

MGIC INVESTMENT CORP

Form 10-Q

August 09, 2006

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FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended JUNE 30, 2006

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

For the transition period from _____ to _____
Commission file number 1-10816

MGIC INVESTMENT CORPORATION
(Exact name of registrant as specified in its charter)

WISCONSIN
(State or other jurisdiction of
incorporation or organization)

39-1486475
(I.R.S. Employer
Identification No.)

250 E. KILBOURN AVENUE
MILWAUKEE, WISCONSIN
(Address of principal executive offices)

53202
(Zip Code)

(414) 347-6480

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ **NO o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer **þ** Accelerated filer **o** Non-accelerated filer **o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o **NO þ**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS OF STOCK	PAR VALUE	DATE	NUMBER OF SHARES
Common stock	\$ 1.00	07/31/06	84,461,238

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June 30, 2006 (Unaudited) and December 31, 2005

	June 30, 2006	December 31, 2005
	(In thousands of dollars)	
<u>ASSETS</u>		
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities (amortized cost, 2006 \$5,250,223; 2005 \$5,173,091)	\$ 5,270,031	\$ 5,292,942
Equity securities (cost, 2006 \$2,546; 2005 \$2,504)	2,490	2,488
Total investment portfolio	5,272,521	5,295,430
Cash and cash equivalents	106,442	195,256
Accrued investment income	64,503	66,369
Reinsurance recoverable on loss reserves	13,236	14,787
Prepaid reinsurance premiums	10,481	9,608
Premiums receivable	84,033	91,547
Home office and equipment, net	32,261	32,666
Deferred insurance policy acquisition costs	15,449	18,416
Investments in joint ventures	526,674	481,778
Other assets	177,662	151,712
Total assets	\$ 6,303,262	\$ 6,357,569
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Loss reserves	\$ 1,087,337	\$ 1,124,454
Unearned premiums	172,277	159,823
Short- and long-term debt (note 2)	631,104	685,163
Income taxes payable	41,531	62,006
Other liabilities	181,070	161,068
Total liabilities	2,113,319	2,192,514
Contingencies (note 3)		
Shareholders' equity:		
Common stock, \$1 par value, shares authorized 300,000,000; shares issued, 6/30/06 122,964,267 12/31/05 122,549,285;	122,964	122,549

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shares outstanding, 6/30/06	85,692,378	12/31/05	88,046,430		
Paid-in capital				292,714	280,052
Treasury stock (shares at cost, 6/30/06	37,271,889				
12/31/05	34,502,855)			(2,027,959)	(1,834,434)
Accumulated other comprehensive income, net of tax (note 5)				13,259	77,499
Retained earnings				5,788,965	5,519,389
Total shareholders' equity				4,189,943	4,165,055
Total liabilities and shareholders' equity				\$ 6,303,262	\$ 6,357,569

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
 Three and Six Month Periods Ended June 30, 2006 and 2005
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands of dollars, except per share data)			
Revenues:				
Premiums written:				
Direct	\$ 340,907	\$ 342,000	\$ 674,483	\$ 684,287
Assumed	447	251	844	453
Ceded	(36,074)	(33,031)	(69,575)	(63,281)
Net premiums written	305,280	309,220	605,752	621,459
(Increase) decrease in unearned premiums, net	(10,777)	2,413	(11,582)	6,253
Net premiums earned	294,503	311,633	594,170	627,712
Investment income, net of expenses	59,380	57,178	117,344	114,181
Realized investment (losses) gains, net	(1,838)	15,187	(1,751)	16,752
Other revenue	11,459	10,955	22,773	21,216
Total revenues	363,504	394,953	732,536	779,861
Losses and expenses:				
Losses incurred, net	146,467	136,915	261,352	235,781
Underwriting and other expenses, net	71,492	68,059	145,757	135,954
Interest expense	8,843	10,512	18,158	21,234
Total losses and expenses	226,802	215,486	425,267	392,969
Income before tax and joint ventures	136,702	179,467	307,269	386,892
Provision for income tax	34,479	49,605	80,645	109,265
Income from joint ventures, net of tax	47,616	44,495	86,668	78,743
Net income	\$ 149,839	\$ 174,357	\$ 313,292	\$ 356,370
Earnings per share (note 4):				
Basic	\$ 1.75	\$ 1.88	\$ 3.64	\$ 3.79

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Diluted	\$ 1.74	\$ 1.87	\$ 3.61	\$ 3.77
Weighted average common shares outstanding diluted (shares in thousands, note 4)	86,259	93,182	86,753	94,545
Dividends per share	\$ 0.2500	\$ 0.1500	\$ 0.5000	\$ 0.2250

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2006 and 2005
(Unaudited)

	Six Months Ended June 30,	
	2006	2005
	(In thousands of dollars)	
Cash flows from operating activities:		
Net income	\$ 313,292	\$ 356,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition costs	7,040	10,215
Increase in deferred insurance policy acquisition costs	(4,073)	(5,657)
Depreciation and amortization	12,588	9,172
Decrease in accrued investment income	1,866	2,841
Decrease in reinsurance recoverable on loss reserves	1,551	1,842
Decrease in prepaid reinsurance premiums	(873)	(1,408)
Decrease in premium receivable	7,514	115
Decrease in loss reserves	(37,117)	(73,308)
Increase (decrease) in unearned premiums	12,454	(4,844)
(Decrease) increase in income taxes payable	(24,798)	2,908
Equity earnings in joint ventures	(127,746)	(115,641)
Distributions from joint ventures	84,409	69,125
Other	44,385	(24,580)
Net cash provided by operating activities	290,492	227,150
Cash flows from investing activities:		
Purchase of fixed maturities	(1,130,845)	(425,702)
Additional investment in joint ventures	(1,503)	(7,058)
Proceeds from sale of equity securities		1,846
Proceeds from sale of fixed maturities	935,445	580,831
Proceeds from maturity of fixed maturities	109,202	135,089
Net cash (used in) provided by investing activities	(87,701)	285,006
Cash flows from financing activities:		
Dividends paid to shareholders	(43,716)	(21,279)
Net repayment of short-term debt	(57,722)	(42,101)
Reissuance of treasury stock	3,856	728
Repurchase of common stock	(214,258)	(272,025)
Common stock issued	15,912	1,162
Excess tax benefits from share-based payment arrangements	4,323	

Net cash used in financing activities	(291,605)	(333,515)
Net (decrease) increase in cash and cash equivalents	(88,814)	178,641
Cash and cash equivalents at beginning of period	195,256	166,468
Cash and cash equivalents at end of period	\$ 106,442	\$ 345,109

See accompanying notes to consolidated financial statements.

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**MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2006

(Unaudited)

Note 1 Basis of presentation and summary of certain significant accounting policies

The accompanying unaudited consolidated financial statements of MGIC Investment Corporation (the Company) and its wholly-owned subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the other information and disclosures required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K for that year.

The accompanying consolidated financial statements have not been audited by independent auditors in accordance with the standards of the Public Company Accounting Oversight Board (United States), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring accruals, necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the six months ended June 30, 2006 may not be indicative of the results that may be expected for the year ending December 31, 2006.

New Accounting Standards

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the provisions of SFAS 155 and believes that adoption will not have a material effect on its financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes. The Interpretation seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. The Interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. When evaluating a tax position for recognition and measurement, an entity shall presume that the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The Interpretation adopts a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a measurement attribute that is the greatest amount of benefit that is cumulatively greater than 50% likely of being realized. This Interpretation is effective for the first annual period beginning after

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December 15, 2006. The Company is currently evaluating the impact, if any, this Interpretation will have on the Company's results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2005 amounts to conform to 2006 presentation.

Note 2 Short- and long-term debt

The Company has a \$300 million commercial paper program, which is rated A-1 by Standard and Poors (S&P) and P-1 by Moody's. At June 30, 2006 and 2005, the Company had \$133.5 and \$100.0 million in commercial paper outstanding with a weighted average interest rate of 5.30% and 3.18%, respectively.

In March of 2005, the Company obtained a \$300 million, five year revolving credit facility, expiring in 2010. The facility replaced the previous \$285 million facility that was due to expire in 2006. Under the terms of the credit facility, the Company must maintain shareholders' equity of at least \$2.25 billion and Mortgage Guaranty Insurance Corporation (MGIC) must maintain a risk-to-capital ratio of not more than 22:1 and maintain policyholders' position (which includes MGIC's statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At June 30, 2006, these requirements were met. The facility will continue to be used as a liquidity back up facility for the outstanding commercial paper. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was \$166.5 million and \$200.0 million at June 30, 2006 and 2005, respectively.

The Company had \$300 million, 5.375% Senior Notes due in November 2015 and \$200 million, 6% Senior Notes due in March 2007 outstanding at June 30, 2006. At June 30, 2005 the Company had \$300 million, 7.5% Senior Notes due in October 2005 and \$200 million, 6% senior Notes due in March 2007. In October 2005 the Company issued, in a public offering, \$300 million, 5.375% Senior Notes due in 2015. Interest on the Notes is payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2006. The Senior Notes were rated A-1 by Moody's, A by S&P and A+ by Fitch. The Company utilized the proceeds from the sale of these Senior Notes, together with available cash, to repay the \$300 million, 7.5% Senior Notes that came due October 17, 2005. At June 30, 2006 and 2005, the market value of the outstanding debt was \$615.6 million and \$609.2 million, respectively.

Interest payments on all long-term and short-term debt were \$19.1 million and \$22.1 million for the six months ended June 30, 2006 and 2005, respectively.

During the first quarter of 2006, an outstanding interest rate swap contract was terminated. This swap was placed into service to coincide with the committed credit facility, used as a backup for the commercial paper program. Under the terms of the swap contract, the Company paid a fixed rate of 5.07% and received a variable interest rate based on the London Inter Bank Offering Rate (LIBOR). The swap had an expiration

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date coinciding with the maturity of the credit facility and was designated as a cash flow hedge. At June 30, 2006 the Company has no interest rate swaps outstanding.

(Income) expense on the interest rate swaps for the six months ended June 30, 2006 and 2005 of approximately (\$0.1) million and \$0.5 million, respectively, was included in interest expense. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items.

Note 3 Litigation and contingencies

The Company is involved in litigation in the ordinary course of business. In the opinion of management, the ultimate resolution of this pending litigation will not have a material adverse effect on the financial position or results of operations of the Company.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including MGIC, have been involved in litigation alleging violations of the anti-referral fee provisions of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and the notice provisions of the Fair Credit Reporting Act, which is commonly known as FCRA. MGIC's settlement of class action litigation against it under RESPA became final in October 2003. MGIC settled the named plaintiffs' claims in litigation against it under FCRA in late December 2004 following denial of class certification in June 2004. There can be no assurance that MGIC will not be subject to material future litigation under RESPA or FCRA.

In June 2005, in response to a letter from the New York Insurance Department (NYID), the Company provided information regarding captive mortgage reinsurance arrangements and other types of arrangements in which lenders receive compensation. In February 2006, the NYID requested MGIC to review its premium rates in New York and to file adjusted rates based on recent years' experience or to explain why such experience would not alter rates. In March 2006, MGIC advised the NYID that it believes its premium rates are reasonable and that, given the nature of mortgage insurance risk, premium rates should not be determined only by the experience of recent years. In February 2006, in response to an administrative subpoena from the Minnesota Department of Commerce (the MDC), which regulates insurance, the Company provided the MDC with information about captive mortgage reinsurance and certain other matters. Insurance departments or other officials in other states may also seek information about or investigate captive mortgage reinsurance or other matters.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development as well as the insurance commissioner or attorney general of any state may bring an action to enjoin violations of these provisions of RESPA. The insurance law provisions of many states prohibit paying for the referral of insurance business and provide various mechanisms to enforce this prohibition. While the Company believes its captive reinsurance arrangements are in conformity with applicable laws and regulations, it is not possible to predict the outcome of any such reviews or investigations nor is it possible to predict their effect on the Company or the mortgage insurance industry.

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Under its contract underwriting agreements, the Company may be required to provide certain remedies to its customers if certain standards relating to the quality of the Company's underwriting work are not met. The cost of remedies provided by the Company to customers for failing to meet these standards has not been material to the Company's financial position or results of operations for the six months ended June 30, 2006 and 2005.

The Internal Revenue Service (IRS) has been conducting an examination of the federal income tax returns of the Company for taxable years 2000 through 2004. The IRS has indicated that they intend to propose adjustments to taxable income relating to a portfolio of investments in the residual interests of Real Estate Mortgage Investment Conduits (REMICs). This portfolio has been managed and maintained during years prior to, during and subsequent to the examination period. The tax returns have included the flow through of income and losses from these investments in the computation of taxable income. The IRS has indicated that they do not believe that the Company has established sufficient tax basis in the REMIC residual interests to deduct some portion of the flow through losses from income. To date, they have not provided a detailed explanation of their position or the calculation of the dollar amount of any potential adjustment. Also, in the second quarter of 2006, the IRS stated that they will no longer seek to enforce a summons which was issued for certain documents containing communications with outside legal counsel. The Company will contest any such proposal to increase taxable income and believes that income taxes related to these years have been properly provided for in the financial statements.

Note 4 Earnings per share

The Company's basic and diluted earnings per share (EPS) have been calculated in accordance with SFAS No. 128, Earnings Per Share. The Company's net income is the same for both basic and diluted EPS. Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include stock awards and stock options. The following is a reconciliation of the weighted average number of shares used for basic EPS and diluted EPS.

		Three Months Ended June 30,		Six Months Ended June 30,	
		2006	2005	2006	2005
		(Shares in thousands)			
Weighted-average shares	Basic	85,668	92,594	86,122	93,930
Common stock equivalents		591	588	631	615
Weighted-average shares	Diluted	86,259	93,182	86,753	94,545

Table of Contents**Note 5 Comprehensive income**

The Company's total comprehensive income, as calculated per SFAS No. 130, Reporting Comprehensive Income, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands of dollars)			
Net income	\$ 149,839	\$ 174,357	\$ 313,292	\$ 356,370
Other comprehensive income (loss)	(32,717)	62,205	(64,240)	5,513
 Total comprehensive income	 \$ 117,122	 \$ 236,562	 \$ 249,052	 \$ 361,883
 Other comprehensive income (loss) (net of tax):				
Change in unrealized net derivative gains and losses	\$	\$ (5,560)	\$ 777	\$ (4,849)
Amortization of deferred losses on derivatives		203		406
Change in unrealized gains and losses on investments	(32,717)	67,876	(65,053)	9,520
Other		(314)	36	436
 Other comprehensive income (loss)	 \$ (32,717)	 \$ 62,205	 \$ (64,240)	 \$ 5,513

At June 30, 2006, accumulated other comprehensive income of \$13.3 million included \$12.9 million of net unrealized gains on investments and \$0.4 million relating to the accumulated other comprehensive gain of the Company's joint venture investment, all net of tax. At December 31, 2005, accumulated other comprehensive income of \$77.5 million included \$77.9 million of net unrealized gains on investments, (\$0.8) million relating to derivative financial instruments and \$0.4 million relating to the accumulated other comprehensive loss of the Company's joint venture investment.

Note 6 Benefit Plans

The following table provides the components of net periodic benefit cost for the pension and other postretirement benefit plans:

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	Three Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(In thousands of dollars)			
Service cost	\$ 2,332	\$ 2,210	\$ 916	\$ 788
Interest cost	2,586	2,371	1,014	877
Expected return on plan assets	(3,739)	(3,355)	(648)	(561)
Recognized net actuarial loss (gain)	(27)		100	24
Amortization of transition obligation			71	71
Amortization of prior service cost	216	185		
Net periodic benefit cost	\$ 1,368	\$ 1,411	\$ 1,453	\$ 1,199

	Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(In thousands of dollars)			
Service cost	\$ 4,696	\$ 4,420	\$ 1,814	\$ 1,707
Interest cost	5,213	4,742	2,038	1,861
Expected return on plan assets	(7,448)	(6,710)	(1,297)	(1,121)
Recognized net actuarial loss (gain)	71		211	151
Amortization of transition obligation			142	142
Amortization of prior service cost	432	370		
Net periodic benefit cost	\$ 2,964	\$ 2,822	\$ 2,908	\$ 2,740

The Company previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute approximately \$10.3 million and \$4.6 million, respectively, to its pension and postretirement plans in 2006. As of June 30, 2006, no contributions have been made.

Note 7 Share-based compensation plans

The Company has certain share-based compensation plans. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment, under the modified prospective method, accordingly prior period amounts have not been restated. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be measured based on the fair value of the equity or liability instrument issued and be recognized in the financial statements of the company. This statement is a revision of SFAS No. 123,

Accounting for Stock-Based Compensation. The fair value recognition provisions of SFAS No. 123 were voluntarily adopted by the Company in 2003 prospectively to all employee awards granted or modified on or after January 1, 2003. The adoption of

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SFAS No. 123R and SFAS No. 123 did not have a material effect on the Company's results of operations or its financial position. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which generally corresponds to the vesting period.

Awards under the Company's plans generally vest over periods ranging from one to five years.

The cost related to stock-based employee compensation included in the determination of net income for 2005 was less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value method had been applied to all outstanding and unvested awards for the three and six months ended June 30, 2005.

	Three Months Ended 2005	Six Months Ended June 30, 2005
	(in thousands of dollars, except per share data)	
Net income, as reported	\$ 174,357	\$ 356,370
Add stock-based employee compensation expense included in reported net income, net of tax	3,205	5,727
Deduct stock-based employee compensation expense determined under fair value method for all awards, net of tax	(4,294)	(7,917)
Pro forma net income	\$ 173,268	\$ 354,180
Earnings per share:		
Basic, as reported	\$ 1.88	\$ 3.79
Basic, pro forma	\$ 1.87	\$ 3.77
Diluted, as reported	\$ 1.87	\$ 3.77
Diluted, pro-forma	\$ 1.86	\$ 3.75

The compensation cost that has been charged against income for the share-based plans was \$8.7 million and \$16.6 million for the three and six months ended June 30, 2006, compared to \$4.9 million and \$8.8 million for the three and six months ended June 30, 2005. The related income tax benefit recognized for the share-based compensation plans was \$5.8 million and \$3.1 million for the six months ended June 30, 2006 and 2005, respectively.

The Company has stock incentive plans that were adopted in 1991 and 2002. When the 2002 plan was adopted, no further awards could be made under the 1991 plan. The

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maximum number of shares covered by awards under the 2002 plan is the total of 7.1 million shares plus the number of shares that must be purchased at a purchase price of not less than the fair market value of the shares as a condition to the award of restricted stock under the 2002 plan. The maximum number of shares of restricted stock that can be awarded under the 2002 plan is 5.9 million shares. Both plans provide for the award of stock options with maximum terms of 10 years and for the grant of restricted stock or restricted stock units, and the 2002 plan also provides for the grant of stock appreciation rights. The exercise price of options is the closing price of the common stock on the New York Stock Exchange on the date of grant. The vesting provisions of options and restricted stock are determined at the time of grant. Newly issued shares are used for exercises under the 1991 plan, and treasury shares are used for exercises under the 2002 plan. Directors may receive awards under the 2002 plan and were eligible for awards of restricted stock under the 1991 plan.

A summary of option activity in the stock incentive plans during 2006 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 2005	\$ 54.19	3,274,731
Granted		
Exercised	39.20	(238,437)
Forfeited or expired	54.80	(13,930)
Outstanding, March 31, 2006	\$ 55.37	3,022,364
Granted	\$	
Exercised	50.68	(255,745)
Forfeited or expired	68.50	(2,800)
Outstanding, June 30, 2006	\$ 55.79	2,763,819

During the three and six months ended June 30, 2006, the total intrinsic value of options exercised (i.e., the difference in the market price at exercise and the price paid by the employee to exercise the option) was \$3.6 million and \$10.0 million, respectively. The total amount of cash received from exercise of options was \$8.3 million and \$15.0 million and the related net tax benefit realized from the exercise of those stock options was \$1.3 million and \$3.5 million for the same period.

The following is a summary of stock options outstanding at June 30, 2006:

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		Options Outstanding			Options Exercisable		
Exercise Price		Shares	Remaining Average Life (years)	Weighted Average Exercise Price	Shares	Remaining Average Life (years)	Weighted Average Exercise Price
Range							
\$33.81	47.31	1,167,619	4.3	\$ 44.17	633,629	4.0	\$ 43.70
\$53.70	68.63	1,596,200	5.8	\$ 64.28	1,119,300	5.5	\$ 63.15
Total		2,763,819	5.2	\$ 55.79	1,752,929	4.9	\$ 56.12

The aggregate intrinsic value of options outstanding at June 30, 2006 was \$25.5 million. The aggregate intrinsic value of options exercisable was \$15.6 million. The aggregate intrinsic value represents the total pre-tax intrinsic value based on the Company's closing stock price of \$65.00 as of June 30, 2006 which would have been received by the option holders had all option holders exercised their options on that date.

A summary of restricted stock or restricted stock units during 2006 is as follows:

	Weighted Average Grant Date Fair Market Value	Shares
Restricted stock outstanding at December 31, 2005	\$ 60.50	898,671
Granted	64.66	564,350
Vested	56.87	(262,982)
Forfeited	61.53	(6,069)
Restricted stock outstanding at March 31, 2006	\$ 63.26	1,193,970
Granted	69.96	1,000
Vested		
Forfeited	64.26	(240)
Restricted stock outstanding at June 30, 2006	\$ 63.27	1,194,730

At June 30, 2006, 4,523,718 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, 4,440,398 are available for restricted stock awards.

As of June 30, 2006, there was \$74.5 million of total unrecognized compensation cost related to nonvested share-based compensation agreements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.8 years. The total fair value of shares vested during the three and six months ended June 30, 2006 was \$0.0 million and \$17.1 million, respectively.

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For purposes of determining the pro forma net income, the fair value of options granted was estimated at grant date using the binomial option pricing model for the 2004 options and the Black-Scholes model for the 2003 and prior options with the following weighted average assumptions for each year:

	Grants Issued in Year Ended December 31,	
	2004	2003
Risk free interest rate	3.27%	2.91%
Expected life	5.50 years	4.87 years
Expected volatility	30.20%	29.40%
Expected dividend yield	0.25%	0.25%
Fair value of each option	\$ 21.68	\$ 13.12

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Note 8 Condensed consolidating financial statements

The following condensed financial information sets forth, on a consolidating basis, the balance sheet, statement of operations, and statement of cash flows for MGIC Investment Corporation (Parent Company), which represents the Company's investments in all of its subsidiaries under the equity method, Mortgage Guaranty Insurance Corporation and Subsidiaries (MGIC Consolidated), and all other subsidiaries of the Company (Other) on a combined basis. The eliminations column represents entries eliminating investments in subsidiaries, intercompany balances, and intercompany revenues and expenses.

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Condensed Consolidating Balance Sheets
At June 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
<u>ASSETS</u>					
Total investments	\$ 2,481	\$ 4,989,436	\$ 280,604	\$	\$ 5,272,521
Cash and cash equivalents	100	91,396	14,946		106,442
Reinsurance recoverable on loss reserves		71,899	27	(58,690)	13,236
Prepaid reinsurance premiums		26,361	3	(15,883)	10,481
Deferred insurance policy acquisition costs		15,449			15,449
Investments in subsidiaries/joint ventures	4,754,305	526,674		(4,754,305)	526,674
Other assets	70,310	367,709	32,992	(112,552)	358,459
 Total assets	 \$ 4,827,196	 \$ 6,088,924	 \$ 328,572	 \$ (4,941,430)	 \$ 6,303,262
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
Liabilities:					
Loss reserves	\$	\$ 1,087,337	\$ 58,690	\$ (58,690)	\$ 1,087,337
Unearned premiums		172,278	15,882	(15,883)	172,277
Short- and long-term debt	631,065	9,364		(9,325)	631,104
Other liabilities	6,188	272,052	35,091	(90,730)	222,601
 Total liabilities	 637,253	 1,541,031	 109,663	 (174,628)	 2,113,319
 Total shareholders' equity	 4,189,943	 4,547,893	 218,909	 (4,766,802)	 4,189,943
 Total liabilities and shareholders' equity	 \$ 4,827,196	 \$ 6,088,924	 \$ 328,572	 \$ (4,941,430)	 \$ 6,303,262

Condensed Consolidating Balance Sheets
At December 31, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
<u>ASSETS</u>					
Total investments	\$ 2,570	\$ 5,047,475	\$ 245,385	\$	\$ 5,295,430

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Cash and cash equivalents	211	176,370	18,675		195,256
Reinsurance recoverable on loss reserves		78,097	36	(63,346)	14,787
Prepaid reinsurance premiums		17,521	3	(7,916)	9,608
Deferred insurance policy acquisition costs		18,416			18,416
Investments in subsidiaries/joint ventures	4,842,932	481,778		(4,842,932)	481,778
Other assets	13,542	356,624	28,274	(56,146)	342,294
 Total assets	 \$ 4,859,255	 \$ 6,176,281	 \$ 292,373	 \$ (4,970,340)	 \$ 6,357,569

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:					
Loss reserves	\$	\$ 1,124,454	\$ 63,346	\$ (63,346)	\$ 1,124,454
Unearned premiums		159,823	7,916	(7,916)	159,823
Short- and long-term debt	685,124	9,364		(9,325)	685,163
Other liabilities	9,076	232,109	13,435	(31,546)	223,074
 Total liabilities	 694,200	 1,525,750	 84,697	 (112,133)	 2,192,514
 Total shareholders' equity	 4,165,055	 4,650,531	 207,676	 (4,858,207)	 4,165,055
 Total liabilities and shareholders' equity	 \$ 4,859,255	 \$ 6,176,281	 \$ 292,373	 \$ (4,970,340)	 \$ 6,357,569

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Condensed Consolidating Statements of Operations
Three months ended June 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$	\$ 281,064	\$ 24,256	\$ (40)	\$ 305,280
Net premiums earned		276,900	17,643	(40)	294,503
Equity in undistributed net income of subsidiaries	595			(595)	
Dividends received from subsidiaries	155,000			(155,000)	
Investment income, net of expenses	51	56,328	3,001		59,380
Realized investment gains (losses), net		(1,905)	67		(1,838)
Other revenue		2,692	8,767		11,459
Total revenues	155,646	334,015	29,478	(155,635)	363,504
Losses and expenses:					
Losses incurred, net		140,753	5,714		146,467
Underwriting and other expenses	63	51,171	20,309	(51)	71,492
Interest expense	8,843				8,843
Total losses and expenses	8,906	191,924	26,023	(551)	226,802
Income before tax and joint ventures	146,740	142,091	3,455	(155,584)	136,702
Provision (credit) for income tax	(3,099)	36,958	582	38	34,479
Income from joint ventures, net of tax		47,616			47,616
Net income	\$ 149,839	\$ 152,749	\$ 2,873	\$ (155,622)	\$ 149,839

Condensed Consolidating Statements of Operations
Three months ended June 30, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$	\$ 292,897	\$ 16,401	\$ (78)	\$ 309,220

Net premiums earned		295,192	16,519	(78)	311,633
Equity in undistributed net loss of subsidiaries	(237,996)			237,996	
Dividends received from subsidiaries	419,300			(419,300)	
Investment income, net of expenses	353	54,551	2,492	(218)	57,178
Realized investment gains (losses), net		15,189	(2)		15,187
Other revenue		385	10,570		10,955
Total revenues	181,657	365,317	29,579	(181,600)	394,953
Losses and expenses:					
Losses incurred, net		129,715	7,200		136,915
Underwriting and other expenses	62	45,314	22,772	(89)	68,059
Interest expense	10,516	214		(218)	10,512
Total losses and expenses	10,578	175,243	29,972	(307)	215,486
Income (loss) before tax and joint ventures	171,079	190,074	(393)	(181,293)	179,467
Provision (credit) for income tax	(3,278)	53,833	(654)	(296)	49,605
Income from joint ventures, net of tax		44,495			44,495
Net income	\$ 174,357	\$ 180,736	\$ 261	\$ (180,997)	\$ 174,357

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Condensed Consolidating Statements of Operations
Six months ended June 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$	\$ 563,717	\$ 42,097	\$ (62)	\$ 605,752
Net premiums earned		560,102	34,130	(62)	594,170
Equity in undistributed net loss of subsidiaries	(34,920)			34,920	
Dividends received from subsidiaries	360,000			(360,000)	
Investment income, net of expenses	150	111,400	5,794		117,344
Realized investment gains (losses), net		(1,848)	97		(1,751)
Other revenue		5,357	17,416		22,773
Total revenues	325,230	675,011	57,437	(325,142)	732,536
Losses and expenses:					
Losses incurred, net		251,352	10,000		261,352
Underwriting and other expenses	127	105,279	40,435	(84)	145,757
Interest expense	18,158				18,158
Total losses and expenses	18,285	356,631	50,435	(84)	425,267
Income before tax and joint ventures	306,945	318,380	7,002	(325,058)	307,269
Provision (credit) for income tax	(6,347)	85,696	1,241	55	80,645
Income from joint ventures, net of tax		86,668			86,668
Net income	\$ 313,292	\$ 319,352	\$ 5,761	\$ (325,113)	\$ 313,292

Condensed Consolidating Statements of Operations
Six months ended June 30, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	\$	\$ 588,302	\$ 33,303	\$ (146)	\$ 621,459

Net premiums earned		594,249	33,609	(146)	627,712
Equity in undistributed net loss of subsidiaries	(93,434)			93,434	
Dividends received from subsidiaries	463,600			(463,600)	
Investment income, net of expenses	603	109,156	4,846	(424)	114,181
Realized investment gains, net		16,738	14		16,752
Other revenue		896	20,320		21,216
 Total revenues	 370,769	 721,039	 58,789	 (370,736)	 779,861
 Losses and expenses:					
Losses incurred, net		224,244	11,537		235,781
Underwriting and other expenses	130	94,615	41,377	(168)	135,954
Interest expense	21,235	424		(425)	21,234
 Total losses and expenses	 21,365	 319,283	 52,914	 (593)	 392,969
 Income before tax and joint ventures	 349,404	 401,756	 5,875	 (370,143)	 386,892
Provision (credit) for income tax	(6,966)	115,660	864	(293)	109,265
Income from joint ventures, net of tax		78,743			78,743
 Net income	 \$ 356,370	 \$ 364,839	 \$ 5,011	 \$ (369,850)	 \$ 356,370

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Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash provided by operating activities	\$ 304,228(1)	\$ 317,995	\$ 36,769	\$ (368,500)	\$ 290,492
Net cash used in investing activities	(8,411)	(47,292)	(40,498)	8,500	(87,701)
Net cash used in financing activities	(295,928)	(355,677)		360,000	(291,605)
Net decrease in cash	\$ (111)	\$ (84,974)	\$ (3,729)	\$	\$ (88,814)

(1) Includes dividends received from subsidiaries of \$360,000.

Condensed Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash provided by operating activities	\$ 403,254(1)	\$ 283,598	\$ 3,314	\$ (463,600)	\$ 226,566
Net cash provided by (used in) investing activities	106	298,636	(13,736)		285,006
Net cash used in financing activities	(333,515)	(463,016)		463,600	(332,931)
Net increase (decrease) in cash	\$ 69,845	\$ 119,218	\$ (10,422)	\$	\$ 178,641

(1) Includes dividends received from subsidiaries of \$463,600.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Overview

Business and General Environment

We, through our subsidiary Mortgage Guaranty Insurance Corporation (MGIC), are the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. Our principal products are primary mortgage insurance and pool mortgage insurance. Primary mortgage insurance may be written through the flow market channel, in which loans are insured in individual, loan-by-loan transactions. Primary mortgage insurance may also be written through the bulk market channel, in which portfolios of loans are individually insured in single, bulk transactions.

As used below, we refers to our consolidated operations. The discussion below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005. We refer to this Discussion as the 10-K MD&A.

Our results of operations are affected by:

Premiums written and earned

Premiums written and earned in a year are influenced by:

New insurance written, which increases the size of the in force book of insurance. New insurance written is the aggregate principal amount of the mortgages that are insured during a period and is referred to as NIW . NIW is affected by many factors, including the volume of low down payment home mortgage originations and competition to provide credit enhancement on those mortgages, including competition from other mortgage insurers and alternatives to mortgage insurance, such as piggyback loans.

Cancellations, which reduce the size of the in force book of insurance that generates premiums. Cancellations due to refinancings are affected by the level of current mortgage interest rates compared to the mortgage coupon rates throughout the in force book, as well as by home price appreciation.

Premium rates, which are affected by the risk characteristics of the loans insured and the percentage of coverage on the loans.

Premiums ceded to reinsurance subsidiaries of certain mortgage lenders and risk sharing arrangements with the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (government sponsored entities or GSEs).

Premiums are generated by the insurance that is in force during all or a portion of the period. Hence, lower average insurance in force in one period compared to another is a

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factor that will reduce premiums written and earned, although this effect may be mitigated (or enhanced) by differences in the average premium rate between the two periods as well as by premium that is ceded. Also, NIW and cancellations during a period will generally have a greater effect on premiums written and earned in subsequent periods than in the period in which these events occur.

Investment income and realized gains and losses

The investment portfolio is comprised almost entirely of highly rated, fixed income securities. The principal factors that influence investment income are the size of the portfolio and its yield. As measured by amortized cost (which excludes changes in fair market value, such as from changes in interest rates), the size of the investment portfolio is mainly a function of cash generated from operations, including investment earnings, less cash used for non-investment purposes, such as share repurchases. Realized gains and losses are a function of the difference between the amount received on sale of a security and the security's amortized cost. The amount received on sale is affected by the coupon rate of the security compared to the yield of comparable securities.

Losses incurred

Losses incurred are the expense that results from a payment delinquency on an insured loan. As explained under Critical Accounting Policies in the 10-K MD&A, this expense is recognized only when a loan is delinquent. Losses incurred are generally affected by:

The state of the economy, which affects the likelihood that loans will become delinquent and whether loans that are delinquent cure their delinquency. The level of delinquencies has historically followed a seasonal pattern, with a reduction in delinquencies in the first part of the year, followed by an increase in the latter part of the year.

The product mix of the in force book, with loans having higher risk characteristics generally resulting in higher delinquencies and claims.

The average claim payment, which is affected by the size of loans insured (higher average loan amounts tend to increase losses incurred), the percentage coverage on insured loans (deeper average coverage tends to increase incurred losses), and housing values, which affect our ability to mitigate our losses through sales of properties with delinquent mortgages.

The distribution of claims over the life of a book. Historically, the first two years after a loan is originated are a period of relatively low claims, with claims increasing substantially for several years subsequent and then declining, although persistency and the condition of the economy can affect this pattern.

Underwriting and other expenses

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Our operating expenses generally vary primarily due to contract underwriting volume, which in turn generally varies with the level of mortgage origination activity. Contract underwriting generates fee income included in Other revenue.

Income from joint ventures

Our results of operations are also affected by income from joint ventures. Joint venture income principally consists of the aggregate results of our investment in two less than majority owned joint ventures, Credit-Based Asset Servicing and Securitization LLC (C-BASS) and Sherman Financial Group LLC (Sherman).

C-BASS: C-BASS is primarily an investor in the credit risk of credit-sensitive single-family residential mortgages. It finances these activities through borrowings included on its balance sheet and by securitization activities generally conducted through off-balance sheet entities. C-BASS generally retains the first-loss and other subordinate securities created in the securitization. The mortgage loans owned by C-BASS and underlying C-BASS's mortgage securities investments are generally serviced by Litton Loan Servicing LP, a subsidiary of C-BASS (Litton). Litton's servicing operations primarily support C-BASS's investment in credit risk, and investments made by funds managed or co-managed by C-BASS, rather than generating fees for servicing loans owned by third-parties.

C-BASS's consolidated results of operations are affected by:

Portfolio revenue, which in turn is primarily affected by net interest income, gain on sale and liquidation and hedging gains and losses related to portfolio assets, net of mark-to-market and whole loan reserve changes.

Net interest income

Net interest income is principally a function of the size of C-BASS's portfolio of whole loans and mortgages and other securities, and the spread between the interest income generated by these assets and the interest expense of funding them. Interest income from a particular security is recognized based on the expected yield for the security.

Gain on sale and liquidation

Gain on sale and liquidation results from sales of mortgage and other securities, and liquidation of mortgage loans. Securities may be sold in the normal course of business or because of the exercise of call rights by third parties. Mortgage loan liquidations result from loan payoffs, from foreclosure or from sales of real estate acquired through foreclosure.

Servicing revenue

Servicing revenue is a function of the unpaid principal balance of mortgage loans serviced and servicing fees and charges. The unpaid principal balance of mortgage loans serviced by Litton is affected by mortgages acquired by C-BASS

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because servicing on subprime and other mortgages acquired is generally transferred to Litton. Litton also services or provides special servicing on loans in mortgage securities owned by funds managed or co-managed by C-BASS. Litton also may obtain servicing on loans in third party mortgage securities acquired by C-BASS or when the loans become delinquent by a specified number of payments (known as special servicing).

Revenues from money management activities

These revenues include management fees from C-BASS issued collateralized bond obligations (CBOs), equity in earnings from C-BASS investments in investment funds managed or co-managed by C-BASS and management fees and incentive income from investment funds managed or co-managed by C-BASS.

Transaction revenue, which in turn is affected by gain on securitization and hedging gains and losses related to securitization

Gain on securitization

Gain on securitization is a function of the face amount of the collateral in the securitization and the margin realized in the securitization. This margin depends on the difference between the proceeds realized in the securitization and the purchase price paid by C-BASS for the collateral. The proceeds realized in a securitization include the value of securities created in the securitization that are retained by C-BASS.

Hedging gains and losses, net of mark-to-market and whole loan reserve changes

Hedging gains and losses primarily consist of changes in the value of derivative instruments (including interest rate swaps, interest rate caps and futures) and short positions, as well as realized gains and losses from the closing of hedging positions. C-BASS uses derivative instruments and short sales in a strategy to reduce the impact of changes in interest rates on the value of its mortgage loans and securities. Changes in value of derivative instruments are subject to current recognition because C-BASS does not account for the derivatives as hedges under SFAS No. 133.

Mortgage and other securities are classified by C-BASS as trading securities and are carried at fair value, as estimated by C-BASS. Changes in fair value between period ends (a mark-to-market) are reflected in C-BASS's statement of operations as unrealized gains or losses. Changes in fair value of mortgage and other securities may relate to changes in credit spreads or to changes in the level of interest rates or the slope of the yield curve. Mortgage loans are not marked-to-market and are carried at the lower of cost or fair value on a portfolio basis, as estimated by C-BASS.

During a period in which short-term interest rates decline, in general, C-BASS's hedging positions will decline in value and the change in value, to the extent that

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the hedges related to whole loans, will be reflected in C-BASS's earnings for the period as an unrealized loss. The related increase, if any, in the value of mortgage loans will not be reflected in earnings but, absent any countervailing factors, when mortgage loans owned during the period are securitized, the proceeds realized in the securitization should increase to reflect the increased value of the collateral.

Sherman: Sherman is principally engaged in purchasing and collecting for its own account delinquent consumer receivables, which are primarily unsecured, and in originating and servicing subprime credit card receivables. The borrowings used to finance these activities are included in Sherman's balance sheet.

Sherman's consolidated results of operations are affected by:

Revenues from delinquent receivable portfolios

These revenues are the cash collections on such portfolios, and depend on the aggregate amount of delinquent receivables owned by Sherman, the type of receivable and the length of time that the receivable has been owned by Sherman.

Amortization of delinquent receivable portfolios

Amortization is the recovery of the cost to purchase the receivable portfolios. Amortization expense is a function of estimated collections from the portfolios over their estimated lives. If estimated collections cannot be reasonably predicted, cost is fully recovered before any net revenue (the difference between revenues from a receivable portfolio and that portfolio's amortization) is recognized.

Credit card interest and fees, along with the coincident provision for losses for uncollectible amounts.

Costs of collection, which include servicing fees paid to third parties to collect receivables.

2006 Second Quarter Results

Our results of operations in the second quarter of 2006 were principally affected by:

Losses incurred

Losses incurred for the second quarter of 2006 increased compared to the same period in 2005 primarily due to a larger increase in the estimates regarding how much will be paid on claims, offset by a larger decrease in the estimates regarding how many delinquencies will result in a claim, when both are compared to the same period in 2005. The increase in estimates regarding how much will be paid on claims is primarily the result of the default inventory containing higher loan exposures with expected higher average claim payments, while the decrease in estimates regarding how many delinquencies will result in a claim is the result of improvements in the claim rate in

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certain geographical regions, with the exception of the Midwest where claims rates have not improved.

Premiums written and earned

During the second quarter of 2006, our written and earned premiums were lower than in the second quarter of 2005 due to a decline in the average insurance in force.

Underwriting expenses

Underwriting expenses increased in the second quarter of 2006 compared to the second quarter of 2005 primarily due to additional amounts related to Myers Internet (acquired in January 2006) and equity based compensation.

Investment income

Investment income in the second quarter of 2006 was higher than in the second quarter of 2005 due to a slight increase in the pre-tax yield, offset by a decrease in the average amortized cost of invested assets.

Income from joint ventures

Income from joint ventures increased in the second quarter of 2006 compared to the same period in 2005 due to higher income from C-BASS.

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RESULTS OF CONSOLIDATED OPERATIONS

As discussed under **Forward Looking Statements and Risk Factors** below, actual results may differ materially from the results contemplated by forward looking statements. We are not undertaking any obligation to update any forward looking statements we may make in the following discussion or elsewhere in this document even though these statements may be affected by events or circumstances occurring after the forward looking statements were made.

NIW

The amount of MGIC's NIW (this term is defined in the **Overview-Business and General Environment** section) during the three and six months ended June 30, 2006 and 2005 was as follows:

	Three months ended June 30, (\$ billions)		Six months ended June 30, (\$ billions)	
	2006	2005	2006	2005
Flow	\$ 10.1	\$ 10.4	\$ 18.0	\$ 19.3
Bulk	6.0	6.2	8.1	8.7
 Total NIW	 \$ 16.1	 \$ 16.6	 \$ 26.1	 \$ 28.0

Refinance volume as a % of primary flow NIW	22%	26%	25%	29%
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NIW on a flow basis for the second quarter and first six months of 2006 was less than the volume during the comparable periods in 2005. This decrease in NIW on a flow basis was primarily the result of a decrease in refinance volume. Refinance volume in turn is driven by changes in interest rates as discussed with respect to cancellations below. For a discussion of NIW written through the bulk channel, see **Bulk transactions** below.

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NIW and cancellations of primary insurance in force during the three and six months ended June 30, 2006 and 2005 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(\$ billions)		(\$ billions)	
NIW	\$ 16.1	\$ 16.6	\$ 26.1	\$ 28.0
Cancellations	(13.2)	(16.9)	(26.3)	(33.3)
Change in primary insurance in force	\$ 2.9	\$ (0.3)	\$ (0.2)	\$ (5.3)

Direct primary insurance in force was \$169.8 billion at June 30, 2006 compared to \$170.0 billion at December 31, 2005 and \$171.8 billion at June 30, 2005. The \$2.9 billion increase in insurance in force in the second quarter of 2006 was the first quarter of growth in the in force book since the fourth quarter of 2002.

Cancellation activity has historically been affected by the level of mortgage interest rates and the level of home price appreciation. Cancellations generally move inversely to the change in the direction of interest rates, although they generally lag a change in direction. MGIC's persistency rate (percentage of insurance remaining in force from one year prior) was 64.1% at June 30, 2006, an increase from 61.3% at December 31, 2005 and 60.9% at June 30, 2005. We expect modest improvement in the persistency rate for the remainder of 2006, although this expectation assumes the absence of significant declines in the level of mortgage interest rates from their level in late July 2006.

Bulk transactions

NIW from bulk transactions during the second quarter and first six months of 2006 was slightly less than the volume during the comparable periods in 2005.

Our writings of bulk insurance are in part sensitive to the volume of securitization transactions involving non-conforming loans. Our writings of bulk insurance are also sensitive to competition from other methods of providing credit enhancement in a securitization, including an execution in which the subordinate tranches in the securitization rather than mortgage insurance bear the first loss from mortgage defaults. Competition from such an execution in turn depends on, among other factors, the yield at which investors are willing to purchase tranches of the securitization that involve a higher degree of credit risk compared to the yield for tranches involving the lowest credit risk (the difference in such yields is referred to as the spread) and the amount of credit for losses that a rating agency will give to mortgage insurance. As the spread narrows, competition from an execution in which the subordinate tranches bear the first loss increases. The competitiveness of the mortgage insurance execution in the bulk

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channel may also be impacted by changes in our view of the risk of the business, which is affected by the historical performance of previously insured pools and our expectations for regional and local real estate values. As a result of the sensitivities discussed above, bulk volume can vary materially from period to period.

Pool insurance

In addition to providing primary insurance coverage, we also insure pools of mortgage loans. New pool risk written during the three months ended June 30, 2006 and 2005 was \$89 million and \$58 million, respectively. Our direct pool risk in force was \$3.2 billion, \$2.9 billion and \$2.8 billion at June 30, 2006, December 31, 2005 and June 30, 2005, respectively. These risk amounts represent pools of loans with contractual aggregate loss limits and those without such limits. For pools of loans without such limits, risk is estimated based on the amount that would credit enhance the loans in the pool to a AA level based on a rating agency model. Under this model, at June 30, 2006 and 2005, for \$4.7 billion and \$5.3 billion, respectively, of risk without such limits, risk in force was calculated at \$471 million and \$462 million, respectively. New risk written under this model, for the three months ended June 30, 2006 and 2005, was \$1 million and \$24 million, respectively.

New pool risk written during the six months ended June 30, 2006 and 2005 was \$157 million and \$106 million, respectively. Under the model described above, for risk without contractual aggregate loss limits, new risk written during the six months ended June 30, 2006 and 2005 was calculated at \$2 million and \$44 million, respectively.

Net premiums written and earned

Net premiums written and earned during the second quarter and first six months of 2006 decreased due to a decline in the average insurance in force, when compared to the same periods in 2005. We anticipate that net premiums written and earned in the second half of 2006 will be lower than the comparable period in 2005, due to lower premium rates, offset by slight growth in the average insurance in force.

Risk sharing arrangements

For the quarter ended March 31, 2006, approximately 48.0% of our new insurance written on a flow basis was subject to arrangements with reinsurance subsidiaries of certain mortgage lenders or risk sharing arrangements with the GSEs compared to 46.7% for the quarter ended June 30, 2005. The percentage of new insurance written during a period covered by such arrangements normally increases after the end of the period because, among other reasons, the transfer of a loan in the secondary market can result in a mortgage insured during a period becoming part of such an arrangement in a subsequent period. Therefore, the percentage of new insurance written covered by such arrangements is not shown for the current quarter. Premiums ceded in such arrangements are reported in the period in which they are ceded regardless of when the mortgage was insured.

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Continuing a program begun in 2005 to reduce exposure to certain geographical areas and categories of risk, during the second quarter of 2006, we entered into an excess of loss reinsurance agreement under which we ceded approximately \$45 million of risk in force in to a special purpose reinsurance company. The structure of this reinsurance transaction was similar to two reinsurance transactions entered into in 2005. See the 10-K MD&A under

Results of Consolidated Operations - Risk-sharing arrangements . Premiums ceded under these three reinsurance agreements have not been material and are included in ceded premiums . We may enter into similar transactions in the future.

Investment income

Investment income for the second quarter of 2006 increased due a slight increase in the average investment yield, offset by a decrease in the average amortized cost of invested assets. Investment income for the first six months of 2006 increased due to a slight increase in the average investment yield. The portfolio's average pre-tax investment yield was 4.45% at June 30, 2006 and 4.32% at June 30, 2005. The portfolio's average after-tax investment yield was 3.96% at June 30, 2006 and 3.88% at June 30, 2005. Our net realized losses in the second quarter and first six months of 2006 were immaterial. Our net realized gains in the second quarter and first six months of 2005 resulted primarily from the sale of fixed maturities.

Other revenue

The increase in other revenue is primarily the result of additional revenue from the operation of Myers Internet, offset by somewhat lower revenues from other non-insurance operations.

Losses

As discussed in Critical Accounting Policies in the 10-K MD&A, consistent with industry practices, loss reserves for future claims are established only for loans that are currently delinquent. (The terms delinquent and default are used interchangeably by the Company and are defined as an insured loan with a mortgage payment that is 45 days or more past due.) Loss reserves are established by management's estimating the number of loans in our inventory of delinquent loans that will not cure their delinquency (historically, a substantial majority of delinquent loans have cured), which is referred to as the claim rate, and further estimating the amount that we will pay in claims on the loans that do not cure, which is referred to as claim severity.

The estimated claims rates and claims amounts represent what management believes best reflect the estimate of what will actually be paid on the loans in default as of the reserve date. These estimates are based on management's review of historical trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in the level of defaults by geography and the change in average loan exposure. The process does not encompass management projecting any correlation to projected economic conditions such as changes in unemployment rate, interest rate or housing value. As a result, management's process to determine reserves does not include quantitative ranges of outcomes that are reasonably likely to occur.

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In considering the potential sensitivity of the factors underlying management's best estimate of loss reserves, it is possible that even a relatively small change in estimated claim rate or a relatively small percentage change in estimated claim amount could have a significant impact on reserves and, correspondingly, on results of operations. For example, as of the reserve date a \$1,000 change in the average severity reserve factor combined with a 1% change in the average claim rate reserve factor could change the reserve amount by approximately \$50 million. Historically, it has not been uncommon for us to experience variability in the development of the reserves at this level or higher.

The establishment of loss reserves is subject to inherent uncertainty and requires judgment by management. The actual amount of the claim payments may vary significantly from the loss reserve estimates. Changes to our estimates could result in material changes to our operations, even in a stable economic environment. Adjustments to reserve estimates are reflected in the financial statements in the periods in which the adjustments are made.

Net losses incurred increased in the second quarter of 2006 compared to the same period in 2005 due to a larger increase in the estimates regarding how much will be paid on claims, offset by a slightly larger decrease in the estimates regarding how many delinquencies will eventually result in a claim, when compared to the same period in 2005. The increase in estimates regarding how much will be paid on claims is primarily the result of the default inventory containing higher loan exposures with expected higher average claim payments, while the decrease in estimates regarding how many delinquencies will result in a claim is the result of improvements in the claim rate in certain geographical regions, with the exception of the Midwest where claim rates have not improved. The average primary claim paid for the three months ended June 30, 2006 was \$27,153 compared to \$25,708 for the same period in 2005.

Net losses incurred increased in the first six months of 2006 compared to the same period in 2005 due to a larger increase in the estimates regarding how many delinquencies will eventually result in a claim, when compared to the same period in 2005. The increase in estimates regarding how much will be paid on claims is primarily the result of the default inventory containing higher loan exposures with expected higher average claim payments. The average primary claim paid for the six months ended June 30, 2006 was \$27,016 compared to \$25,894 for the same period in 2005.

We anticipate that losses incurred in the second half of 2006 will be above the level in the first half of 2006.

Information about the composition of the primary insurance default inventory at June 30, 2006, December 31, 2005 and June 30, 2005 appears in the table below.

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	June 30, 2006	December 31, 2005	June 30, 2005
Total loans delinquent	73,354	85,788	76,081
Percentage of loans delinquent (default rate)	5.77%	6.58%	5.62%
Flow loans delinquent	39,049	47,051	39,958
Percentage of flow loans delinquent (default rate)	3.82%	4.52%	3.70%
Bulk loans delinquent	34,305	38,737	36,123
Percentage of bulk loans delinquent (default rate)	13.84%	14.72%	13.13%
A-minus and subprime credit loans delinquent*	32,508	36,485	32,613
Percentage of A-minus and subprime credit loans delinquent (default rate)	17.35%	18.30%	15.47%

*A portion of A-minus and subprime credit loans is included in flow loans delinquent and the remainder is included in bulk loans delinquent. Most A-minus and subprime credit loans are written through the bulk channel. A-minus loans have FICO credit scores of 575-619, as reported to MGIC at the time a commitment to insure is issued, and subprime loans have FICO credit scores of less than 575.

The pool notice inventory decreased from 23,772 at December 31, 2005 to 19,630 at June 30, 2006; the pool notice inventory was 22,702 at June 30, 2005.

At June 30, 2006, we estimate that the default inventory included 1,650 mortgages on properties in areas within Alabama, Florida, Louisiana, Mississippi and Texas that have been declared eligible for individual and public assistance by the Federal Emergency Management Agency as a result of Hurricanes Katrina, Rita and Wilma. For additional information on the potential effect of these hurricanes, see Deterioration in the domestic economy or changes in the mix of business may result in more homeowners defaulting and the Company's losses increasing under Risk Factors, included in our Form 10-K, filed for the year ended December 31, 2005.

Information about net losses paid in 2006 and 2005 appears in the table below.

	Three months ended June 30,		Six months ended June 30,	
Net paid claims (\$ millions)	2006	2005	2006	2005
Flow	\$ 72	\$ 74	\$ 134	\$ 145
Bulk	65	64	118	122
Other	25	20	45	40
	\$ 162	\$ 158	\$ 297	\$ 307

Net paid claims increased in the second quarter of 2006 from \$135 million in the first quarter of 2006. The increase in paid claims was primarily the result of an acceleration in bankruptcy filings in October 2005 prior to the change in the bankruptcy laws. The effect of this acceleration was that we paid claims in the second quarter of 2006 that we would have paid after the second quarter. To a lesser extent, the increase was also the result of the GSE's lifting of the moratorium on pursuing delinquencies in certain areas of the hurricane impacted states and the beginning of the clearance of a foreclosure backlog in Ohio. The effect of these factors was that claims that would have been paid before the second quarter were paid in the second quarter.

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As of June 30, 2006, 81% of our primary insurance in force was written subsequent to December 31, 2002. On our flow business, the highest claim frequency years have typically been the third and fourth year after the year of loan origination. However, the pattern of claims frequency can be affected by many factors, including low persistency (which can have the effect of accelerating the period in the life of a book during which the highest claim frequency occurs) and deteriorating economic conditions (which can result in increasing claims following a period of declining claims). On our bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on our flow business.

Underwriting and other expenses

Underwriting and other expenses in the second quarter and first six months of 2006 were more than the comparable periods in 2005. The increase was primarily due to additional expenses from Myers Internet and equity based compensation. (In the first six months of 2006, \$2.9 million of equity based compensation expenses related to the adoption of FAS 123R.) The effect of these expense increases was partially offset by lower insurance and non-insurance expenses.

Consolidated ratios

The table below presents our consolidated loss, expense and combined ratios for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
Consolidated Insurance Operations:	2006	2005	2006	2005
Loss ratio	49.7%	43.9%	44.0%	37.6%
Expense ratio	16.7%	15.1%	17.1%	15.5%
Combined ratio	66.4%	59.0%	61.1%	53.1%

The loss ratio (expressed as a percentage) is the ratio of the sum of incurred losses and loss adjustment expenses to net premiums earned. The increase in the loss ratio in 2006, compared to 2005, is due to an increase in losses incurred and a decrease in premiums earned compared to the prior year. The expense ratio (expressed as a percentage) is the ratio of underwriting expenses to net premiums written. The increase in the expense ratio in 2006, compared to 2005, is due to an increase in underwriting expenses and a decrease in premiums written compared to the prior year. The combined ratio is the sum of the loss ratio and the expense ratio.

Income taxes

The effective tax rate was 25.2% in the second quarter of 2006, compared to 27.6% in the second quarter of 2005. During those periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits recognized from tax preferred

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investments. Our tax preferred investments include tax-exempt municipal bonds, interests in mortgage related securities with flow through characteristics and investments in real estate ventures which generate low income housing credits. The lower effective tax rate in 2006 resulted from a higher percentage of total income before tax being generated from tax preferred investments, which resulted from lower levels of underwriting income.

The effective tax rate was 26.2% in the first six months of 2006, compared to 28.2% in the first six months of 2005. The lower effective tax rate in 2006 resulted from a higher percentage of total income before tax being generated from tax preferred investments, which resulted from lower levels of underwriting income.

Joint ventures

Our equity in the earnings from the C-BASS and Sherman joint ventures with Radian Group Inc. (Radian) and certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, is shown separately, net of tax, on our consolidated statement of operations. The increase in income from joint ventures from the second quarter and first six months of 2005 to the second quarter and first six months of 2006 is primarily the result of increased equity earnings from each of C-BASS and Sherman.

C-BASS

Summary C-BASS balance sheets and income statements at the dates and for the periods indicated appear below.
Summary Balance Sheet:

	June 30, 2006	December 31, 2005
	(\$ millions)	
Assets		
Whole loans	\$ 3,336	\$ 4,638
Securities	1,886	2,054
Servicing	540	468
Other	527	534
Total Assets	\$ 6,289	\$ 7,694
Total Liabilities	\$ 5,417	\$ 6,931
Debt*	4,813	6,434
Owners' Equity	872	763

* Most of which is scheduled to mature within one year or less.

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The amounts of Total Assets, Whole loans and Debt each decreased during the first half of 2006 primarily as a result of the securitization of whole loans acquired in the fourth quarter of 2005 as well as the issuance of new CBOs.

Summary Income Statement

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(\$ millions)			
Portfolio	\$ 100.8	\$ 72.8	\$ 178.3	\$ 139.6
Servicing	82.3	64.8	158.8	126.1
Money management	9.4	7.6	16.2	14.3
Transaction	19.0	29.0	29.3	41.5
Total revenue	211.5	174.2	382.6	321.5
Total expense	114.1	99.0	219.8	185.7
Income before tax	\$ 97.4	\$ 75.2	\$ 162.8	\$ 135.8
Company's share of pretax income	\$ 45.0	\$ 34.6	\$ 75.1	\$ 62.6

See Overview Business and General Environment Income from Joint Ventures C-BASS for a description of the components of the revenue lines.

The increased contribution for the second quarter of 2006, compared to the same period in 2005, was primarily due to increased net interest income and servicing revenue. Higher net interest income was the result of a higher average investment portfolio and higher earnings on trust deposits for securities serviced by Litton as well as the overall interest rate movement. The increased servicing revenue was due primarily to Litton's higher average servicing portfolio.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS 156), an amendment to SFAS No.140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. SFAS 156 provides standards for the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. It is effective for fiscal years beginning after September 15, 2006. C-BASS is currently evaluating the effect, if any, the new standard will have on its results of operations and financial position.

Our investment in C-BASS on an equity basis at June 30, 2006 was \$413.9 million. We received \$23.9 million in distributions from C-BASS during the first half of 2006. We anticipate that C-BASS's income before tax in the second half of 2006 will be below its income before tax in first half of 2006.

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Sherman

Summary Sherman balance sheets and income statements at the dates and for the periods indicated appear below.

Summary Balance Sheet:

	June 30, 2006	December 31, 2005
	(\$ millions)	
Total Assets	\$ 1,056	\$ 979
Total Liabilities	833	743
Debt	687	597
Members' Equity	223	236

During 2006, the changes in debt and members equity were primarily related to a capital distribution paid in the first quarter. We received \$60.5 million in distributions in the first half of 2006. Our investment in Sherman on an equity basis at June 30, 2006 was \$74.4 million and was \$39.8 million at July 31, 2006, subsequent to a \$43.2 million distribution received in July.

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Summary Income Statement

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(\$ millions)		(\$ millions)	
Revenues from receivable portfolios	\$ 265.1	\$ 224.8	\$ 547.5	\$ 427.8
Portfolio amortization	103.6	79.9	204.8	149.4
Revenues, net of amortization	161.5	144.9	342.7	278.4
Credit card interest income and fees	88.6	56.9	160.9	62.2
Other revenue	19.1	30.7	26.7	42.8
Total revenues	269.2	232.5	530.3	383.4
Expenses	190.6	154.3	369.8	249.4
Income before tax	\$ 78.6	\$ 78.2	\$ 160.5	\$ 134.0
Company's share of pretax income	\$ 27.2	\$ 32.4	\$ 55.5	\$ 55.6

The decreased contribution from Sherman for the second quarter of 2006, compared to the same period in 2005, was primarily due to a decrease in our interest in Sherman resulting from a third quarter 2005 sale of a portion of our interest to Sherman management. The contribution from Sherman for the first six months of 2006 was comparable to the contribution from the same period in 2005. Sherman experienced increased net revenues in 2006 from portfolios owned and from the operations of the Credit One Bank, acquired in March 2005. The increase in expenses in 2006 relates to the Credit One acquisition.

We anticipate that Sherman's income before tax in the second half of 2006 will be below its income before tax in first half of 2006.

The period to exercise our option to purchase a 6.92% additional interest in Sherman from Sherman management (see the 10-K MD&A under "Results of Consolidated Operations - Sherman") has been extended through mid-August 2006.

Other Matters

Under the Office of Federal Housing Enterprise Oversight's (OFHEO) risk-based capital stress test for the GSEs, claim payments made by a private mortgage insurer on GSE loans are reduced below the amount provided by the mortgage insurance policy to reflect the risk that the insurer will fail to pay. Claim payments from an insurer whose claims-paying ability rating is AAA are subject to a 3.5% reduction over the 10-year period of the stress test, while claim payments from a AA rated insurer, such as MGIC, are subject to an 8.75% reduction. The effect of the differentiation among insurers is to require the GSEs to have additional capital for coverage on loans provided by a private mortgage insurer whose claims-paying rating is less than AAA. As a result, there is an

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incentive for the GSEs to use private mortgage insurance provided by a AAA rated insurer.

Financial Condition

We had \$300 million, 5.375% Senior Notes due in November 2015 and \$200 million, 6% Senior Notes due in March 2007 outstanding at June 30, 2006. At June 30, 2006 and 2005, the market value of the outstanding debt (which also includes commercial paper) was \$615.6 million and \$609.2 million, respectively.

See Results of Operations Joint ventures above for information about the financial condition of C-BASS and Sherman.

As of June 30, 2006, 82% of the investment portfolio was invested in tax-preferenced securities. In addition, at June 30, 2006, based on book value, approximately 98% of our fixed income securities were invested in A rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At June 30, 2006, our derivative financial instruments in our investment portfolio were immaterial. We place our investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At June 30, 2006, the effective duration of our fixed income investment portfolio was 4.9 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.9% change in the market value of our fixed income portfolio.

Liquidity and Capital Resources

Our consolidated sources of funds consist primarily of premiums written and investment income. Positive cash flows are invested pending future payments of claims and other expenses. Management believes that future cash inflows from premiums will be sufficient to meet future claim payments. Cash flow shortfalls, if any, could be funded through sales of short-term investments and other investment portfolio securities subject to insurance regulatory requirements regarding the payment of dividends to the extent funds were required by other than the seller. Substantially all of the investment portfolio securities are held by our insurance subsidiaries.

We have a \$300 million commercial paper program, which is rated A-1 by S&P and P-1 by Moody's. At June 30, 2006 and 2005, we had \$133.5 and \$100.0 million in commercial paper outstanding with a weighted average interest rate of 5.30% and 3.18%, respectively. We have a \$300 million, five year revolving credit facility expiring in 2010 which will continue to be used as a liquidity back up facility for the outstanding commercial paper. The remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was \$166.5 million and \$200.0 million at June 30, 2006 and 2005, respectively.

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During the first quarter of 2006, an outstanding interest rate swap contract was terminated. This swap was placed into service to coincide with the committed credit facility, used as a backup for the commercial paper program. Under the terms of the swap contract, we paid a fixed rate of 5.07% and received a variable interest rate based on LIBOR. The swap had an expiration date coinciding with the maturity of the credit facility and was designated as a cash flow hedge. At June 30, 2006 we has no interest rate swaps outstanding.

(Income) expense on the interest rate swaps for the three months ended June 30, 2006 and 2005 of approximately (\$0.1) million and \$0.5 million, respectively, was included in interest expense. Gains or losses arising from the amendment or termination of interest rate swaps are deferred and amortized to interest expense over the life of the hedged items.

The commercial paper, back-up credit facility and the Senior Notes are obligations of the Company and not of its subsidiaries. We are a holding company and the payment of dividends from our insurance subsidiaries is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. Through July MGIC paid dividends of \$360 million in 2006. In July 2006 MGIC received regulatory approval to pay dividends totaling \$155 million, which are scheduled to be paid in the third quarter of 2006. MGIC cannot currently pay any additional dividends without further regulatory approval.

During the first six months of 2006, we repurchased 3.2 million shares of Common Stock under publicly announced programs at a cost of \$214.3 million. At June 30, 2006, we had authority covering the purchase of an additional 7.6 million shares under these programs. For additional information regarding stock repurchases, see Item 2(c) of Part II of this Quarterly Report on Form 10-Q. From mid-1997 through June 30, 2006, we repurchased 38.7 million shares under publicly announced programs at a cost of \$2.2 billion. Funds for the shares repurchased by us since mid-1997 have been provided through a combination of debt, including the Senior Notes and the commercial paper, and internally generated funds.

Our principal exposure to loss is our obligation to pay claims under MGIC's mortgage guaranty insurance policies. At June 30, 2006, MGIC's direct (before any reinsurance) primary and pool risk in force (which is the unpaid principal balance of insured loans as reflected in our records multiplied by the coverage percentage, and taking account of any loss limit) was approximately \$52.4 billion. In addition, as part of its contract underwriting activities, we are responsible for the quality of its underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through June 30, 2006, the cost of remedies provided by us to customers for failing to meet the standards of the contracts has not been material. However, the decreasing trend of home mortgage interest rates over the last several years may have mitigated the effect of some of these costs since the general effect of lower interest rates can be to increase the value of certain loans on which remedies are provided. There can be no assurance that contract underwriting remedies will not be material in the future.

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Our consolidated risk-to-capital ratio was 7.4:1 at both June 30, 2006 and December 31, 2005.

The risk-to-capital ratios set forth above have been computed on a statutory basis. However, the methodology used by the rating agencies to assign claims-paying ability ratings permits less leverage than under statutory requirements. As a result, the amount of capital required under statutory regulations may be lower than the capital required for rating agency purposes. In addition to capital adequacy, the rating agencies consider other factors in determining a mortgage insurer's claims-paying rating, including its historical and projected operating performance, business outlook, competitive position, management and corporate strategy.

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Forward-Looking Statements and Risk Factors

General: Our revenues and losses could be affected by the risk factors referred to under *Location of Risk Factors* below that are applicable to the Company, and our income from joint ventures could be affected by the risk factors referred to under *Location of Risk Factors* that are applicable to C-BASS and Sherman. These risk factors are an integral part of Management's Discussion and Analysis.

These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as we believe, anticipate or expect, or words of similar import, are forward looking statements. We are not undertaking any obligation to update any forward looking statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements were made.

Location of Risk Factors: The risk factors are in Part II, Item 1 A of our Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006 and in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2005. The risk factors in the 10-K, as supplemented by that 10-Q, are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2006, our derivative financial instruments in its investment portfolio were immaterial. We place our investments in instruments that meet investment grade credit quality standards, as specified in our investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At June 30, 2006, the effective duration of our fixed income investment portfolio was 4.9 years. This means that for each instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 4.9% change in the market value of our fixed income investment portfolio.

Our borrowings under our commercial paper program are subject to interest rates that are variable. See the fourth and fifth paragraphs under *Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources* for a discussion of our interest rate swaps.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer concluded that

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such controls and procedures were effective as of the end of such period. There was no change in our internal control over financial reporting that occurred during the second quarter of 2006 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Table of Contents**PART II. OTHER INFORMATION****Item 1 A. Risk Factors**

There have been no material changes in our risk factors from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005, as supplemented by Part II, Item 1 A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006. The risk factors in that 10-K, as supplemented by that item in the March 31, 2006 10-Q are included in Exhibit 99 to this 10-Q.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS**(c) Repurchase of common stock:**

Information about shares of Common Stock repurchased during the second quarter of 2006 appears in the table below.

			(c) Total Number of Shares Purchased as Part of Publicly Announced	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (A)
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	Plans or Programs	
April 1, 2006 through April 30, 2006	94,400	\$ 69.63(B)	94,400	9,347,941
May 1, 2006 through May 31, 2006	604,222	\$ 67.11	604,222	8,743,719
June 1, 2006 through June 30, 2006	1,126,197	\$ 65.64	1,126,197	7,617,522
Total	1,824,819	\$ 67.25	1,824,819	7,617,522

(A) On January 26, 2006 the Company announced that its Board of Directors authorized the repurchase of up to ten million shares of our Common Stock in the open market or in private transactions.

(B) Does not include \$1.7 million representing a price adjustment

on the final
settlement of an
accelerated
repurchase
program
initiated in
2005. All shares
repurchased
under this
program were
deemed to be
purchased at the
initiation of the
program.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Our Annual Meeting of Shareholders was held on May 11, 2006.

(b) Not applicable.

(c) Matters voted upon at the Annual Meeting and the number of shares voted for, against and abstaining from voting were as follows. There were no broker non-votes.

(1) Election of four Directors for a term expiring in 2009.

	FOR	WITHHELD
Karl E. Case	77,567,889	2,370,752
Curt S. Culver	76,966,315	2,970,426
William A. McIntosh	78,458,328	1,480,313
Leslie M. Muma	77,215,186	2,723,455

(2) Ratification of the appointment of PricewaterhouseCoopers LLP as our independent accountants for 2006.

For:	79,306,755
Against:	38,166
Abstaining from Voting:	593,720

ITEM 6. EXHIBITS

The accompanying Index to Exhibits is incorporated by reference in answer to this portion of this Item, and except as otherwise indicated in the next sentence, the Exhibits listed in such Index are filed as part of this Form 10-Q. Exhibit 32 is not filed as part of this Form 10-Q but accompanies this Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on August 9, 2006.

MGIC INVESTMENT CORPORATION

\s\ J. Michael Lauer

J. Michael Lauer
Executive Vice President and
Chief Financial Officer

\s\ Joseph J. Komanecki

Joseph J. Komanecki
Senior Vice President, Controller and
Chief Accounting Officer

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**INDEX TO EXHIBITS
(Part II, Item 6)**

Exhibit Number	Description of Exhibit
11	Statement Re Computation of Net Income Per Share
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO under Section 906 of Sarbanes-Oxley Act of 2002 (as indicated in Item 6 of Part II, this Exhibit is not being filed)
99	Risk Factors included in Item 1 A of our Annual Report on Form 10-K for the year ended December 31, 2005, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006