FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended MARCH 31, 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 ☑ **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 ☑ 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).

YESo **NO** ☑

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	04/30/06	87,433,075

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2006 (Unaudited) and December 31, 2005

	March 31, 2006	December 31, 2005
	(In thousands of dollars)	
ASSETS		
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities	$ 5,234,591	$ 5,292,942
Equity securities	2,489	2,488
Total investment portfolio	5,237,080	5,295,430
Cash and cash equivalents	206,595	195,256
Accrued investment income	66,265	66,369
Reinsurance recoverable on loss reserves	14,039	14,787
Prepaid reinsurance premiums	9,110	9,608
Premiums receivable	92,784	91,547
Home office and equipment, net	32,579	32,666
Deferred insurance policy acquisition costs	16,934	18,416
Investments in joint ventures	472,207	481,778
Other assets	176,625	151,712
Total assets	$ 6,324,218	$ 6,357,569
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Loss reserves	$ 1,103,557	$ 1,124,454
Unearned premiums	160,130	159,823
Short- and long-term debt (note 2)	597,674	685,163
Income taxes payable	114,878	62,006
Other liabilities	152,453	161,068
Total liabilities	2,128,692	2,192,514
Contingencies (note 3)		
Shareholders' equity:		
Common stock, $1 par value, shares authorized 300,000,000; shares issued, 3/31/06 - 122,766,397 12/31/05 - 122,549,285; shares outstanding, 3/31/06 - 87,266,998 12/31/05 - 88,046,430	122,766	122,549
Paid-in capital	273,840	280,052
Treasury stock (shares at cost, 3/31/06 - 35,499,399 12/31/05 - 34,502,855)	(1,907,942)	(1,834,434)
Accumulated other comprehensive income, net of tax (note 5)	45,975	77,499
Retained earnings	5,660,887	5,519,389
Total shareholders' equity	4,195,526	4,165,055
Total liabilities and shareholders' equity	$ 6,324,218	$ 6,357,569

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2006 and 2005
(Unaudited)

	Three Months Ended March 31,	
	2006	2005
	(In thousands of dollars, except per share data)	
Revenues:		
Premiums written:		
Direct	$ 333,576	$ 342,287
Assumed	397	202
Ceded	(33,501)	(30,250)
Net premiums written	300,472	312,239
(Increase) decrease in unearned premiums, net	(805)	3,840
Net premiums earned	299,667	316,079
Investment income, net of expenses	57,964	57,003
Realized investment gains, net	87	1,565
Other revenue	11,314	10,261
Total revenues	369,032	384,908
Losses and expenses:		
Losses incurred, net	114,885	98,866
Underwriting and other expenses, net	74,265	67,895
Interest expense	9,315	10,722
Total losses and expenses	198,465	177,483
Income before tax and joint ventures	170,567	207,425
Provision for income tax	46,166	59,660
Income from joint ventures, net of tax	39,052	34,248
Net income	$ 163,453	$ 182,013
Earnings per share (note 4):		
Basic	$ 1.89	$ 1.91
Diluted	$ 1.87	$ 1.90
Weighted average common shares outstanding — diluted (shares in thousands, note 4)	87,227	95,784
Dividends per share	$ 0.2500	$ 0.0750

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 2006 and 2005
(Unaudited)

	Three Months Ended March 31,	
	2006	2005
	(In thousands of dollars)	
Cash flows from operating activities:		
Net income	$ 163,453	$ 182,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred insurance policy acquisition costs	3,521	5,632
Increase in deferred insurance policy acquisition costs	(2,039)	(4,581)
Depreciation and amortization	6,854	4,519
Decrease in accrued investment income	104	3,295
Decrease in reinsurance recoverable on loss reserves	748	1,069
Decrease in prepaid reinsurance premiums	498	492
(Increase) decrease in premium receivable	(1,237)	7,911
Decrease in loss reserves	(20,897)	(51,494)
Increase (decrease) in unearned premiums	307	(4,332)
Increase in income taxes payable	50,006	44,834
Equity earnings in joint ventures	(57,251)	(49,872)
Distributions from joint ventures	67,862	60,375
Other	(10,796)	36,503
Net cash provided by operating activities	201,133	236,364
Cash flows from investing activities:		
Purchase of fixed maturities	(386,062)	(289,505)
Additional investment in joint ventures	(984)	(1,760)
Sale of equity securities		616
Proceeds from sale of fixed maturities	350,525	85,089
Proceeds from maturity of fixed maturities	40,125	49,372
Net cash provided by (used in) investing activities	3,604	(156,188)
Cash flows from financing activities:		
Dividends paid to shareholders	(21,954)	(7,201)
Net (repayment of) proceeds from short-term debt	(89,583)	14,947
Reissuance of treasury stock	1,275	570
Repurchase of common stock	(91,534)	(68,567)
Common stock issued	5,532	703
Excess tax benefits from share-based payment arrangements	2,866	—
Net cash used in financing activities	(193,398)	(59,548)
Net increase in cash and cash equivalents	11,339	20,628
Cash and cash equivalents at beginning of period	195,256	166,468
Cash and cash equivalents at end of period	$ 206,595	$ 187,096

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 three months ended March 31, 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 2005, the FASB published an Exposure Draft of a proposed Interpretation, "Accounting for Uncertain Tax Positions." The Exposure Draft seeks to reduce the significant diversity in practice associated with recognition and measurement in the accounting for income taxes. The FASB has reopened deliberations to consider comments that were received regarding the Exposure Draft. At this time, the FASB has decided that the final interpretation would apply to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." The Exposure Draft requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. When evaluating a tax position for recognition and measurement, an entity should presume that a taxing authority will examine a tax position. The interpretation will most probably adopt a benefit recognition model with a two-step approach, a more-likely-than-not threshold for recognition and derecognition, and a best estimate measurement attribute. It is expected to be finalized during the second quarter of 2006, with an effective date as of the start of the first annual period beginning after December 31, 2006. The Company will continue to evaluate the impact, if any, this proposed Interpretation would 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 March 31, 2006 and 2005, the Company had $100.0 and $155.5 million in commercial paper outstanding with a weighted average interest rate of 4.74% and 2.85%, 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 March 31, 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 $200.0 million and $144.5 million at March 31, 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 March 31, 2006. At March 31, 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 March 31, 2006 and 2005, the market value of the outstanding debt was $588.4million and $667.3 million, respectively.

Interest payments on all long-term and short-term debt were $8.3 million and $8.6 million for the three months ended March 31, 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 date coinciding with the maturity of the credit facility and was designated as a cash flow hedge. At March 31, 2006 the Company has no interest rate swaps outstanding.

Expense (income) on the interest rate swaps for the three months ended March 31, 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 litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to future litigation regarding when notices to borrowers are required by 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.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") 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.

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 three months ended March 31, 2006 and 2005.

The Internal Revenue Service ("IRS") has been conducting an examination of the federal income tax returns of the Company for 2000 and 2001. During 2005, the IRS expanded the examination to include the 2002, 2003 and 2004 taxable years. In this examination, they have summonsed documents which include communications with outside legal counsel engaged by the Company. Management believes that these documents are protected by the attorney-client privilege and has declined to waive that privilege, so it has not provided them to the IRS. The documents relate 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. 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 March 31, 2006	2005
Weighted-average shares — Basic	86,577	95,265
Common stock equivalents	650	519
Weighted-average shares — Diluted	87,227	95,784

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 March 31, 2006	2005
	(In thousands of dollars)	
Net income	$163,453	$182,013
Other comprehensive income (loss)	(31,523)	(56,692)
Total comprehensive income	$131,930	$125,321
Other comprehensive income (loss) (net of tax):		
Change in unrealized net derivative gains and losses	$ 777	$ 711
Amortization of deferred losses on derivatives	—	203
Change in unrealized gains and losses on investments	(32,336)	(58,356)
Other	36	750
Other comprehensive income (loss)	$ (31,523)	$ (56,692)
Other	36	750
Other comprehensive income (loss)	$ (31,523)	$ (56,692)

At March 31, 2006, accumulated other comprehensive income of $46.0 million included $45.6 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:

	Three Months Ended March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
	(In thousands of dollars)			
Service cost	$ 2,364	$ 2,210	$ 898	$ 919
Interest cost	2,627	2,371	1,024	984
Expected return on plan assets	(3,709)	(3,355)	(649)	(560)
Recognized net actuarial loss (gain)	98	—	111	127
Amortization of transition obligation	—	—	71	71
Amortization of prior service cost	216	185	—	—
Net periodic benefit cost	$ 1,596	$ 1,411	$ 1,455	$ 1,541

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 March 31, 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 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 months ended March 31, 2005.

	Three Months Ended March 31, 2005
	(in thousands of dollars, except per share data)
Net income, as reported	$ 182,013
Add stock-based employee compensation expense included in reported net income, net of tax	2,522
Deduct stock-based employee compensation expense determined under fair value method for all awards, net of tax	(3,622)
Pro forma net income	$ 180,913
Earnings per share:	
Basic, as reported	$ 1.91
Basic, pro forma	$ 1.90
Diluted, as reported	$ 1.90
Diluted, pro-forma	$ 1.89

The compensation cost that has been charged against income for the share-based plans was $7.9 million and $3.9 million for the three months ended March 31, 2006 and 2005, respectively. The related income tax benefit recognized for the share-based compensation plans was $2.8 million and $1.4 million for the three months ended March 31, 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 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. New shares are issued when stock option grants under the 1991 plan are exercised. Treasury shares are used for awards 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:

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	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

During the three months ended March 31, 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 $6.4 million, the total amount of cash received from exercise of options was $6.7 million and the related net tax benefit realized from the exercise of those stock options was $2.2 million.

The following is a summary of stock options outstanding at March 31, 2006:

	Options Outstanding			Options Exercisable		
Exercise Price Range	Shares	Remaining Average Life (years)	Weighted Average Exercise Price	Shares	Remaining Average Life (years)	Weighted Average Exercise Price
$33.81 - 47.31	1,319,214	4.5	$ 44.18	785,224	4.2	$ 43.80
$53.70 - 68.63	1,703,150	6.0	$ 64.03	1,225,250	5.6	$ 62.90
Total	3,022,364	5.4	$ 55.37	2,010,474	5.0	$ 55.44

The aggregate intrinsic value of options outstanding at March 31, 2006 was $34 million. The aggregate intrinsic value of options exercisable was $22.5 million. The aggregate intrinsic value represents the total pretax intrinsic value based on the Company's closing stock price of $66.63 as of March 31, 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

At March 31, 2006, 4,522,068 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, 4,441,158 are available for restricted stock awards.

As of March 31, 2006, there was $81.5 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 3.1 years. The total fair value of shares vested during the three months ended March 31, 2006 was $17.1 million.

For purposes of determining the pro forma net income disclosure in Note 1, 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	5.50years	4.87years
Expected volatility	30.20%	29.40%
Expected dividend yield	0.25%	0.25%
Fair value of each option	$21.68	$13.12

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.

Condensed Consolidating Balance Sheets
At March 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
ASSETS					
Total investments	$ 2,526	$4,970,161	$264,393	$ —	$5,237,080
Cash and cash equivalents	3,434	196,187	6,974	—	206,595
Reinsurance recoverable on loss reserves	—	75,188	32	(61,181)	14,039
Prepaid reinsurance premiums	—	18,377	4	(9,271)	9,110
Deferred insurance policy acquisition costs	—	16,934	—	—	16,934
Investments in subsidiaries/joint ventures	4,776,624	472,207	—	(4,776,624)	472,207
Other assets	18,871	381,768	26,104	(58,490)	368,253
Total assets	$4,801,455	$6,130,822	$297,507	$(4,905,566)	$6,324,218
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Loss reserves	$ —	$1,103,557	$ 61,181	$ (61,181)	$1,103,557
Unearned premiums	—	160,130	9,271	(9,271)	160,130
Short- and long-term debt	597,635	9,364	—	(9,325)	597,674
Other liabilities	8,294	276,285	18,147	(35,395)	267,331
Total liabilities	605,929	1,549,336	88,599	(115,172)	2,128,692
Total shareholders' equity	4,195,526	4,581,486	208,908	(4,790,394)	4,195,526
Total liabilities and shareholders' equity	$4,801,455	$6,130,822	$297,507	$(4,905,566)	$6,324,218

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

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
ASSETS					
Total investments	$ 2,570	$5,047,475	$245,385	$ —	$5,295,430
Cash	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

Condensed Consolidating Statements of Operations
Three months ended March 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	$ —	$ 282,653	$17,841	$ (22)	$300,472
Net premiums earned	—	283,202	16,487	(22)	299,667
Equity in undistributed net income of subsidiaries	(35,515)	—	—	35,515	—
Dividends received from subsidiaries	205,000			(205,000)	—
Investment income, net of expenses	99	55,072	2,793	—	57,964
Realized investment gains, net	—	57	30	—	87
Other revenue	—	2,665	8,649	—	11,314
Total revenues	169,584	340,996	27,959	(169,507)	369,032
Losses and expenses:					
Losses incurred, net	—	110,599	4,286	—	114,885
Underwriting and other expenses	64	54,108	20,126	(33)	74,265
Interest expense	9,315	—	—	—	9,315
Total losses and expenses	9,379	164,707	24,412	(33)	198,465
Income before tax and joint ventures	160,205	176,289	3,547	(169,474)	170,567
Provision (credit) for income tax	(3,248)	48,738	659	17	46,166
Income from joint ventures, net of tax	—	39,052	—	—	39,052
Net income	$163,453	$ 166,603	$ 2,888	$(169,491)	$163,453

Condensed Consolidating Statements of Operations
Three months ended March 31, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Revenues:					
Net premiums written	$ —	$ 295,405	$16,902	$ (68)	$312,239
Net premiums earned	—	299,057	17,090	(68)	316,079
Equity in undistributed net income of subsidiaries	144,562	—	—	(144,562)	—
Dividends received from subsidiaries	44,300			(44,300)	—
Investment income, net of expenses	250	54,605	2,354	(206)	57,003
Realized investment gains, net	—	1,549	16	—	1,565
Other revenue	—	511	9,750	—	10,261
Total revenues	189,112	355,722	29,210	(189,136)	384,908
Losses and expenses:					
Losses incurred, net	—	94,529	4,337	—	98,866
Underwriting and other expenses	68	49,301	18,605	(79)	67,895
Interest expense	10,719	210	—	(207)	10,722
Total losses and expenses	10,787	144,040	22,942	(286)	177,483
Income before tax and joint ventures	178,325	211,682	6,268	(188,850)	207,425
Provision (credit) for income tax	(3,688)	61,827	1,518	3	59,660
Income from joint ventures, net of tax	—	34,248	—	—	34,248
Net income	$182,013	$ 184,103	$ 4,750	$(188,853)	$182,013

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2006
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	$ 199,443 (1)	$ 196,541	$ 10,149	$(205,000)	$ 201,133
Net cash from (used in) investing activities:	44	25,410	(21,850)	—	3,604
Net cash used in financing activities:	(196,264)	(202,134)	—	205,000	(193,398)
Net increase (decrease) in Cash	$ 3,223	$ 19,817	$(11,701)	$ —	$ 11,339

(1) Includes dividends received from subsidiaries of $205,000.

Condensed Consolidating Statements of Cash Flows
For the Three Months Ended March 31, 2005
(in thousands of dollars)

	Parent Company	MGIC Consolidated	Other	Eliminations	Total
Net cash from operating activities:	$ 44,074 (1)	$ 228,281	$ 8,309	$ (44,300)	$ 236,364
Net cash from (used in) investing activities:	61	(147,756)	(8,493)	—	(156,188)
Net cash used in financing activities:	(59,548)	(44,300)	—	44,300	(59,548)
Net (decrease) increase in Cash	$(15,413)	$ 36,225	$ (184)	$ —	$ 20,628

(1) Includes dividends received from subsidiaries of $44,300.

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

Overview

Business and General Environment

The Company, through its subsidiary Mortgage Guaranty Insurance Corporation ("MGIC"), is the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. The Company's 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.

The Company's 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 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

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, which is principally held by MGIC, is mainly a function of cash generated from operations, including investment earnings, less cash used for non-investment purposes, such as dividends paid to the Company.

- Losses incurred

Losses incurred are the expense that results from a payment delinquency on an insured loan. As explained under "Critical Accounting Policies" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, 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 the Company's ability to mitigate its 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

The operating expenses of the Company 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

The Company's results of operations are also affected by income from joint ventures. Joint venture income principally consists of the aggregate results of the

Company's 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.

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 or financial position.

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 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

  o 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 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 First quarter Results

The Company's results of operations in the first quarter of 2006 were principally affected by:

- Losses incurred

Losses incurred for the first quarter of 2006 increased compared to the same period in 2005 primarily due to an increase in the estimates regarding how many delinquencies will eventually result in a claim and how much will be paid on claims when compared to the same period in 2005.

- Premiums written and earned

During the first quarter of 2006, the Company's written and earned premiums were lower than in the first quarter of 2005 due to a decline in the average insurance in force.

- Underwriting expenses

Underwriting expenses increased in the first quarter of 2006 compared to the first 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 first quarter of 2006 was higher than in the first quarter of 2005 due to a slight increase in the pre-tax yield.

- Income from joint ventures

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

The discussion below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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. The Company is not undertaking any obligation to update any forward looking statements it 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 months ended March 31, 2006 and 2005 was as follows:

	Three months ended March 31,	
	2006	2005
	($ billions)	
Flow	$ 7.9	$ 8.9
Bulk	2.1	2.5
Total NIW	$ 10.0	$ 11.4
Refinance volume as a % of primary flow NIW	28%	33%

NIW on a flow basis for the first quarter of 2006 was less than the volume during the first quarter of 2005. The decrease in NIW on a flow basis for the first three months of 2006 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.

Cancellations and insurance in force

NIW and cancellations of primary insurance in force during the three months ended March 31, 2006 and 2005 were as follows:

	Three months ended March 31,	
	2006	2005
	($ billions)	
NIW	$ 10.0	$ 11.4
Cancellations	(13.1)	(16.4)
Change in primary insurance in force	$ (3.1)	$ (5.0)

Direct primary insurance in force was $166.9 billion at March 31, 2006 compared to $170.0 billion at December 31, 2005 and $172.1 billion at March 31, 2005.

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 62.0% at March 31, 2006, an increase from 61.3% at December 31, 2005 and 59.7% at March 31, 2005. The Company expects 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 April 2006.

Bulk transactions

NIW for bulk transactions decreased from $2.5 billion during the first quarter of 2005 to $2.1 billion in the first quarter of 2006.

The Company's writings of bulk insurance are in part sensitive to the volume of securitization transactions involving non-conforming loans. The Company's 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 channel may also be impacted by changes in the Company's view of the risk of the business, which is affected by the historical performance of previously insured pools and the Company's 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, the Company also insures pools of mortgage loans. New pool risk written during the three months ended March 31, 2006 and 2005 was $68 million and $48 million, respectively. The Company's direct pool risk in force was $3.0 billion, $2.9 billion and $3.1 billion at March 31, 2006, December 31, 2005 and March 31, 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 March 31, 2006 and 2005, for $4.8 billion and $5.1 billion, respectively, of risk without such limits risk in force was calculated at $470 million and $438 million, respectively. New risk written under this model, for the three months ended March 31, 2006 and 2005, was $1 million and $20 million, respectively.

Net premiums written and earned

Net premiums written and earned during the first quarter of 2006 decreased due to a decline in the average insurance in force, when compared to the same period in 2005. The Company expects the average insurance in force during the remainder of 2006 will be slightly lower than during the comparable period in 2005. As a result, the Company anticipates that net premiums written and earned for 2006 will be lower than in 2005.

Risk sharing arrangements

For the quarter ended December 31, 2005, approximately 49.0% of the Company's 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 47.0% for the quarter ended March 31, 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.

In 2005, to reduce exposure to certain geographical areas and categories of risk, including Alt A loans (loans with reduced levels of borrower disclosure or verification of borrower disclosure), the Company entered into two separate excess of loss reinsurance agreements under which it ceded approximately $85.5 million of risk in force in the aggregate to two special purpose reinsurance companies (the "SPRs"). The SPRs are not affiliated with the Company and were formed solely to enter into the reinsurance arrangements. The SPRs obtained their capital from institutional investors by issuance of various classes of notes the return on which is linked to the performance of the reinsured portfolio. The SPRs invested the proceeds of the notes in high quality short-term investments. Income earned on those investments and reinsurance premiums paid by the Company are applied to pay interest on the notes as well as expenses of the SPRs. The investments will be liquidated to pay reinsured loss amounts to the Company. Proceeds not required to pay reinsured losses will be applied to pay principal on the notes. Premiums ceded under this agreement have not been material and are included in “ceded premiums.” The Company may enter into similar transactions in the future.

Investment income

Investment income for the first quarter of 2006 increased due to a slight increase in the average investment yield. The portfolio’s average pre-tax investment yield was 4.35% at March 31, 2006 and 4.27% at March 31, 2005. The portfolio’s average after-tax investment yield was 3.87% at March 31, 2006 and 3.79% at March 31, 2005. The Company’s net realized gains in the first quarter of 2006 were immaterial. The Company’s net realized gains in the first quarter 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005, 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 the Company’s 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 the Company will pay in claims on the loans that do not cure, which is referred to as claim severity. Estimation of losses that the Company will pay in the future is inherently judgmental. The conditions that affect the claim rate and claim severity include the current and future state of the domestic economy and the current and future strength of local housing markets.

Net losses incurred increased in the first quarter of 2006 compared to the same period in 2005 due to an increase in the estimates regarding how many delinquencies will eventually result in a claim during the first quarter of 2006 when compared to the same period in 2005 along with a higher estimate of the amount of the ultimate future payment per claim. The average primary claim paid for the three months ended March 31, 2006 was $26,857 compared to $26,094 for the same period in 2005.

The Company anticipates that losses incurred in the second quarter of 2006 will be above the level in the first quarter of 2006.

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

	March 31, 2006	December 31, 2005	March 31, 2005
Total loans delinquent	76,362	85,788	78,234
Percentage of loans delinquent (default rate)	6.00%	6.58%	5.71%
Flow loans delinquent	41,022	47,051	41,469
Percentage of flow loans delinquent (default rate)	4.00%	4.52%	3.77%
Bulk loans delinquent	35,340	38,737	36,765
Percentage of bulk loans delinquent (default rate)	14.31%	14.72%	13.59%
A-minus and subprime credit loans delinquent*	33,085	36,485	32,545
Percentage of A-minus and subprime credit loans delinquent (default rate)	17.32%	18.30%	15.66%

* 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 21,127 at March 31, 2006; the pool notice inventory was 23,568 at March 31, 2005.

At March 31, 2006, the Company estimates that the default inventory included 3,100 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 the Company’s 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.

Net paid claims ($ millions)	Three months ended March 31, 2006	2005
Flow	$ 62	$ 71
Bulk	53	58
Other	20	20
	$ 135	$ 149

As of March 31, 2006, 79% of the Company's primary insurance in force was written subsequent to December 31, 2002. On the Company's 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 the Company's bulk business, the period of highest claims frequency has generally occurred earlier than in the historical pattern on the Company's flow business.

Underwriting and other expenses

Underwriting and other expenses in the first quarter of 2006 were more than the same period in 2005. The increase was primarily due to additional expenses from Myers Internet and equity based compensation.

Consolidated ratios

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

	Three months ended March 31, 2006	2005
Consolidated Insurance Operations:		
Loss ratio	38.3%	31.3%
Expense ratio	17.5%	15.9%
Combined ratio	55.8%	47.2%

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 expense ratio (expressed as a percentage) is the ratio of underwriting expenses to net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio.

Income taxes

The effective tax rate was 27.1% in the first quarter of 2006, compared to 28.8% in the first quarter of 2005. During those periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits recognized from tax preferenced investments. Tax preferenced investments of the Company 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 preferenced investments, which resulted from lower levels of underwriting income.

Joint ventures

The Company's 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 the Company's consolidated statement of operations. The increase in income from joint ventures from the first quarter of 2005 to the first quarter of 2006 is primarily the result of increased equity earnings from each of Sherman and C-BASS.

C-BASS

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

Summary Balance Sheet:

	March 31, 2006	December 31, 2005
	($ millions)	
Assets		
Whole loans	$ 1,876	$ 4,638
Securities	1,790	2,054
Servicing	505	468
Other	533	534
Total Assets	$ 4,704	$ 7,694
Total Liabilities	$ 3,889	$ 6,931
Debt*	3,305	6,434
Owners' Equity	815	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 quarter of 2006 primarily as a result of the securitization of whole loans acquired in the fourth quarter of 2005.

Summary Income Statement

	Three months ended March 31,	
	2006	2005
Portfolio	$ 77.5	$ 66.8
Servicing	76.7	60.2
Money management	6.7	7.9
Transaction	10.3	12.4
Total revenue	171.2	147.3
Total expense	105.7	86.7
Income before tax	$ 65.5	$ 60.6
Company's share of pretax income	$ 30.1	$ 28.0

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 first 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. The increased servicing revenue was due primarily to Litton's higher average servicing portfolio.

The Company's investment in C-BASS on an equity basis at March 31, 2006 was $385.5 million. The Company received $7.3 million in distributions from C-BASS during the first quarter of 2006.

Sherman

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

Summary Balance Sheet:

	March 31, 2006	December 31, 2005
	($ millions)	
Total Assets	$1,007	$979
Total Liabilities	864	743
Debt	757	597
Members' Equity	143	236

In March 2005, Sherman acquired the holding company for Credit One Bank ("Credit One"), formerly known as First National Bank of Marin, for a payment of cash and subordinated notes. Credit One originates and services subprime credit cards. During 2006, the changes in debt and members equity were primarily related to a capital distribution paid in the first quarter. The Company's investment in Sherman on an equity basis at March 31, 2006 was $47.2 million. The Company received $60.5 million in distributions in the first quarter of 2006.

Summary Income Statement

	Three months ended March 31, 2006	2005
	($ millions)	
Revenues from receivable portfolios	$ 281.3	$ 201.4
Portfolio amortization	101.2	69.5
Revenues, net of amortization	180.1	131.9
Credit card interest income and fees	73.4	5.6
Other revenue	7.0	12.2
Total revenues	260.5	149.7
Expenses	178.6	93.8
Income before tax	$ 81.9	$ 55.9
Company's share of pretax income	$ 28.3	$ 23.2

The increased contribution from Sherman for the first quarter of 2006, compared to the same period in 2005, was primarily due to increased net revenue from portfolios owned and a complete quarter of operations of Credit One.

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

Financial Condition

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 March 31, 2006. At March 31, 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 March 31, 2006 and 2005, the market value of the outstanding debt was $588.4 million and $667.3 million, respectively.

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

As of March 31, 2006, 82% of the investment portfolio was invested in tax-preferenced securities. In addition, at March 31, 2006, based on book value, approximately 99% of the Company’s fixed income securities were invested in ‘A’ rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At March 31, 2006, the Company’s derivative financial instruments in its investment portfolio were immaterial. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company’s investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At March 31, 2006, the effective duration of the Company’s 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 the Company’s fixed income portfolio.

Liquidity and Capital Resources

The Company’s 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 the Company’s insurance subsidiaries.

The Company has a $300 million commercial paper program, which is rated “A-1” by S&P and “P-1” by Moody’s. At March 31, 2006 and 2005, the Company had $100.0 and $155.5 million in commercial paper outstanding with a weighted average interest rate of 4.74% and 2.85%, 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 March 31, 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 $200.0 million and $144.5 million at March 31, 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 LIBOR. The swap had an expiration date coinciding with the maturity of the credit facility and was designated as a cash flow hedge. At March 31, 2006 the Company has no interest rate swaps outstanding.

Expense (income) on the interest rate swaps for the three months ended March 31, 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. The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. MGIC is the principal source of dividend-paying capacity. At the end of February 2006, MGIC paid a quarterly dividend of $55 million, as well as an extraordinary dividend of $150 million. In May 2006, MGIC received regulatory approval to pay a quarterly dividend of $55 million and another extraordinary dividend of $100 million. As a result of these dividends, MGIC cannot currently pay any dividends without further regulatory approval.

During the first three months of 2006, the Company repurchased 1.4 million shares of Common Stock under publicly announced programs at a cost of $91.5 million. At March 31, 2006, the Company had authority covering the purchase of an additional 9.4 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 March 31, 2006, the Company has repurchased 36.9 million shares under publicly announced programs at a cost of $2.1 billion. Funds for the shares repurchased by the Company since mid-1997 have been provided through a combination of debt, including the Senior Notes and the commercial paper, and internally generated funds.

The Company's principal exposure to loss is its obligation to pay claims under MGIC's mortgage guaranty insurance policies. At March 31, 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 the Company's records multiplied by the coverage percentage, and taking account of any loss limit) was approximately $51.3 billion. In addition, as part of its contract underwriting activities, the Company is responsible for the quality of its underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through March 31, 2006, the cost of remedies provided by the Company 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.

The Company's consolidated risk-to-capital ratio was 7.3:1 at March 31, 2006 compared to 7.4:1 at December 31, 2005. The decrease was due to an increase in capital and a decrease in risk in force during the first three months of 2006.

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.

Forward-Looking Statements and Risk Factors

General: The Company's 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 the Company's 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 the Company may make. Forward looking statements consist of statements which relate to matters other than historical fact. Among others, statements that include words such as the Company "believes", "anticipates" or "expects", or words of similar import, are forward looking statements. The Company is not undertaking any obligation to update any forward looking statements it 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 this Quarterly Report on Form 10-Q and in Item 1 A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The risk factors in the 10-K are reproduced in Exhibit 99 to this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2006, the Company's derivative financial instruments in its investment portfolio were immaterial. The Company places its investments in instruments that meet investment grade credit quality standards, as specified in the Company's investment policy guidelines; the policy also limits the amount of credit exposure to any one issue, issuer and type of instrument. At March 31, 2006, the effective duration of the Company's 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 the Company's fixed income investment portfolio.

The Company's borrowings under its 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 the Company's interest rate swaps.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the Company's 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

Report on Form 10-Q. Based on such evaluation, the Company's principal executive officer and principal financial officer concluded that such controls and procedures were effective as of the end of such period. There was no change in the Company's internal control over financial reporting that occurred during the first quarter of 2006 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1 A. Risk Factors

With the possible exception of the changes set forth below, there have been no material changes in the Company's risk factors from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The changes to the risk factors that are set forth below were also included in Exhibit 99 to the Company's Current Report on Form 8-K dated April 13, 2006. Exhibit 99 set forth the Company's risk factors as part of the Company's press release announcing its earnings for the first quarter of 2006. Some of the information in the risk factors in the 10-K has been updated by information in the same risk factor included in that Exhibit 99.

<u>The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings</u>.

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 future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to litigation regarding when notices to borrowers are required by 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.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") 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.

The Company could be adversely affected if personal information on consumers that it maintains is improperly disclosed.

As part of its business, the Company maintains large amounts of personal information on consumers. While the Company believes it has appropriate information security policies and systems to prevent unauthorized disclosure, there can be no assurance that unauthorized disclosure, either through the actions of third parties or employees, will not occur. Unauthorized disclosure could aversely affect the Company's reputation and expose it to material claims for damages.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES & USE OF PROCEEDS

(c) Repurchase of common stock:

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

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (A)
January 1, 2006 through January 31, 2006	800,000	$ 68.48	800,000	10,015,241
February 1, 2006 through February 28, 2006	395,500(B)	$ 63.24	351,500	9,663,741
March 1, 2006 through March 31, 2006	224,883(B)	$ 66.07	221,400	9,442,341
Total	1,420,383(B)	$ 66.64	1,372,900	9,442,341

(A) On June 20, 2005 the Company announced that its Board of Directors authorized the repurchase of up to five million shares of the Company's Common Stock in the open market or in private transactions. On January 26, 2006 the Company announced that its Board authorized the repurchased of an additional ten million shares in the open market or in private transactions.

(B) 44,000 of the shares purchased in February 2006 and 3,483 of the shares purchased in March 2006 were purchased as part of stock option exercises by Company employees.

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.

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 May 10, 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

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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2005

EXHIBIT 11

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF NET INCOME PER SHARE
Three Months Ended March 31,2006 and 2005

	Three Months Ended March 31,	
	2006	2005
	(In thousands of dollars)	
BASIC EARNINGS PER SHARE		
Average common shares outstanding	86,577	95,265
Net income	$163,453	$182,013
Basic earnings per share	$ 1.89	$ 1.91
DILUTED EARNINGS PER SHARE		
Adjusted weighted average shares outstanding:		
Average common shares outstanding	86,577	95,265
Common stock equivalents	650	519
Adjusted weighted average diluted shares outstanding	87,227	95,784
Net income	$163,453	$182,013
Diluted earnings per share	$ 1.87	$ 1.90

Exhibit 31.1

I, Curt S. Culver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's

auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

\s\ Curt S. Culver
Curt S. Culver
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, J. Michael Lauer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MGIC Investment Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2006

\s\ J. Michael Lauer

J. Michael Lauer
Chief Financial Officer

Exhibit 32

SECTION 1350 CERTIFICATIONS

The undersigned, Curt S. Culver, Chief Executive Officer of MGIC Investment Corporation (the "Company"), and J. Michael Lauer, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,
18 U.S. C. Section 1350, that to our knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2006

\s\ Curt S. Culver
Curt S. Culver
Chief Executive Officer

\s\ J. Michael Lauer
J. Michael Lauer
Chief Financial Officer

Exhibit 99

Risk Factors included in Item 1 A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005

The amount of insurance the Company writes could be adversely affected if lenders and investors select alternatives to private mortgage insurance.

These alternatives to private mortgage insurance include:

- lenders originating mortgages using piggyback structures to avoid private mortgage insurance, such as a first mortgage with an 80% loan-to-value ratio and a second mortgage with a 10%, 15% or 20% loan-to-value ratio (referred to as 80-10-10, 80-15-5 or 80-20 loans, respectively) rather than a first mortgage with a 90%, 95% or 100% loan-to-value ratio,
- investors holding mortgages in portfolio and self-insuring,
- investors using credit enhancements other than private mortgage insurance or using other credit enhancements in conjunction with reduced levels of private mortgage insurance coverage, and
- lenders using government mortgage insurance programs, including those of the Federal Housing Administration and the Veterans Administration.

While no data is publicly available, the Company believes that piggyback loans are a significant percentage of mortgage originations in which borrowers make down payments of less than 20% and that their use is primarily by borrowers with higher credit scores. During the fourth quarter of 2004, the Company introduced on a national basis a program designed to recapture business lost to these mortgage insurance avoidance products. This program accounted for 5.7% of flow new insurance written in the fourth quarter of 2005 and 6.5% of flow new insurance written for all of 2005.

Deterioration in the domestic economy or changes in the mix of business may result in more homeowners defaulting and the Company's losses increasing.

Losses result from events that reduce a borrower's ability to continue to make mortgage payments, such as unemployment, and whether the home of a borrower who defaults on his mortgage can be sold for an amount that will cover unpaid principal and interest and the expenses of the sale. Favorable economic conditions generally reduce the likelihood that borrowers will lack sufficient income to pay their mortgages and also favorably affect the value of homes, thereby reducing and in some cases even eliminating a loss from a mortgage default. A deterioration in economic conditions generally increases the likelihood that borrowers will not have sufficient income to pay their mortgages and can also adversely affect housing values.

Approximately 8.5% of the Company's primary risk in force is located in areas within Alabama (0.3%), Florida (4.5%), Louisiana (1.0%), Mississippi (0.6%) and Texas (2.2%) 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. The effect on the Company from these hurricanes, however, will not be limited to these areas to the extent that the borrowers in areas that have not experienced wind or water damage are adversely affected due to deteriorating economic conditions attributable to these hurricanes.

The mix of business the Company writes also affects the likelihood of losses occurring. In recent years, the percentage of the Company's volume written on a flow basis that includes segments the Company views as having a higher probability of claim has continued to increase. These segments include loans with loan-to-value ("LTV") ratios over 95% (including loans with 100% LTV ratios), "FICO" credit scores below 620, limited underwriting, including limited borrower documentation, or total debt-to-income ratios of 38% or higher, as well as loans having combinations of higher risk factors.

Approximately 9% of the Company's primary risk in force written through the flow channel, and 72% of the Company's primary risk in force written through the bulk channel, consists of adjustable rate mortgages ("ARMs"). The Company believes that during a prolonged period of rising interest rates, claims on ARMs would be substantially higher than for fixed rate loans, although the performance of ARMs has not been tested in such an environment. In addition, the Company believes the volume of "interest-only" loans (which may also be ARMs) and other loans with negative amortization features, such as pay option ARMs, increased in 2004 and 2005. Because interest-only loans and pay option ARMs are a relatively recent development, the Company has no data on their historical performance. The Company believes claim rates on certain of these loans will be substantially higher than on comparable loans that do not have negative amortization.

<u>Competition or changes in the Company's relationships with its customers could reduce the Company's revenues or increase its losses.</u>

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but also with mortgage lenders through captive mortgage reinsurance transactions. In these transactions, a lender's affiliate reinsures a portion of the insurance written by a private mortgage insurer on mortgages originated or serviced by the lender. As discussed under "The mortgage insurance industry is subject to risk from private litigation and regulatory proceedings" below, the Company provided information to the New York Insurance Department and the Minnesota Department of Commerce about captive mortgage reinsurance arrangements. It has been publicly reported that certain other insurance departments may review or investigate such arrangements.

The level of competition within the private mortgage insurance industry has also increased as many large mortgage lenders have reduced the number of private mortgage insurers with whom they do business. At the same time, consolidation among mortgage lenders has increased the share of the mortgage lending market held by large lenders.

The Company's private mortgage insurance competitors include:

- PMI Mortgage Insurance Company,
- Genworth Mortgage Insurance Corporation,

- United Guaranty Residential Insurance Company,
- Radian Guaranty Inc.,
- Republic Mortgage Insurance Company,
- Triad Guaranty Insurance Corporation, and
- CMG Mortgage Insurance Company.

If interest rates decline, house prices appreciate or mortgage insurance cancellation requirements change, the length of time that the Company's policies remain in force could decline and result in declines in the Company's revenue.

In each year, most of the Company's premiums are from insurance that has been written in prior years. As a result, the length of time insurance remains in force (which is also generally referred to as persistency) is an important determinant of revenues. The factors affecting the length of time the Company's insurance remains in force include:

- the level of current mortgage interest rates compared to the mortgage coupon rates on the insurance in force, which affects the vulnerability of the insurance in force to refinancings, and
- mortgage insurance cancellation policies of mortgage investors along with the rate of home price appreciation experienced by the homes underlying the mortgages in the insurance in force.

During the 1990s, the Company's year-end persistency ranged from a high of 87.4% at December 31, 1990 to a low of 68.1% at December 31, 1998. At December 31, 2005 persistency was at 61.3%, compared to the record low of 44.9% at September 30, 2003. Over the past several years, refinancing has become easier to accomplish and less costly for many consumers. Hence, even in an interest rate environment favorable to persistency improvement, the Company does not expect persistency will approach its December 31, 1990 level.

If the volume of low down payment home mortgage originations declines, the amount of insurance that the Company writes could decline which would reduce the Company's revenues.

The factors that affect the volume of low-down-payment mortgage originations include:

- The level of home mortgage interest rates,
- the health of the domestic economy as well as conditions in regional and local economies,
- housing affordability,
- population trends, including the rate of household formation,

- the rate of home price appreciation, which in times of heavy refinancing can affect whether refinance loans have loan-to-value ratios that require private mortgage insurance, and
- government housing policy encouraging loans to first-time homebuyers.

In general, the majority of the underwriting profit (premium revenue minus losses) that a book of mortgage insurance generates occurs in the early years of the book, with the largest portion of the underwriting profit realized in the first year. Subsequent years of a book generally result in modest underwriting profit or underwriting losses. This pattern of results occurs because relatively few of the claims that a book will ultimately experience occur in the first few years of the book, when premium revenue is highest, while subsequent years are affected by declining premium revenues, as persistency decreases due to loan prepayments, and higher losses.

If all other things were equal, a decline in new insurance written in a year that followed a number of years of higher volume could result in a lower contribution to the mortgage insurer's overall results. This effect may occur because the older books will be experiencing declines in revenue and increases in losses with a lower amount of underwriting profit on the new book available to offset these results.

Whether such a lower contribution would in fact occur depends in part on the extent of the volume decline. Even with a substantial decline in volume, there may be offsetting factors that could increase the contribution in the current year. These offsetting factors include higher persistency and a mix of business with higher average premiums, which could have the effect of increasing revenues, and improvements in the economy, which could have the effect of reducing losses. In addition, the effect on the insurer's overall results from such a lower contribution may be offset by decreases in the mortgage insurer's expenses that are unrelated to claim or default activity, including those related to lower volume.

Changes in the business practices of Fannie Mae and Freddie Mac could reduce the Company's revenues or increase its losses.

The business practices of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), each of which is a government sponsored entity ("GSE"), affect the entire relationship between them and mortgage insurers and include:

- the level of private mortgage insurance coverage, subject to the limitations of Fannie Mae and Freddie Mac's charters, when private mortgage insurance is used as the required credit enhancement on low down payment mortgages,
- whether Fannie Mae or Freddie Mac influence the mortgage lender's selection of the mortgage insurer providing coverage and, if so, any transactions that are related to that selection,
- whether Fannie Mae or Freddie Mac will give mortgage lenders an incentive, such as a reduced guaranty fee, to select a mortgage insurer that has a "AAA" claims-paying ability,

- rating to benefit from the lower capital requirements for Fannie Mae and Freddie Mac when a mortgage is insured by a company with that rating,
- the underwriting standards that determine what loans are eligible for purchase by Fannie Mae or Freddie Mac, which thereby affect the quality of the risk insured by the mortgage insurer and the availability of mortgage loans,
- the terms on which mortgage insurance coverage can be canceled before reaching the cancellation thresholds established by law, and
- the circumstances in which mortgage servicers must perform activities intended to avoid or mitigate loss on insured mortgages that are delinquent.

The mortgage insurance industry is subject to the risk of private litigation and regulatory proceedings.

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 future litigation under RESPA or FCRA or that the outcome of any such litigation would not have a material adverse effect on the Company. In August 2005, the United States Court of Appeals for the Ninth Circuit decided a case under FCRA to which the Company was not a party that may make it more likely that the Company will be subject to future litigation regarding when notices to borrowers are required by 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, 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. In the spring of 2005, spokesmen for insurance commissioners in Colorado and North Carolina were publicly reported as saying that those commissioners are considering investigating or reviewing captive mortgage reinsurance arrangements. Insurance departments or other officials in other states may also conduct such investigations or reviews.

The anti-referral fee provisions of RESPA provide that the Department of Housing and Urban Development ("HUD") 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.

Net premiums written could be adversely affected if the Department of Housing and Urban Development reproposes and adopts a regulation under the Real Estate Settlement Procedures Act that is equivalent to a proposed regulation that was withdrawn in 2004.

HUD regulations under RESPA prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, HUD proposed a regulation that would exclude from these anti-referral fee provisions settlement services included in a package of settlement services offered to a borrower at a guaranteed price. HUD withdrew this proposed regulation in March 2004. Under the proposed regulation, if mortgage insurance were required on a loan, the package must include any mortgage insurance premium paid at settlement. Although certain state insurance regulations prohibit an insurer's payment of referral fees, had this regulation been adopted in this form, the Company's revenues could have been adversely affected to the extent that lenders offered such packages and received value from the Company in excess of what they could have received were the anti-referral fee provisions of RESPA to apply and if such state regulations were not applied to prohibit such payments.

The Company's income from joint ventures could be adversely affected by credit losses, insufficient liquidity or competition affecting those businesses.

C-BASS: Credit-Based Asset Servicing and Securitization LLC ("C-BASS") is particularly exposed to credit risk and funding risk. In addition, C-BASS's results are sensitive to its ability to purchase mortgage loans and securities on terms that it projects will meet its return targets. With respect to credit risk, a higher proportion of non-conforming mortgage originations (the types of mortgages C-BASS principally purchases) in 2005 compared to 2004 were products, such as interest only loans to subprime borrowers, that are viewed by C-BASS as having greater credit risk. In addition, credit losses are a function of housing prices, which in certain regions have experienced rates of increase greater than historical norms and greater than growth in median incomes.

With respect to liquidity, the substantial majority of C-BASS's on-balance sheet financing for its mortgage and securities portfolio is short-term and dependent on the value of the collateral that secures this debt. While C-BASS's policies governing the management of capital at risk are intended to provide sufficient liquidity to cover an instantaneous and substantial decline in value, such policies cannot guaranty that all liquidity required will in fact be available.

Although there has been growth in the volume of non-conforming mortgage originations in recent years, volume is expected to decline in 2006. There is an increasing amount of competition to purchase non-conforming mortgages, including from real estate investment trusts and from firms that in the past acted as mortgage securities intermediaries but which are now establishing their own captive origination capacity. Decreasing credit spreads also heighten competition in the purchase of non-conforming mortgages and other securities.

Sherman: The results of Sherman Financial Group LLC (“Sherman”) are sensitive to its ability to purchase receivable portfolios on terms that it projects will meet its return targets. While the volume of charged-off consumer receivables and the portion of these receivables that have been sold to third parties such as Sherman has grown in recent years, there is an increasing amount of competition to purchase such portfolios, including from new entrants to the industry, which has resulted in increases in the prices at which portfolios can be purchased.