulting from unrealized mark-to-market losses and*  
27 *losses and loss adjustment expenses at FGIC during those periods. In connection*  
28 *with the preparation of the Company’s consolidated financial statements, the*  
*Company is conducting an analysis to determine whether the value of its*  
*investment in FGIC was impaired as of December 31, 2007.* This analysis cannot be  
completed until the Company receives financial information from FGIC necessary  
for the Company to complete its consolidated financial statements.

27 (Footnotes omitted.)

1           11.     Additionally on March 3, 2008, in a Form 12b-25, the Company announced that it  
2 would be delayed in filing its Form 10-K for year-end 2007, stating in part:

3                     The PMI Group, Inc. (the “Company”) is unable to file its Annual Report on  
4 Form 10-K for the year ended December 31, 2007 in a timely manner without  
unreasonable effort and expense in light of the circumstances described below.

5                     The Company is unable to complete its consolidated financial statements for  
6 the year ended December 31, 2007 because it is currently awaiting financial  
7 information from an equity investee, FGIC Corporation (“FGIC”), that is necessary  
8 for the Company to complete its financial statements. *FGIC has informed the  
9 Company that it is in the process of completing its financial statements, but that it  
10 has not been able to do so due to the time and effort involved in determining the  
11 amount of loss reserves related to residential mortgage-backed securities and  
12 collateralized debt obligations of asset-backed securities. The determination of  
13 such reserves has been affected by the unprecedented rapid and severe  
14 deterioration of the residential mortgage market.*

15           12.     On this news, PMI’s stock collapsed to \$6.43 per share on March 4, 2008, a one-day  
16 decline of 5%. This was the lowest PMI’s stock had traded in its twelve years as a public company.

17           13.     The true facts, which were known by the defendants but concealed from the investing  
18 public during the Class Period, were as follows:

19                     (a)     The Company’s investment in FGIC was materially impaired as FGIC’s bond  
20 insurance arm, Financial Guaranty, had significant exposure to defaults on bonds it insured due to  
21 the plunge in value of mortgage debt;

22                     (b)     The Company was materially overstating its financial results by failing to  
23 properly value its investment in FGIC and by failing to write down that investment in a timely  
24 fashion in violation of Generally Accepted Accounting Principles (“GAAP”);

25                     (c)     The Company was not adequately accounting for its loss reserves in violation  
26 of GAAP, causing its financial results to be materially misstated;

27                     (d)     The Company failed to engage in proper underwriting practices for its book of  
28 business related to insurance written in 2005 through most of 2007;

                    (e)     The Company had far greater exposure to anticipated losses and defaults  
related to its book of business related to insurance written in 2005 through most of 2007 than it had  
previously disclosed;

1 (f) Given the deterioration and the increased volatility in the subprime market,  
2 the Company would be forced to tighten its standards and stop writing insurance policies to certain  
3 categories of borrowers which would have a direct material negative impact on its book of business  
4 going forward; and

5 (g) Given the increased volatility in the subprime market, the Company had no  
6 reasonable basis to make projections about its incurred losses or about its new insurance written. As  
7 a result, the Company's projections issued during the Class Period about its earnings for 2007 and  
8 2008 were at a minimum reckless.

9 14. As a result of defendants' false statements, PMI's stock price traded at inflated levels  
10 during the Class Period. However, after the revelations seeped into the market, the Company's  
11 shares were hammered by massive sales, sending them down more than 87% from their Class Period  
12 high of \$50.21 per share in February 2007.

### 13 JURISDICTION AND VENUE

14 15. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise  
15 under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

16 16. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the  
17 false and misleading statements were made in or issued from this District.

18 (b) PMI's principal executive offices are located at 3003 Oak Road, Walnut  
19 Creek, California.

### 20 PARTIES

21 17. Plaintiff Lori Weinrib purchased PMI common stock as described in the attached  
22 certification and was damaged thereby.

23 18. Defendant PMI, through its subsidiaries, provides credit enhancement products that  
24 promote homeownership and facilitate mortgage transactions in the capital markets in the United  
25 States, Australia, New Zealand and the European Union. PMI stock trades under the symbol PMI on  
26 the New York Stock Exchange.

1           19. Defendant L. Stephen Smith (“Smith”) is, and at all relevant times was, Chairman and  
2 Chief Executive Officer (“CEO”) of the Company. During the Class Period, Smith disposed of \$6.9  
3 million worth of his PMI stock while the stock was artificially inflated.

4           20. Defendant David H. Katkov (“Katkov”) is, and at all relevant times was, Executive  
5 Vice President of the Company. During the Class Period, Katkov disposed of \$485,414 worth of his  
6 PMI stock while the stock was artificially inflated.

7           21. Defendant Donald P. Lofe, Jr. (“Lofe”) was, at relevant times, Executive Vice  
8 President and Chief Financial Officer (“CFO”) of the Company.

9           22. Defendants Smith, Katkov and Lofe (the “Individual Defendants”), because of their  
10 positions with the Company, possessed the power and authority to control the contents of PMI’s  
11 quarterly reports, press releases and presentations to securities analysts, money and portfolio  
12 managers and institutional investors, *i.e.*, the market. They were provided with copies of the  
13 Company’s reports and press releases alleged herein to be misleading prior to or shortly after their  
14 issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected.  
15 Because of their positions with the Company, and their access to material non-public information  
16 available to them but not to the public, the Individual Defendants knew that the adverse facts  
17 specified herein had not been disclosed to and were being concealed from the public and that the  
18 positive representations being made were then materially false and misleading. The Individual  
19 Defendants are liable for the false statements pleaded herein at ¶¶30-36, 38, 40 and 44.

20                           **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

21           23. Defendants are liable for: (i) making false statements; or (ii) failing to disclose  
22 adverse facts known to them about PMI. Defendants’ fraudulent scheme and course of business that  
23 operated as a fraud or deceit on purchasers of PMI common stock was a success, as it: (i) deceived  
24 the investing public regarding PMI’s prospects and business; (ii) artificially inflated the price of PMI  
25 common stock; (iii) allowed certain of the defendants to reap over \$7.3 million in insider selling  
26 proceeds; and (iv) caused plaintiff and other members of the Class to purchase PMI common stock at  
27 inflated prices.





- 2007 underwriting income from PMI's U.S. mortgage insurance operations.

These criteria exclude realized gains/losses, extraordinary items under GAAP, any impact of changes in accounting principles, adjustments to reflect lost investment income from stock repurchase activities authorized by the Board of Directors and the effect of FGIC refundings. The Committee weighted these three criteria equally; and

- Attainment of various corporate objectives criteria, including financial measures such as return on equity; strategic planning and strategic objectives; capital management; business segment synergies; investor, rating agency and governmental relations activities; and key officer development.

The Committee weighted the income criteria and the corporate objectives criteria at 65% and 35%, respectively.

In addition to these criteria, the Committee considers other quantitative and qualitative factors, including individual performance, retention, reward and motivation. The Committee believes that the net income bonus pool, the criteria and other factors will motivate our executive officers to achieve our 2007 goals in a manner consistent with the creation of long-term shareholder value, and that they are sufficiently challenging and difficult to achieve to focus executives on superior achievement of the Company's short-term objectives.

25. For 2006, defendants received the following amounts:

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
<b>L. Stephen Smith</b> Director, President, Chief Executive Officer and Chief Operating Officer	2006	649,583	462,183	1,342,969	968,419	881,957	170,816	4,475,927
<b>Donald P. Lofe, Jr.</b> Executive Vice President and Chief Financial Officer	2006	390,000	231,984	379,501	380,250	90,715	80,259	1,552,709
<b>David H. Katkov</b> Executive Vice President	2006	385,333	231,092	361,055	374,969	213,470	54,583	1,620,502

(Footnotes omitted.)

### BACKGROUND

26. PMI, through its subsidiaries, provides credit enhancement products that promote homeownership. It operates in four segments: U.S. Mortgage Insurance Operations, International Operations, Financial Guaranty, and Other. The U.S. Mortgage Insurance Operations segment

1 provides residential mortgage insurance and structured finance products to mortgage lenders, savings  
2 institutions, commercial banks, capital market participants, and investors in the United States. The  
3 International Operations segment offers mortgage insurance and credit enhancement products,  
4 including primary mortgage insurance, structured portfolio products, and reinsurance products to  
5 lending institutions, as well as for residential mortgage-backed securitizations in Australia, New  
6 Zealand, the European Union, and Hong Kong. The Financial Guaranty segment provides financial  
7 guaranty insurance for public finance and structured finance obligations and offers credit  
8 enhancement solutions that enable municipal and asset-backed issuers to facilitate access to capital  
9 markets. It provides direct insurance to issuers and lenders, and reinsurance to financial guarantors.  
10 The Other segment engages in contract underwriting operations.

11         27. PMI owns a 42% equity ownership interest in FGIC. It purchased its ownership in  
12 FGIC along with Blackstone Group LP (“Blackstone”) and Cypress Group (“Cypress”). The  
13 consortium purchased an 88% interest in FGIC from General Electric Co. in 2003 for \$1.86 billion.  
14 PMI gained the largest stake in FGIC with a 42% share while Blackstone and Cypress each obtained  
15 a 23% stake in the company.

16         28. FGIC was founded in 1983 and is one of the four leading monoline financial  
17 guarantors. FGIC is the parent company of Financial Guaranty, its bond insurance arm. Financial  
18 Guaranty is a monoline insurer (“monoline”). Monolines such as Financial Guaranty insure bonds  
19 that have been issued by other entities. Financial Guaranty purports to leverage its AAA financial  
20 strength rating by Moody’s Investors Service (“Moody’s”), Standard & Poor’s Ratings Services  
21 (“Standard & Poor’s”) and Fitch Ratings (“Fitch”) to guarantee the timely repayment of bond  
22 principal and interest of an issuer in the event the issuer defaults, thus allowing the debt issued to get  
23 the highest possible rating. Financial Guaranty’s financial guarantee is designed to protect investors  
24 in the event of securities default.

25         29. Traditionally Financial Guaranty focused mainly on conservative municipal bonds.  
26 In recent years, lured by larger profits and higher growth rates, Financial Guaranty began writing  
27 insurance on collateralized debt obligations (“CDOs”), including CDOs backed by subprime  
28 mortgages to higher-risk borrowers. CDOs are a type of asset-backed security and structured credit

1 product. CDOs repackage bonds, mortgages and other assets into new securities and then use the  
2 income from the underlying debt to pay investors. CDOs are secured or backed by a pool of bonds,  
3 loans or other assets, where investors buy slices classified by varying levels of debt or credit risk.

4 **DEFENDANTS' FALSE AND MISLEADING**  
5 **STATEMENTS ISSUED DURING THE CLASS PERIOD**

6 30. On November 2, 2006, the Company issued a press release entitled "The PMI Group,  
7 Inc. Reports Third Quarter 2006 Net Income of \$104.2 Million, or \$1.16 per Diluted Share." The  
8 release stated in part:

9 The PMI Group, Inc. (the "Company") today reported net income of \$104.2 million  
10 for the third quarter of 2006 compared to net income of \$95.7 million for the third  
11 quarter of 2005. Net income per diluted share grew by approximately 20 percent to  
12 \$1.16 for the third quarter of 2006 compared to \$0.97 for the third quarter of 2005.  
The increase was due to improved performance in all business segments of the  
Company's operations, a reduced number of common shares outstanding and a  
favorable comparison with the third quarter of 2005 when the Company's equity  
earnings from FGIC were adversely impacted by Hurricane Katrina.

13 Highlights in the third quarter of 2006 include:

- 14 • U.S. Mortgage Insurance Operations – solid growth in premiums  
15 written, premiums earned, average premium rate and net investment  
16 income as well as increased persistency and continued expense  
reductions from field office restructurings;
- 17 • International Operations – PMI Australia reported record net income  
18 along with solid growth in premiums earned and net investment  
19 income while also strengthening loss reserves. PMI Europe grew net  
premiums written, new insurance written and insurance in force as  
20 well as continued expansion of PMI's European presence;
- 21 • Financial Guaranty – FGIC reported strong premium earnings,  
22 increased net investment income and favorable credit performance;
- 23 • Common Share Repurchases – the Company entered into an  
24 accelerated stock buyback program pursuant to which it will purchase  
25 common stock for an aggregate purchase price of \$345 million. The  
26 maximum number of shares to be repurchased under the program has  
27 been set at 8.2 million common shares and the minimum number has  
28 been set at 7.2 million representing a purchase price range per  
common share from \$41.88 to \$47.99, respectively. The actual  
number of shares received and the average per share cost per share  
will depend on the weighted average share price of common stock  
over the period of the program which will extend through April 2007  
but may terminate earlier. In the third quarter of 2006, the Company  
received the minimum allotment of approximately 7.2 million

1 common shares. The Company will receive additional common  
2 shares at the program's expiration to the extent the Company's  
3 weighted average common share net price does not exceed \$47.99  
4 during the program. During the third quarter of 2006, the Company  
also entered into a Rule 10b5-1 Plan for the purchase of up to \$40  
million of additional common shares.

- 5 • New Revolving Credit Facility – the Company entered into a new  
6 five-year \$400 million revolving credit facility with a consortium of  
7 lenders. The facility may be expanded up to \$500 million with the  
8 approval of the lenders.
- Book value per share ended the third quarter at \$39.14, an increase of  
approximately 10% from third quarter of 2005.

### 9 ***Consolidated Operating Results***

10 Consolidated net premiums written for the third quarter and year to date  
11 totaled \$212.4 million and \$626.1 million, respectively, compared to \$206.1 million  
12 and \$599.6 million for the same periods one year ago. The increases, on a year over  
13 year comparison, were due primarily to an increase in average premium rates and  
average insured loan balances in U.S. Mortgage Insurance Operations and higher  
new insurance written in PMI Australia.

14 Consolidated premiums earned for the third quarter and year to date were  
15 \$214.9 million and \$634.8 million, respectively, compared to \$205.1 million and  
16 \$611.0 million for the same periods one year ago. The increases, on a year over year  
17 comparison, were due to higher average premium rates, higher new insurance  
written, insurance in force growth and a release of unearned premiums on terminated  
policies in PMI Australia, and higher average premium rates and loan sizes in U.S.  
Mortgage Insurance Operations.

18 Consolidated other underwriting and operating expenses for the third quarter  
19 and year to date were \$56.2 million and \$169.6 million, respectively, compared to  
20 \$54.5 million and \$154.6 million for the same periods one year ago. The increases in  
21 the third quarter and first nine months of 2006, compared to the same periods in  
2005, were due primarily to stock option and employee stock purchase plan related  
expenses, partially offset by savings from field office restructurings in U.S. Mortgage  
Insurance Operations.

22 Consolidated losses and loss adjustment expenses for the third quarter and  
23 year to date were \$79.6 million and \$212.4 million, respectively, compared to \$61.3  
24 million and \$193.0 million in the same periods last year. The increase in the third  
25 quarter of 2006, compared to the same period in 2005, was primarily a result of loss  
26 reserve additions and an increase in claims paid in U.S. Mortgage Insurance  
Operations, PMI Australia and, to a lesser extent, PMI Europe. The increase in the  
first nine months of 2006 compared to the same period in 2005 was due primarily to  
reserve additions and an increase in paid claims in PMI Australia and PMI Europe.

27 Consolidated reserve for losses and loss adjustment expenses totaled \$394.2  
28 million as of September 30, 2006 compared to \$384.6 million as of June 30, 2006  
and \$366.3 million as of September 30, 2005. Loss reserves in U.S. Mortgage  
Insurance Operations increased \$3.0 million in the third quarter of 2006, compared to

1 second quarter of 2006, primarily due to higher expected claim rates and claim sizes.  
2 PMI Australia's reserve for losses increased \$6.1 million in the third quarter,  
3 compared to the second quarter of 2006, primarily due to an increase in delinquent  
4 loans, and higher expected average claim sizes and claim rates.

5 (Footnotes omitted.)

6 31. On February 5, 2007, the Company issued a press release entitled "The PMI Group,  
7 Inc. Reports Record 2006 Net Income of \$419.7 Million, or \$4.57 Per Diluted Share; Fourth Quarter  
8 2006 Net Income of \$100.5 Million, or \$1.19 Per Diluted Share." The release stated in part:

9 The PMI Group, Inc. (the "Company") today reported record net income for the full  
10 year 2006 of \$419.7 million compared to \$409.2 million in 2005. Net income per  
11 diluted share for the full year of 2006 rose 11.5% to \$4.57 compared to \$4.10 per  
12 share one year ago. Net income for the fourth quarter of 2006 was \$100.5 million, or  
13 \$1.19 per diluted share, compared to net income in the fourth quarter of 2005 of  
14 \$107.7 million, or \$1.11 per diluted share.

15 The Company ended 2006 with a book value of \$41.14 per share compared to  
16 \$36.42 at the end of 2005, representing an increase of approximately 13%.

17 Highlights include:

- 18 • U.S. Mortgage Insurance Operations – primary insurance in force  
19 grew to \$102.6 billion and the persistency rate increased to 69.6%.  
20 Incurred losses for the year were approximately \$263 million,  
21 consistent with the Company's guidance;
- 22 • International Operations – PMI Australia had substantial growth in  
23 net premiums written driven by insurance in force growth. Fourth  
24 quarter results included an increase in incurred losses due to a  
25 normalization of credit performance in Australia. PMI Europe  
26 reported record net income along with solid growth in new insurance  
27 written PMI's European presence continued to expand;
- 28 • Financial Guaranty – equity earnings from FGIC grew as a result of  
strong premium earnings and increased net investment income;
- Capital Events – the Company repurchased approximately 907,000  
common shares in the fourth quarter for \$40 million. For the full  
year, the Company has retired approximately 11.4 million common  
shares at a cost of approximately \$535 million. Inclusive within the  
\$535 million cost, the Company expects to receive additional  
common shares under its accelerated stock buyback program by no  
later than the second quarter of 2007. The Company had 84.5 million  
diluted weighted average common shares outstanding in the fourth  
quarter of 2006, a decrease of 14.7 million common shares from the  
fourth quarter 2005.

- 1 • In the fourth quarter of 2006, the Company recognized a one-time  
2 pension settlement charge of \$4.0 million after tax, a \$1.2 million  
3 benefit from an after tax reversal related to the Raynham settlement  
4 and costs of \$738,000 after tax to exchange and extinguish debt.
- 5 • Book value per share as of December 31, 2006 was \$41.14, an  
6 increase of approximately 13% from the prior year.

#### 7 Consolidated Operating Results

8 Consolidated net premiums written for the fourth quarter and full year totaled  
9 \$235.5 million and \$861.6 million, respectively, compared to \$246.1 million and  
10 \$845.7 million for the same periods one year ago. The year over year increase was  
11 due primarily to an increase in average premium rates and average insured loan  
12 balances in U.S. Mortgage Insurance Operations and higher new insurance written in  
13 the International segment from PMI Australia and PMI Europe.

14 Consolidated premiums earned for the fourth quarter and full year were  
15 \$225.7 million and \$860.5 million, respectively, compared to \$206.6 million and  
16 \$817.6 million for the same periods one year ago. The increases in 2006 were due to  
17 insurance in force growth, higher average premium rates and loan sizes in U.S.  
18 Mortgage Insurance Operations and insurance in force growth in PMI Australia.

19 Consolidated losses and loss adjustment expenses for the fourth quarter and  
20 full year were \$90.5 million and \$302.9 million, respectively, compared to \$64.8  
21 million and \$257.8 million in the same periods last year. The increases in 2006 were  
22 primarily a result of loss reserve additions in U.S. Mortgage Insurance Operations  
23 and an increase in total incurred losses in PMI Australia. The incurred losses  
24 increase for PMI Australia was driven principally by increases in claim rates and  
25 severity.

26 Consolidated other underwriting and operating expenses for the fourth quarter  
27 and full year were \$68.7 million and \$235.8 million, respectively, compared to \$59.1  
28 million and \$213.6 million for the same periods one year ago. The increases in 2006  
were due primarily to our adoption of SOFAS 123R and the resulting expenses for  
stock options and stock based compensation and a pension settlement charge related  
to a lump-sum distribution from the Supplemental Employee Retirement Plan.

Consolidated reserve for losses and loss adjustment expenses totaled \$414.7  
million as of December 31, 2006 compared to \$394.2 million as of September 30,  
2006 and \$368.8 million as of December 31, 2005. Loss reserves in U.S. Mortgage  
Insurance Operations increased \$7.4 million in the fourth quarter of 2006 primarily  
due to higher expected claim rates and claim sizes. PMI Australia's reserve for losses  
and LAE increased \$12.4 million in the fourth quarter primarily due to higher  
expected claim rates and severity and, to a lesser extent, an increase in the number of  
delinquent loans.

(Footnotes omitted.)

32. Also on February 5, 2007, the Company issued a press release entitled "The PMI  
Group, Inc. Issues 2007 Financial Guidance," which stated in part:

1 The PMI Group, Inc. (the “Company”) today issued the following financial guidance  
2 for 2007:

3 • Total incurred losses for its U.S. Mortgage Insurance Operations to be  
4 between \$280 million to \$305 million;

5 • Expense ratio for its U.S. Mortgage Insurance Operations to be  
6 between 21% and 24%;

7 • Consolidated investment portfolio pre-tax yield to be between 5.00%  
8 and 5.50%;

9 • Full year expenses related to stock options and stock based  
10 compensation to be between \$13 million to \$15 million after tax;

11 • Consolidated tax rate to be between 25% and 27%.

12 33. On April 30, 2007, the Company issued a press release entitled “The PMI Group, Inc.  
13 Reports First Quarter 2007 Net Income of \$102.0 Million, or \$1.16 Per Diluted Share; Record  
14 Quarterly Revenues Driven by Growth in U.S. Mortgage Insurance Operations.” The release stated  
15 in part:

16 The PMI Group, Inc. (the “Company”) today reported net income for the first quarter  
17 of 2007 of \$102.0 million compared to net income in the first quarter of 2006 of  
18 \$105.3 million. Diluted net income per share grew by approximately six percent to  
19 \$1.16 for the first quarter of 2007 compared to \$1.09 for the first quarter of 2006 and  
20 was positively influenced by the Company’s redemption of its 2.5% Senior  
21 Convertible Debentures in October 2006.

22 The Company ended the first quarter of 2007 with a book value of \$42.21 per  
23 share compared to \$37.24 at the end of the first quarter of 2006, representing an  
24 increase of approximately 13%.

25 Highlights include:

26 • U.S. Mortgage Insurance Operations – achieved record total revenues  
27 driven by strong growth in net premiums written and earned, and  
28 grew primary insurance in force to \$106.9 billion. Net premiums  
written and net premiums earned in the first quarter of 2007 increased  
approximately 20% and 16%, respectively, compared to the same  
period one year ago;

• International Operations – PMI Australia had solid growth in net  
premiums written driven by insurance in force growth of 27%,  
compared to the first quarter 2006, to end at \$156.7 billion. PMI  
Europe reported strong growth in net premiums written of  
approximately 24% compared to the first quarter of 2006;

- 1 • Financial Guaranty – equity in earnings from FGIC grew by 34% to  
2 \$29.3 million compared to the first quarter of 2006 as a result of  
3 strong premium earnings, increased net investment income and a  
4 favorable impact to tax expense from a reduction of contingent tax  
5 reserves;
- 6 • Capital Events – the Company repurchased approximately 325,000  
7 common shares for approximately \$14 million. The Company’s  
8 accelerated stock buyback program is expected to be completed in the  
9 second quarter of 2007.

## 10 Consolidated Operating Results

11 Consolidated net premiums written for the first quarter of 2007 totaled \$244.1  
12 million compared to \$201.9 million for the same period one year ago. The year over  
13 year increase was primarily due to an increase in new insurance written, improved  
14 persistency, higher average premium rates and higher average insured loan balances  
15 in U.S. Mortgage Insurance Operations and an increase in net premiums written in  
16 PMI Australia.

17 Consolidated premiums earned for the first quarter of 2007 were \$236.4  
18 million compared to \$206.2 million for the same period one year ago. The increase  
19 in the first quarter of 2007 was due to insurance in force growth, higher average  
20 premium rates and loan sizes in U.S. Mortgage Insurance Operations and insurance  
21 in force growth in PMI Australia.

22 Consolidated losses and loss adjustment expenses for the first quarter of 2007  
23 were \$109.3 million compared to \$60.9 million in the same period last year. The  
24 increase in first quarter of 2007 was primarily a result of higher incurred losses in  
25 U.S. Mortgage Insurance Operations and PMI Australia. The incurred losses  
26 increase in U.S. Mortgage Insurance Operations was a result of an increase in claim  
27 size and claim rates while the increase in PMI Australia was due to higher claim  
28 sizes and an increase in the number of delinquent loans.

Consolidated other underwriting and operating expenses for the first quarter  
of 2007 were \$62.7 million compared to \$58.6 million for the same period one year  
ago. The increase in the first quarter of 2007 was due primarily to higher stock  
option expense charges.

Consolidated reserve for losses and loss adjustment expenses totaled \$443.0  
million as of March 31, 2007 compared to \$414.7 million as of December 31, 2006  
and \$369.9 million as of March 31, 2006. Loss reserves in U.S. Mortgage Insurance  
Operations increased \$19.9 million in the first quarter of 2007 primarily due to lower  
default cure rates and higher claim sizes. PMI Australia’s reserve for losses and  
LAE increased \$7.8 million in the first quarter of 2007 primarily due to an increase  
in the number of delinquent loans.

(Footnotes omitted.)

34. Also on April 30, 2007, the Company issued a press release entitled “The PMI Group,  
Inc. Updates 2007 Financial Guidance,” which stated in part:

The PMI Group, Inc. (the “Company”) today updated its financial guidance for 2007:

- 1 • Total incurred losses for its U.S. Mortgage Insurance Operations to  
2 be between \$300 million to \$360 million;
- 3 • Expense ratio for its U.S. Mortgage Insurance Operations to be  
4 between 20% and 23%;
- 5 • Consolidated investment portfolio pre-tax yield to be between 5.00%  
6 and 5.50%;
- 7 • Full year expenses related to stock options and share-based  
8 compensation to be between \$13 million to \$15 million after tax;
- 9 • Consolidated tax rate to be between 25% and 27%.

10 35. On July 31, 2007, the Company issued a press release entitled “The PMI Group, Inc.  
11 Reports Second Quarter 2007 Net Income of \$83.8 Million, or \$0.95 Per Diluted Share.” The  
12 release stated in part:

13 The PMI Group, Inc. (the “Company”) today reported net income for the second  
14 quarter of 2007 of \$83.8 million, or \$0.95 per diluted share. Net income for the  
15 second quarter of 2006 was \$109.6 million, or \$1.14 per diluted share. The decline in  
16 net income for the second quarter of 2007 was primarily due to a \$58.7 million  
17 increase in loss reserves and higher claims paid in U.S. Mortgage Insurance  
18 Operations, partially offset by increases in net income from International Operations  
19 and Financial Guaranty.

20 The Company ended the second quarter of 2007 with a book value of \$43.46  
21 per share compared to \$38.11 at the end of the second quarter of 2006, representing  
22 an increase of approximately 14%.

23 Highlights include:

- 24 • U.S. Mortgage Insurance Operations – Net income was \$41.5 million  
25 in the second quarter of 2007. Losses and loss adjustment expenses  
26 increased to \$134.4 million as a result of increases in notices of  
27 default, claim rates and claim sizes. Total revenues in the second  
28 quarter of 2007 increased by approximately 13% driven by strong  
growth in net premiums written and earned. Net premiums written  
and net premiums earned in the second quarter of 2007 increased by  
approximately 19% and 16%, respectively, compared with the same  
period one year ago. Insurance in force at the end of the second  
quarter of 2007 was \$111.7 billion, representing an 11% increase  
from one year ago.
- International Operations – PMI Australia had solid growth in net  
premiums written and grew their insurance in force to \$172.9 billion.  
Total losses and loss adjustment expenses decreased in the second  
quarter of 2007 from the first quarter resulting in a loss ratio of 25.2%  
for the period and 34.4% for the first six months of 2007. PMI

1 Europe reported strong growth in net premiums written of  
2 approximately 66% compared with the second quarter of 2006 driven  
3 particularly by flow business in Italy.

- 4 • Financial Guaranty – equity in earnings from FGIC were \$27.4  
5 million (pre-tax), an increase of 10% compared with the second  
6 quarter of 2006, as a result of strong premium earnings, a significant  
7 recovery related to a Hurricane Katrina impacted credit, a release of  
8 certain tax contingencies and increased net investment income,  
9 partially offset by mark to market adjustments in certain mortgage  
10 related CDO's due principally to widening credit spreads.
- 11 • Capital Events – The Company repurchased 468,500 common shares  
12 for approximately \$23 million in the second quarter of 2007. The  
13 Company also completed its accelerated stock buyback program in  
14 the second quarter of 2007 with the final delivery of 436,152  
15 common shares. In July 2007, the Company announced an additional  
16 \$150 million authorization to its existing common share repurchase  
17 program which brings total current authorizations to \$300 million.

#### 12 Consolidated Operating Results

13 Consolidated net premiums written for the second quarter and first half of  
14 2007 totaled \$256.0 million and \$500.0 million, respectively, compared with \$211.8  
15 million and \$413.7 million for the same periods one year ago. The year over year  
16 increases were primarily due to an increase in new insurance written, improved  
17 persistency, higher average primary premium rates and higher average insured loan  
18 balances in U.S. Mortgage Insurance Operations and an increase in net premiums  
19 written combined with favorable foreign exchange rates in PMI Australia.

17 Consolidated premiums earned for the second quarter and first half of 2007  
18 were \$242.3 million and \$478.7 million, respectively, compared with \$213.6 million  
19 and \$419.9 million for the same periods one year ago. The increases were due to  
20 insurance in force growth, higher average premium rates and larger loan sizes in U.S.  
21 Mortgage Insurance Operations.

20 Consolidated losses and loss adjustment expenses for the second quarter and  
21 first half of 2007 were \$146.2 million and \$255.5 million, respectively, compared  
22 with \$71.9 million and \$132.8 million for the same periods last year. The increases  
23 were primarily a result of higher incurred losses in U.S. Mortgage Insurance  
24 Operations as a result of an increase in notices of default, claim size and claim rates.

23 Consolidated other underwriting and operating expenses for the second  
24 quarter and first half of 2007 were \$59.8 million and \$122.5 million, respectively,  
25 compared with \$52.9 million and \$113.4 million for the same periods one year ago.  
26 The increases were primarily due to growth of the International Operations combined  
27 with changes in foreign exchange rates.

26 Consolidated reserve for losses and loss adjustment expenses totaled \$507.0  
27 million as of June 30, 2007 compared with \$443.0 million as of March 31, 2007 and  
28 \$384.6 million as of June 30, 2006. Reserves for losses and loss adjustment expenses  
(LAE) in U.S. Mortgage Insurance Operations increased \$58.7 million in the second

1 quarter of 2007 primarily due to an increase in notices of default, increased claim  
2 rates and larger claim sizes. PMI Australia's reserve for losses and LAE increased  
\$2.8 million in the second quarter of 2007 due to a higher default inventory.

3 (Footnotes omitted.)

4 36. Also on July 31, 2007, the Company issued a press release entitled "The PMI Group,  
5 Inc. Updates 2007 Financial Guidance," which stated in part:

6 The PMI Group, Inc. (the "company") today updated its financial guidance for 2007:

- 7 • Paid claims, loss adjustment expenses and additions to the reserve for  
8 losses (collectively "total incurred losses") for its U.S. Mortgage  
Insurance Operations to be between \$450 million to \$550 million;
- 9 • Expense ratio for its U.S. Mortgage Insurance Operations to be  
10 between 20% and 23%;
- 11 • Consolidated investment portfolio pre-tax yield to be between 5.00%  
12 and 5.50%;
- 13 • Full year expenses related to stock options and share-based  
14 compensation to be between \$13 million to \$15 million after tax;
- 15 • Consolidated tax rate to be between 19% and 22%.

16 37. This was part of a series of partial disclosures and revelations concerning the truth  
17 about PMI's business operations, finances, business metrics, and future business and financial  
18 prospects. Nonetheless, PMI's stock continued to trade at artificially inflated levels as this  
19 revelation, along with the ones made during the remainder of the Class Period, was accompanied by  
20 denials and continued misrepresentations by defendants. Upon this news, PMI's stock dropped  
21 \$3.20 per share on July 31, 2007, to close at \$34.07 per share, a one-day decline of 8.6% on volume  
of over five times the average three-month volume.

22 38. On August 29, 2007, the Company issued a press release entitled "The PMI Group,  
23 Inc. Comments on Fitch Revisions to U.S. Mortgage Insurance Capital Model and Ratings Actions,"  
24 which stated in part:

25 The PMI Group, Inc. announced today that consistent with its revisions of its capital  
26 model for U.S. mortgage insurance companies, Fitch Ratings (Fitch) has changed the  
27 insurer financial strength ratings for PMI Mortgage Insurance Co. and PMI Guaranty  
28 Co. to AA from AA+. Fitch has noted that these changes are the result of revisions  
Fitch made to its capital model for U.S. mortgage insurance companies. Fitch  
affirmed ratings for PMI Australia and PMI Europe at AA and for The PMI Group,

1 Inc. at A+. Fitch's Outlook for The PMI Group, Inc. and related subsidiaries' ratings  
is Stable.

2  
3 Steve Smith, CEO of The PMI Group, Inc., said, "It is important to recognize  
4 that the ratings changes made by Fitch were primarily driven by a change in their  
5 ratings methodology and capital model, not by a deterioration in the financial  
6 position or results of The PMI Group, Inc. or our subsidiaries. PMI Mortgage  
7 Insurance Co.'s AA ratings from Fitch and Standard and Poor's and Aa2 rating from  
8 Moody's Investor Services speak to our position as a strong mortgage insurance  
counterparty for our customers in the U.S. and international credit enhancement  
markets. ***PMI Guaranty Co.'s AA rating from Fitch, along with AA ratings from  
Standard and Poor's and Aa3 ratings from Moody's Investors Services, provides  
strong ratings upon which PMI Guaranty can continue to successfully offer  
mezzanine and remote loss credit enhancement solutions for structured portfolio  
transactions and capital markets executions.***"

9 In announcing its ratings changes, Fitch noted a declining U.S. residential real  
10 estate market and PMI's related exposure and cited PMI's solid franchise, strong  
11 balance sheet at the AA rating stress level, experienced management team, and high  
12 quality insured portfolio as measured by FICO score distribution and other risk  
layering characteristics. Fitch also noted that The PMI Group, Inc. derives benefit  
from diverse earnings streams from international mortgage insurance as well as  
operations outside of the mortgage insurance space, primarily financial guaranty.

13 39. On October 17, 2007, MGIC Investment, PMI's closest competitor, announced that it  
14 had suffered its first quarterly loss as a public company due to a large increase in both the amount  
15 and severity of defaults. MGIC Investment further indicated that it had more exposure to anticipated  
16 losses and defaults related to its book of business written in 2005 through most of 2007 than  
17 previously represented due to a failure to engage in proper underwriting practices.

18 40. On October 18, 2007, the Company issued a press release entitled "The PMI Group,  
19 Inc. Announces Housing, Mortgage and Credit Market Conditions to Adversely Affect Third Quarter  
20 2007 Financial Results," which stated in part:

21 As a result of the continued weak housing and mortgage markets and associated  
22 dislocation in the credit derivative markets, The PMI Group, Inc. announced today  
23 that it expects to report a net loss per basic and diluted share outstanding of  
approximately \$1.05 in the third quarter of 2007. The primary components of the loss  
are incurred losses in its U.S. Mortgage Insurance Operations and a mark-to-market  
(or fair value) adjustment at its unconsolidated subsidiary FGIC.

24  
25 The Company's review of the September mortgage default data on its U.S.  
26 mortgage insurance portfolio indicates that credit performance significantly  
27 worsened during the month and now expects paid claims, loss adjustment expenses  
and additions to the reserve for losses (collectively "total incurred losses") for its  
U.S. mortgage insurance operations of approximately \$350 million in the third  
quarter of 2007. As a result, the Company is withdrawing its full year total incurred  
loss guidance and other financial guidance.

1 Credit conditions also had an adverse effect on the insured credit derivative  
2 portfolio of FGIC, in which PMI is the lead strategic investor, with a common equity  
3 ownership of 42.0 percent. FGIC conducted a fair value review of its outstanding  
4 credit derivative contracts at September 30, 2007 and estimates that mark-to-market  
5 adjustments will result in an unrealized loss of approximately \$206 million, pre-tax,  
6 in the third quarter of 2007. FGIC anticipates that as a result of this adjustment it will  
7 report a net loss for the third quarter of 2007 of approximately \$65 million. As a  
8 result of PMI's equity ownership in FGIC, PMI will realize an earnings per share  
9 loss of \$0.32 in the third quarter of 2007 (which amount is included in the estimated  
10 third quarter 2007 net loss per share for The PMI Group, Inc. shown above).

11 41. On October 19, 2007, Standard & Poor's announced that it had placed PMI on  
12 negative CreditWatch with negative implications.

13 42. In mid-October 2007, as this news surfaced concerning the true state of PMI's  
14 financials and business outlook, PMI's stock price began to decline rapidly. Between October 16,  
15 2007 and October 23, 2007, PMI's stock dropped \$11.55 per share to close at \$17.96 per share on  
16 October 23, 2007, a five-day decline of 39% on extremely high volume.

17 43. Thereafter, in the next couple of months, as more of the truth about PMI's financials  
18 and business outlook emerged, including information concerning FGIC and Financial Guaranty,  
19 more of the artificial inflation in the Company's stock came out and the stock dropped even more.

20 44. On October 30, 2007, the Company issued a press release entitled "The PMI Group,  
21 Inc. Reports Third Quarter 2007 Financial Results," which stated in part:

22 The PMI Group, Inc. (the "Company") today reported a net loss for the third quarter  
23 of 2007 of \$86.8 million, or \$1.04 per basic and diluted share. Net income for the  
24 third quarter of 2006 was \$104.2 million, or \$1.16 per diluted share. The net loss for  
25 the third quarter of 2007 was primarily due to \$348.3 million in paid claims, loss  
26 adjustment expenses and additions to the reserve for losses (collectively "Losses and  
27 LAE") in the U.S. Mortgage Insurance Operations, and FGIC's negative mark-to-  
28 market adjustments on its insured credit derivative portfolio in the Company's  
Financial Guaranty segment.

Highlights include:

- U.S. Mortgage Insurance Operations – The net loss was \$65.2 million in the third quarter of 2007. During the third quarter, the Company added \$253.6 million to the reserves for losses and loss adjustment expenses (LAE) and paid \$92.6 million in claims. Total revenues in the third quarter increased by approximately 20% compared to the third quarter of 2006, driven by strong growth in net premiums written and earned. Insurance in force at the end of the third quarter of 2007 was \$120.0 billion, representing a 20% increase from one year ago.

- 1 • International Operations – PMI Australia posted net income of \$19.7  
2 million on higher premiums earned and net investment income,  
3 partially offset by higher losses and LAE. PMI Australia reported  
4 solid growth year over year in net premiums written and grew its  
5 insurance in force to \$182.8 billion. Total losses and LAE increased  
6 in the third quarter of 2007 to \$21.8 million due primarily to higher  
7 claim rates. PMI Europe reported a net loss of \$8.4 million, primarily  
8 as a result of an unrealized \$8.4 million, after tax, negative mark-to-  
9 market adjustment on credit default swaps related to European prime  
10 mortgage risks due to widening credit spreads. PMI Europe’s net  
11 premiums written increased approximately 50% compared with the  
12 third quarter of 2006 driven particularly by flow business in Italy.  
13 PMI Asia reported net income of \$2.9 million fueled by strong  
14 growth in reinsurance premiums written and earned compared to the  
15 third quarter 2006.
- 16 • Financial Guaranty– equity in losses from FGIC for the third quarter  
17 of 2007 were \$28.9 million (pre-tax), as a result of a negative  
18 unrealized mark-to-market adjustment in its insured credit derivative  
19 portfolio due to widening credit spreads partially offset by strong  
20 premium earnings and increased net investment income.
- 21 • Capital Events – The Company repurchased 5,454,381 common  
22 shares for approximately \$178 million in the third quarter of 2007.

### 15 Consolidated Operating Results

16 Consolidated net premiums written for the third quarter and year to date  
17 totaled \$276.7 million and \$776.8 million, respectively, compared with \$212.4  
18 million and \$626.1 million for the same periods one year ago. The year over year  
19 increases were primarily due to increases in insurance in force from new insurance  
20 written, and higher average insured loan balances in the U.S. Mortgage Insurance  
21 Operations and an increase in International Operations’ net premiums written  
22 combined with favorable Australian foreign exchange rates.

20 Consolidated premiums earned for the third quarter and year to date were  
21 \$256.8 million and \$735.5 million, respectively, compared with \$214.9 million and  
22 \$634.8 million for the same periods one year ago. The increases were due primarily  
23 to insurance in force growth, new insurance written, improved persistency and larger  
24 loan sizes in the U.S. Mortgage Insurance Operations.

23 Consolidated losses and LAE for the third quarter and year to date were  
24 \$372.8 million and \$628.3 million, respectively, compared with \$79.6 million and  
25 \$212.4 million for the same periods last year. The increases were primarily a result of  
26 higher losses and LAE in the U.S. Mortgage Insurance Operations as a result of an  
27 increase in notices of default, increased claim rates and larger claim sizes.

26 Consolidated reserve for losses and LAE totaled \$770.4 million as of  
27 September 30, 2007 compared with \$507.0 million as of June 30, 2007 and \$394.2  
28 million as of September 30, 2006. Reserves for losses and LAE in the U.S. Mortgage  
Insurance Operations increased \$253.6 million in the third quarter of 2007 primarily  
due to an increase in notices of default, increased claim rates and larger claim sizes.

1 PMI Australia's reserve for losses and LAE increased \$7.3 million in the third  
2 quarter of 2007 principally due to higher claim rates and claim sizes.

3 Consolidated other underwriting and operating expenses for the third quarter  
4 and year to date were \$50.6 million and \$173.1 million, respectively, compared with  
5 \$55.9 million and \$169.0 million for the same periods one year ago. The decrease in  
6 the third quarter of 2007 was primarily the result of lower employee compensation  
7 expenses compared to the corresponding period in 2006. The increase in the first nine  
8 months of 2007 compared to the corresponding period in 2006 was primarily due to  
9 growth in our International Operations and lower share-based compensation  
10 expenses in 2006.

11 (Footnotes omitted.)

12 45. On November 5, 2007, Fitch announced its new methodology in assessing financial  
13 guarantors CDOs and further announced that it would be reviewing the capital of the monolines,  
14 including Financial Guaranty, to ensure that they had enough capital to warrant their AAA rating.  
15 As a result of the ongoing review, Financial Guaranty faced a "high probability" risk of falling  
16 beneath the capital requirements necessary to keep its AAA rating, which would result in either a  
17 potential ratings downgrade or force the Company to raise more capital. The review was expected to  
18 last six weeks.

19 46. In December 2007, Moody's and Standard & Poor's made similar announcements  
20 that they were also reevaluating their ratings of Financial Guaranty and had placed Financial  
21 Guaranty on review for possible downgrades.

22 47. On January 3, 2008, the Mortgage Bankers Association reported a decline in an index  
23 measuring the volume of mortgage applications which offered little hope for a recovery in the  
24 housing market.

25 48. On January 8, 2008, Lehman Brothers published a research note concerning the need  
26 for PMI to substantially increase its reserves to cover the significant growth in claims. As reported  
27 by the *Associated Press* in an article entitled "Sector Wrap: Mortgage Insurers":

28 Fears of accelerating deterioration in the mortgage market sent shares of mortgage  
insurers lower Tuesday.

***Lehman Brothers analyst Bruce Harting wrote in research notes MGIC  
Investment Corp., PMI Group Inc. and Radian Group Inc. will all need to  
significantly boost reserves for the fourth quarter and beyond to cover expected  
jumps in insurance claims.***

1 Mortgage insurers cover principal and interest payments on mortgages when  
2 borrowers stop paying their loans. As mortgages have increasingly defaulted, the  
3 insurers have been forced to pay out more claims on the failed loans. Until defaults  
dissipate, the insurers will continue to struggle and likely have to build reserves to  
cover future losses.

4 ***Harting said MGIC, PMI and Radian are all likely to speed up reserve***  
5 ***building to cover claims because deterioration in the mortgage market is occurring***  
6 ***faster than anticipated.***

7 \* \* \*

8 ***Harting estimates PMI Group will now post a loss of \$1.58 per share in the***  
9 ***fourth quarter, 70 cents per share worse than he had previously forecast.***

10 PMI Group shares fell 86 cents, or 7.5 percent, to \$10.59. Shares have traded  
11 between \$9.82 and \$51.46 during the past 12 months.

12 49. Upon this news, shares in the Company's stock closed down \$2.83 per share to close  
13 at \$7.45 per share on January 9, 2008, a decline of 27%.

14 50. On January 10, 2008, Blackstone announced that it may write down its investment in  
15 FGIC due to the serious deterioration in the subprime market.

16 51. On January 17, 2008, the U.S. Commerce Department reported a significant decline  
17 in new-home construction in the previous year. The Commerce Department reported that work  
18 began on 1.35 million houses and apartments in 2007, down 24.8% from 2006. This decline was  
19 the second-biggest annual decline on record, exceeded only by a 26% percent plunge in 1980.  
20 Additionally, on the same date, Moody's announced that it had placed Ambac Financial Group Inc.,  
21 one of the nation's leading bond insurers and a close competitor of FGIC, on review for possible  
22 downgrades due to much higher than expected losses on mortgage-related bonds. These  
23 announcements were strong indicators as to the depth and severity of the problems in the housing  
24 market.

25 52. Upon this news, shares in the Company's stock closed down \$1.29 per share to close  
26 at \$6.48 per share on January 17, 2008, a one-day decline of 17%. This was the lowest PMI's stock  
27 had traded in its twelve years as a public Company.

28 53. Thereafter, on January 30, 2008, Fitch downgraded Financial Guaranty's financial  
strength rating by two notches from "AAA" to "AA."

1           54.     The next day, on January 31, 2008, Standard & Poor's made a similar move and  
2 downgraded Financial Guaranty's rating by two notches from "AAA" to "AA" and further  
3 downgraded FGIC's rating by three notches from "AAA" to "A."

4           55.     Further, on January 31, 2008, Moody's announced that it had placed PMI on review  
5 for a possible ratings downgrade.

6           56.     On February 11, 2008, PMI announced that on March 1, 2008, it would stop insuring  
7 mortgages with high loan-to-value ratios, again tightening its guidelines on which type of loans the  
8 Company underwrites in order to reduce its exposure to risky subprime loans.

9           57.     Then, on March 3, 2008, after the market closed, PMI issued a press release entitled  
10 "The PMI Group, Inc. Reports Preliminary Fourth Quarter 2007 Financial Results for Certain  
11 Segments." The release stated in part:

12           PMI Group, Inc. (the "Company") today announced that due to delays in obtaining  
13 2007 financial results from FGIC Corporation ("FGIC") the Company has filed a  
14 Form 12b-25 with the Securities and Exchange Commission ("SEC") for a late filing  
15 of its 2007 Form 10-K. In this SEC filing and as outlined below in financial  
16 highlights, the Company provides financial results for its U.S. Mortgage Insurance  
Operations and International Operations and discusses its expectations for its  
Financial Guaranty segment. The Company plans to issue its financial results for the  
fourth quarter of 2007 before the financial markets open (approximately 6:00 AM  
ET) on Wednesday, March 12, 2008, followed by a conference call at 11:30 AM ET.

17           "Our preliminary fourth quarter results for our U.S. Mortgage Insurance and  
18 International Operations demonstrate that we are facing challenging market  
19 conditions, particularly in the U.S. housing market," said The PMI Group Inc.'s  
20 Chairman and CEO Steve Smith. "We have implemented a plan to address these  
21 challenges, which we will discuss in detail on our conference call next week. A  
22 cornerstone of the plan and our strategic focus going forward is our core business,  
mortgage insurance, which we believe offers PMI long term opportunities for growth  
and profitability. Within our Financial Guaranty segment, we will continue to work  
to stabilize our equity investments in FGIC and RAM Re, but we will not be  
contributing any additional capital to these companies."

#### 23           **Financial Highlights of U.S. and International Mortgage Insurance Operations**

- 24           •           *U.S. Mortgage Insurance Operations – reported a net loss of \$236.0*  
25           *million in the fourth quarter of 2007 compared to net income of*  
26           *\$77.2 million in the fourth quarter of 2006. The loss in the fourth*  
27           *quarter of 2007 was driven in large part by an increase in losses*  
28           *and loss adjustment expenses resulting from an increase in our*  
*default inventory, higher claim rates and higher average claim*  
*sizes. For the full year ended December 31, 2007, U.S. Mortgage*  
*Insurance Operations reported a net loss of \$190.8 million compared*  
*to net income of \$290.3 million for the full year of 2006. The*

1 Company estimates that U.S. Mortgage Insurance Operations' losses  
2 and loss adjustment expenses in 2007 were approximately \$1.1  
3 billion.

- 4 • International Operations – reported a net loss of \$10.1 million in the  
5 fourth quarter of 2007 compared to net income of \$20.0 million in the  
6 fourth quarter of 2006. Fourth quarter 2007 results were driven  
7 primarily by a loss of \$29.6 million in PMI Europe as a result of  
8 increases in losses and loss adjustment expenses and mark-to-market  
9 losses associated with credit default swap derivative contracts, net  
10 income of \$17.8 million in PMI Australia and net income of \$2.9  
11 million in PMI Asia. For the full year ended December 31, 2007,  
12 International Operations reported net income of \$55.0 million  
13 compared to net income of \$103.5 million for the full year of 2006.
- Corporate and Other – reported a net loss of \$3.8 million in the fourth  
quarter of 2007 compared to a net loss of \$25.1 million in the fourth  
quarter of 2006. For the full year ended December 31, 2007,  
Corporate and Other reported a net loss of \$49.5 million compared to  
a net loss of \$71.4 million for the full year of 2006.

### 13 **Financial Guaranty Segment**

14 Because the Company lacks the necessary financial information from FGIC  
15 to complete its consolidated financial statements, the Company is not yet able to  
16 calculate its consolidated results of operations for the full year ended 2007 and also is  
17 not able to calculate the financial results of its Financial Guaranty segment. *The*  
18 *Company expects that its Financial Guaranty segment will report a significant net*  
19 *loss for the fourth quarter of 2007 and the year ended December 31, 2007, driven*  
20 *by equity in losses of FGIC, resulting from unrealized mark-to-market losses and*  
*losses and loss adjustment expenses at FGIC during those periods. In connection*  
*with the preparation of the Company's consolidated financial statements, the*  
*Company is conducting an analysis to determine whether the value of its*  
*investment in FGIC was impaired as of December 31, 2007.* This analysis cannot be  
completed until the Company receives financial information from FGIC necessary  
for the Company to complete its consolidated financial statements.

21 (Footnotes omitted.)

22 58. Additionally on March 3, 2008, in a Form 12b-25, the Company announced that it  
23 would be delayed in filing its Form 10-K for year-end 2007, stating in part:

24 The PMI Group, Inc. (the "Company") is unable to file its Annual Report on  
25 Form 10-K for the year ended December 31, 2007 in a timely manner without  
unreasonable effort and expense in light of the circumstances described below.

26 The Company is unable to complete its consolidated financial statements for  
27 the year ended December 31, 2007 because it is currently awaiting financial  
28 information from an equity investee, FGIC Corporation ("FGIC"), that is necessary  
for the Company to complete its financial statements. *FGIC has informed the*  
*Company that it is in the process of completing its financial statements, but that it*

1           ***has not been able to do so due to the time and effort involved in determining the***  
2           ***amount of loss reserves related to residential mortgage-backed securities and***  
3           ***collateralized debt obligations of asset-backed securities. The determination of***  
4           ***such reserves has been affected by the unprecedented rapid and severe***  
5           ***deterioration of the residential mortgage market.***

6           59.     On this news, PMI's stock collapsed to \$6.43 per share on March 4, 2008, a one-day  
7           decline of 5%. This was the lowest PMI's stock had traded in its twelve years as a public company.

8           60.     The true facts, which were known by the defendants but concealed from the investing  
9           public during the Class Period, were as follows:

10           (a)     The Company's investment in FGIC was materially impaired as FGIC's bond  
11           insurance arm, Financial Guaranty, had significant exposure to defaults on bonds it insured due to  
12           the plunge in value of mortgage debt;

13           (b)     The Company was materially overstating its financial results by failing to  
14           properly value its investment in FGIC and by failing to write down that investment in a timely  
15           fashion in violation of GAAP;

16           (c)     The Company was not adequately accounting for its loss reserves in violation  
17           of GAAP, causing its financial results to be materially misstated;

18           (d)     The Company failed to engage in proper underwriting practices for its book of  
19           business related to insurance written in 2005 through most of 2007;

20           (e)     The Company had far greater exposure to anticipated losses and defaults  
21           related to its book of business related to insurance written in 2005 through most of 2007 than it had  
22           previously disclosed;

23           (f)     Given the deterioration and the increased volatility in the subprime market,  
24           the Company would be forced to tighten its standards and stop writing insurance policies to certain  
25           categories of borrowers which would have a direct material negative impact on its book of business  
26           going forward; and

27           (g)     Given the increased volatility in the subprime market, the Company had no  
28           reasonable basis to make projections about its incurred losses or about its new insurance written. As  
29           a result, the Company's projections issued during the Class Period about its earnings for 2007 and  
30           2008 were at a minimum reckless.

1 **LOSS CAUSATION/ECONOMIC LOSS**

2 61. By misrepresenting its ability to withstand the housing decline and the adequacy of its  
3 reserves, the defendants presented a misleading picture of PMI's business and prospects. Thus,  
4 instead of truthfully disclosing during the Class Period that PMI's business was not as healthy as  
5 represented, defendants falsely reported PMI's financial outlook and its actual business prospects  
6 going forward.

7 62. These claims of profitability caused and maintained the artificial inflation in PMI's  
8 stock price throughout the Class Period and until the truth was revealed to the market.

9 63. Defendants' false and misleading statements had the intended effect and caused PMI  
10 stock to trade at artificially inflated levels throughout the Class Period, reaching a Class Period high  
11 of \$50.21 per share in February 2007.

12 64. The truth about PMI's business operations, finances, business metrics, and future  
13 business and financial prospects began to enter the market with a series of partial disclosures and  
14 revelations beginning in July 2007, which were accompanied by denials and continuing  
15 misrepresentations by defendants. As a result, the artificial inflation in PMI's stock price did not  
16 come out of the stock all at once, rather the artificial price inflation came out over time, in bits,  
17 pieces, and spurts as the stock continued to trade at artificially inflated, albeit lower, prices through  
18 January 2008.

19 65. As a direct result of defendants' admissions and the public revelations regarding the  
20 truth about PMI's overstatement of its financial outlook and its actual business prospects going  
21 forward, PMI's stock price plummeted over 87%, falling from \$50.21 per share on February 7, 2007  
22 to \$6.48 per share on January 17, 2008 – a drop of \$43.73 per share. This drop removed the inflation  
23 from PMI's stock price, causing real economic loss to investors who had purchased the stock during  
24 the Class Period.

25 **COUNT I**

26 **For Violation of §10(b) of the 1934 Act and Rule 10b-5**  
27 **Against All Defendants**

28 66. Plaintiff incorporates ¶¶1-65 by reference.





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**JURY DEMAND**

Plaintiff demands a trial by jury.

DATED: March 12, 2008

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