MGIC INVESTMENT CORP
Form 10-Q
November 21, 2007

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **SEPTEMBER 30, 2007**

[ ] 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 [X] NO [ ]

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 [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

YES [ ] NO [X]

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	10/31/07	81,793,299

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ITEM 1. FINANCIAL STATEMENTS

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2007 (Unaudited) and December 31, 2006

	September 30, 2007	December 31, 2006
<u>ASSETS</u>	(In thousands of dollars)	
Investment portfolio:		
Securities, available-for-sale, at market value:		
Fixed maturities (amortized cost, 2007-$5,335,336; 2006-$5,121,074)	$ 5,407,021	$ 5,249,854
Equity securities (cost, 2007-$2,661; 2006-$2,594)	2,614	2,568

	September 30, 2007	December 31, 2006
Total investment portfolio	5,409,635	5,252,422
Cash and cash equivalents	417,802	293,738
Accrued investment income	68,056	64,646
Reinsurance recoverable on loss reserves	16,204	13,417
Prepaid reinsurance premiums	8,556	9,620
Premiums receivable	102,868	88,071
Home office and equipment, net	34,380	32,603
Deferred insurance policy acquisition costs	11,775	12,769
Investments in joint ventures	145,696	655,884
Note receivable from joint venture	50,000	--
Income taxes recoverable	361,051	--
Other assets	212,366	198,501
Total assets	$ 6,838,389	$ 6,621,671
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Loss reserves	$ 1,561,611	$ 1,125,715
Unearned premiums	227,660	189,661
Short- and long-term debt (note 2)	803,191	781,277
Income taxes payable	--	34,480
Other liabilities	213,639	194,661
Total liabilities	2,806,101	2,325,794
Contingencies (note 3)		
Shareholders equity:		
Common stock, $1 par value, shares authorized 300,000,000; shares issued, 9/30/07 - 123,067,426 12/31/06 - 123,028,976; shares outstanding, 9/30/07 - 81,793,299 12/31/06 - 82,799,919	123,067	123,029
Paid-in capital	312,571	310,394
Treasury stock (shares at cost, 9/30/07 - 41,274,127 12/31/06 - 40,229,057)	(2,266,361)	(2,201,966)
Accumulated other comprehensive income, net of tax (note 5)	44,291	65,789
Retained earnings (note 8)	5,818,720	5,998,631
Total shareholders equity	4,032,288	4,295,877
Total liabilities and shareholders equity	$ 6,838,389	$ 6,621,671

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Month Periods Ended September 30, 2007 and 2006
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands of dollars, except per share data)			
Revenues:				
Premiums written:				
Direct	$ 384,281	$ 340,268	$ 1,084,647	$ 1,014,751
Assumed	947	597	2,388	1,441
Ceded	(44,984)	(34,995)	(121,769)	(104,570)
Net premiums written	340,244	305,870	965,266	911,622
Increase in unearned premiums, net	(19,278)	(9,663)	(38,828)	(21,245)
Net premiums earned	320,966	296,207	926,438	890,377
Investment income, net of expenses	64,777	61,486	189,674	178,830
Realized investment gains (losses), net	164,995	185	152,156	(1,566)
Other revenue	4,702	11,519	25,853	34,292
Total revenues	555,440	369,397	1,294,121	1,101,933
Losses and expenses:				
Losses incurred, net	602,274	164,997	1,019,258	426,349
Underwriting and other expenses, net	86,325	70,704	236,727	216,461
Interest expense	10,926	9,849	30,479	28,007
Total losses and expenses	699,525	245,550	1,286,464	670,817
(Loss) income before tax and joint ventures	(144,085)	123,847	7,657	431,116
Provision for income tax	(62,235)	29,731	(33,619)	110,376
(Loss) income from joint ventures, net of tax	(290,619)	35,862	(244,667)	122,530
Net (loss) income	$ (372,469)	$ 129,978	$ (203,391)	$ 443,270
(Loss) earnings per share (note 4):				
Basic	$ (4.61)	$ 1.56	$ (2.50)	$ 5.21
Diluted	$ (4.61)	$ 1.55	$ (2.50)	$ 5.17
Weighted average common shares outstanding - diluted (shares in thousands, note 4)	80,786	83,766	81,480	85,762
Dividends per share	$ 0.2500	$ 0.2500	$ 0.7500	$ 0.7500

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands of dollars)	
Cash flows from operating activities:		
Net (loss) income	$ (203,391)	$ 443,270
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of capitalized deferred insurance policy acquisition costs	8,556	10,523
Deferred insurance policy acquistion costs	(7,562)	(5,979)
Depreciation and amortization	20,801	17,219
(Increase) decrease in accrued investment income	(3,410)	2,117
(Increase) decrease in reinsurance recoverable on loss reserves	(2,787)	1,261
Decrease (increase) in prepaid reinsurance premiums	1,064	(424)
(Increase) decrease in premium receivable	(14,797)	7,746
Increase (decrease) in loss reserves	435,896	(28,882)
Increase in unearned premiums	37,999	21,667
Decrease in income taxes payable	(309,971)	(24,181)
Equity losses (earnings) from joint ventures	384,158	(180,393)
Distributions from joint ventures	51,512	138,874
Realized (gain)/loss	(152,156)	1,566
Other	8,212	(10,198)
Net cash provided by operating activities	254,124	394,186
Cash flows from investing activities:		
Purchase of equity securities	(67)	(212)
Purchase of fixed maturities	(1,934,503)	(1,476,014)
Additional investment in joint ventures	(4,098)	(68,552)
Sale of investment in joint ventures	240,800	--
Note receivable from joint ventures	(50,000)	--
Proceeds from sale of fixed maturities	1,452,200	1,291,036
Proceeds from maturity of fixed maturities	261,162	229,113
Other	20,713	15,183
Net cash provided (used in) by investing activities	(13,793)	(9,446)
Cash flows from financing activities:		
Dividends paid to shareholders	(62,041)	(64,741)
Proceeds from note payable	300,000	--
Repayment of long-term debt	(200,000)	--
Proceeds from issuance of long-term debt	--	199,958
Net repayment of short-term debt	(82,110)	(108,841)
Reissuance of treasury stock	1,484	3,856
Repurchase of common stock	(75,659)	(373,049)
Common stock issued	2,098	15,912
Excess tax benefits from share-based payment arrangements	(39)	4,323
Net cash used in financing activities	(116,267)	(322,582)

	Nine Months Ended September 30,	
Net increase in cash and cash equivalents	124,064	62,158
Cash and cash equivalents at beginning of period	293,738	195,256
Cash and cash equivalents at end of period	$ 417,802	$ 257,414

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(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 as prescribed by the Securities and Exchange Commission (SEC) for interim reporting 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, 2006 included in the Company s Annual Report on Form 10-K.

In the opinion of management such financial statements include all adjustments, consisting primarily of normal recurring accruals, necessary to fairly present the Company s financial position and results of operations for the periods indicated. The results of operations for the nine months ended September 30, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007.

Business Combination

In February 2007 the Company agreed to merge with Radian Group Inc. (Radian). On September 5, 2007 the Company and Radian jointly announced that they had entered into an agreement that effectively terminated their pending merger due to current market conditions which made combining the companies significantly more challenging. Except to reimburse certain third party expenses, neither party made payment to the other in connection with the termination.

Securities Lending

Periodically, the Company participates in securities lending, primarily as an investment yield enhancement, through a program administered by the Company s investment custodian. The program obtains collateral in an amount generally equal to 102% and 105% of the fair market value of domestic and foreign securities lent, respectively, and monitors the market value of the securities pledged as collateral on a daily basis and obtains additional collateral as necessary. The collateral received for securities loaned is included in the investment portfolio, and the offsetting obligation to return the collateral is reported as a liability, on the consolidated balance sheet. At September 30, 2007, the Company had no securities on loan under this program.

New Accounting Standards

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities . This statement provides companies with an option to report selected financial assets and liabilities at fair value. The objective of this statement is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The statement is effective for a company s first fiscal year beginning after November 15, 2007. The Company is currently evaluating the provisions of this statement and the impact, if any, this statement will have on the Company s results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements . This statement provides enhanced guidance for using fair value to measure assets and liabilities. This statement also provides expanded disclosure about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This statement applies whenever other standards require or permit assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the provisions of this statement and the impact, if any, this statement will have on the Company s results of operations and financial position.

Reclassifications

Certain reclassifications have been made in the accompanying financial statements to 2006 amounts to conform to 2007 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 September 30, 2007 and December 31, 2006, the Company had $5.0 million and $84.1 million in commercial paper outstanding with a weighted average interest rate of 5.35% and 5.35%, respectively.

The Company has a $300 million, five year revolving credit facility, expiring in March 2010. 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 September 30, 2007, these requirements were met. The facility had been used as a liquidity back up facility for the outstanding commercial paper. On August 7, 2007 the Company drew the entire $300 million on the revolving credit facility. These funds, in part, were utilized to repay the outstanding commercial paper, which approximated $177 million at the time of the credit facility draw. The Company drew the portion of the revolving credit facility equal to the outstanding commercial paper because the Company believed that funding with a long-term maturity was superior to funding that required frequent renewal on a short-term basis. The Company drew the remainder of the credit facility to provide the Company with greater financial flexibility at the holding company level. At September 30, 2007 the Company continued to have the entire $300 million outstanding under this facility.

At December 31, 2006, the remaining credit available under the facility after reduction for the amount necessary to support the commercial paper was $215.9 million.

At September 30, 2007 the Company had $200 million, 5.625% Senior Notes due in September 2011 and $300 million, 5.375% Senior Notes due in November 2015, as well as $300 million outstanding under the credit facility. At December 31, 2006 the Company had $300 million, 5.375% Senior Notes due in November 2015, $200 million 5.625% Senior Notes due in September 2011 and $200 million, 6% Senior Notes due in March 2007. In March 2007 the Company repaid the $200 million, 6% Senior Notes that came due with funds raised from the September 2006 public debt offering. At September 30, 2007 and December 31, 2006, the market value of the outstanding debt (which also includes commercial paper) was $779.9 million and $783.2 million, respectively.

Interest payments on all long-term and short-term debt were $29.9 million and $27.3 million for the nine months ended September 30, 2007 and 2006, respectively.

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. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. While the Company is not a defendant in any of these cases, 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 June 2005, in response to a letter from the New York Insurance Department (the 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. The Company subsequently provided additional information to the MDC. Other insurance departments or other officials, including attorneys general, 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.

In October 2007, the Division of Enforcement of the SEC requested that the Company voluntarily furnish documents and information primarily relating to Credit-Based Asset Servicing and Securitization, LLC (C-BASS), the now-terminated merger with Radian and subprime mortgage assets in the Company s various lines of business. The Company is in the process of providing responsive documents and information to the SEC.

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 nine months ended September 30, 2007 and 2006.

See note 8 for a description of federal income tax contingencies.

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. Typically, diluted EPS is based on the weighted average number of common shares outstanding plus common stock equivalents which include stock awards and stock options. In accordance with SFAS 128, if the Company reports a net loss from continuing operations the diluted EPS should be computed in the same manner as the basic EPS. The following is a reconciliation of the weighted average number of shares; note that for the three and nine months ended September 30, 2007 the diluted weighted-average shares are equivalent to the basic weighted-average shares due to a net loss from continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands)			
Weighted-average shares - Basic	80,786	83,238	81,480	85,161
Common stock equivalents	--	528	--	601