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# FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

### ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

### 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.)

**MGIC PLAZA, 250 EAST KILBOURN AVENUE,  
MILWAUKEE, WISCONSIN**  
(Address of principal executive  
offices)

**53202**  
(Zip Code)

**(414) 347-6480**  
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Common Stock, Par Value \$1 Per Share Common Share Purchase Rights
Name of Each Exchange on Which Registered:	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Class:	None
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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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2004: \$7.4 billion\*

\* Solely for purposes of computing such value and without thereby admitting that such persons are affiliates of the Registrant, shares held by directors and executive officers of the Registrant are deemed to be held by affiliates of the Registrant. Shares held are those shares beneficially owned for purposes of Rule 13d-3 under the Securities Exchange Act of 1934 but excluding shares subject to stock options.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 15, 2005: 95,463,848

The following documents have been incorporated by reference in this Form 10-K, as indicated:

Document	Part and Item Number of Form 10-K Into Which Incorporated*
Proxy Statement for the 2005 Annual Meeting of Shareholders	Items 10 through 14 of Part III

\* In each case, to the extent provided in the Items listed

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

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**Item 1. Business.**

**A. General**

MGIC Investment Corporation (the “Company”) is a holding company which, through its wholly owned subsidiary Mortgage Guaranty Insurance Corporation (“MGIC”), is the leading provider of private mortgage insurance in the United States to the home mortgage lending industry. Private mortgage insurance covers residential first mortgage loans and expands home ownership opportunities by enabling people to purchase homes with less than 20% down payments. If the homeowner defaults, private mortgage insurance reduces and, in some instances, eliminates the loss to the insured institution. Private mortgage insurance also facilitates the sale of low down payment and other mortgage loans in the secondary mortgage market, including to the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (Fannie Mae and Freddie Mac are collectively referred to as the “GSEs”). In addition to mortgage insurance on first liens, the Company, through other subsidiaries, provides lenders with various underwriting and other services and products related to home mortgage lending.

MGIC is licensed in all 50 states of the United States, the District of Columbia and Puerto Rico. The Company is a Wisconsin corporation. Its principal office is located at MGIC Plaza, 250 East Kilbourn Avenue, Milwaukee, Wisconsin 53202 (telephone number (414) 347-6480).

The Company also has ownership interests in less than majority-owned joint ventures, principally Credit-Based Asset Servicing and Securitization LLC (“C-BASS”) and Sherman Financial Group LLC (“Sherman”). C-BASS is principally engaged in the business of investing in the credit risk of credit sensitive single-family residential mortgages. Sherman is principally engaged in the business of purchasing and servicing delinquent consumer assets. As used in this Annual Report on Form 10-K and elsewhere in the Company’s filings with the SEC, the term “Company” means the Company and its consolidated subsidiaries. The Company’s joint ventures are not consolidated with the Company for financial reporting purposes and are not subsidiaries of the Company.

The Company and its business may be materially affected by the risk factors applicable to the Company that are discussed in “Management’s Discussion and Analysis — Risk Factors” in Item 7 of this Annual Report on Form 10-K. C-BASS and Sherman and their respective businesses may be materially affected by the risk factors applicable to them discussed in Item 7. These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that the Company may make.

**B. The MGIC Book**

*Types of Product*

In general, there are two principal types of private mortgage insurance: “primary” and “pool.”

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**Primary Insurance.** Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure (collectively, the “claim amount”). In addition to the loan principal, the claim amount is affected by the mortgage note rate and the time necessary to complete the foreclosure process. The insurer generally pays the coverage percentage of the claim amount specified in the primary policy, but has the option to pay 100% of the claim amount and acquire title to the property. Primary insurance generally applies to owner occupied, first mortgage loans on one-to-four family homes, including condominiums. Primary coverage can be used on any type of residential mortgage loan instrument approved by the mortgage insurer. References in this document to amounts of insurance written or in force, risk written or in force and other historical data related to MGIC’s insurance refer only to direct (before giving effect to reinsurance) primary insurance, unless otherwise indicated. References in this document to “primary insurance” include insurance written in bulk transactions (see “Bulk Transactions” below) that is supplemental to mortgage insurance written in connection with the origination of the loan or that reduces a lender’s credit risk to less than 50% of the value of the property. Effective with the third quarter of 2001, in reports by private mortgage insurers to the trade association for the private mortgage insurance industry, mortgage insurance that is supplemental to other mortgage insurance or that reduces a lender’s credit risk to less than 50% of the value of the property is classified as pool insurance. The trade association classification is used by members of the private mortgage insurance industry in reports to a mortgage industry publication that computes and publishes primary market share information.

Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was \$47.1 billion in 2004 compared to \$71.1 billion in 2003 and \$70.0 billion in 2002. New insurance written for bulk transactions was \$15.8 billion during 2004 compared to \$25.7 billion for 2003 and \$22.5 billion for 2002.

The following table shows, on a direct basis, primary insurance in force (the unpaid principal balance of insured loans as reflected in MGIC’s records) and primary risk in force (the coverage percentage applied to the unpaid principal balance), for insurance that has been written by MGIC (the “MGIC Book”) as of the dates indicated:

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by

**Primary Insurance and Risk In Force**

	2004	2003	December 31, 2002 (In millions)	2001	2000
Direct Primary Insurance In Force	\$ 177,091	\$ 189,632	\$ 196,988	\$ 183,904	\$ 160,192
Direct Primary Risk In Force	\$ 45,981	\$ 48,658	\$ 49,231	\$ 45,243	\$ 39,175

The coverage percentage provided by MGIC is determined by the lender. For loans sold by lenders to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered.

MGIC charges higher premium rates for higher coverages. MGIC believes depth of coverage requirements have no significant impact on frequency of default. Higher coverage percentages generally result in increased severity (which is the amount paid on a claim), and lower coverage percentages generally result in decreased severity. In accordance with industry accounting practice, reserves for losses are only established for loans in default. Because relatively few defaults occur in the early years of a book of business (see “Past Industry Losses; Defaults; and Claims, Claims” below), the higher premium revenue from deeper coverage is recognized before any higher losses resulting from that deeper coverage may be incurred. MGIC’s premium pricing methodology generally targets substantially similar returns on capital regardless of the depth of coverage. However, there can be no assurance that changes in the level of premium rates adequately reflect the risks associated with changes in the depth of coverage.

In partnership with mortgage insurers, the GSEs are also offering programs under which, on delivery of an insured loan to a GSE, the primary coverage is restructured to an initial shallow tier of coverage followed by a second tier that is subject to an overall loss limit and compensation may be paid to the GSE reflecting services or other benefits realized by the mortgage insurer from the coverage conversion. Lenders receive guaranty fee relief from the GSEs on mortgages delivered with these restructured coverages.

Mortgage insurance coverage cannot be terminated by the insurer, except for non-payment of premium, and remains renewable at the option of the insured lender, generally at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower’s request when the principal balance of the loan is 80% or less of the home’s current value.

Under the federal Homeowners Protection Act (the “HPA”) a borrower has the right to stop paying premiums for private mortgage insurance on loans closed after July 28, 1999 secured by a property comprised of one dwelling unit that is the borrower’s primary residence when certain loan-to-value ratio (“LTV ratio”) thresholds determined by the value of the home at loan origination and other requirements are met. In general, a borrower may stop making mortgage insurance payments when the LTV ratio is scheduled to reach 80% (based on the loan’s amortization schedule) or actually reaches 80% if the borrower so requests and if certain

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requirements relating to the borrower's payment history and the absence of junior liens and a decline in the property's value since origination are satisfied. In addition, a borrower's obligation to make payments for private mortgage insurance generally terminates regardless of whether a borrower so requests when the LTV ratio (based on the loan's amortization schedule) reaches 78% of the unpaid principal balance of the mortgage and the borrower is (or thereafter becomes) current in his mortgage payments. A borrower's right to stop paying for private mortgage insurance applies only to borrower paid mortgage insurance. The HPA requires that lenders give borrowers certain notices with regard to the cancellation of private mortgage insurance.

In addition, some states require that mortgage servicers periodically notify borrowers of the circumstances in which they may request a mortgage servicer to cancel private mortgage insurance and some states allow the borrower to require the mortgage servicer to cancel private mortgage insurance under certain circumstances or require the mortgage servicer to cancel such insurance automatically in certain circumstances.

Coverage tends to continue in areas experiencing economic contraction and housing price depreciation. The persistency of coverage in such areas coupled with cancellation of coverage in areas experiencing economic expansion and housing price appreciation can increase the percentage of the insurer's portfolio comprised of loans in economically weak areas. This development can also occur during periods of heavy mortgage refinancing because refinanced loans in areas of economic expansion experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while refinanced loans in economically weak areas not experiencing property value appreciation are more likely to require mortgage insurance at the time of refinancing or not qualify for refinancing at all and, thus, remain subject to the mortgage insurance coverage.

The percentage of primary risk written with respect to loans representing refinances was 37.4% in 2004 compared to 48.7% in 2003, 43.8% in 2002, 43.7% in 2001 and 18% in 2000. When a borrower refinances an MGIC-insured mortgage loan by paying it off in full with the proceeds of a new mortgage that is also insured by MGIC, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of MGIC's coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written.

In addition to varying with the coverage percentage, MGIC's premium rates vary depending upon the perceived risk of a claim on the insured loan and, thus, take into account the LTV, the loan type (fixed payment versus non-fixed payment) and mortgage term and, for A- and subprime loans and certain other loans, the location of the borrower's credit score within a range of credit scores. In general, A- loans have FICO scores between 575 and 619 and subprime loans have FICO credit scores of less than 575. A FICO score is a score based on a borrower's credit history generated by a model developed by Fair Isaac and Company.

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Premium rates cannot be changed after the issuance of coverage. Because the Company believes that over the long term each region of the United States is subject to similar factors affecting risk of loss on insurance written, MGIC generally utilizes a nationally based, rather than a regional or local, premium rate policy.

The borrower's mortgage loan instrument may require the borrower to pay the mortgage insurance premium ("borrower paid mortgage insurance") or there may be no such requirement imposed on the borrower, in which case the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage ("lender paid mortgage insurance"). Almost all of MGIC's primary insurance in force and new insurance written, other than through bulk transactions, is borrower paid mortgage insurance. New insurance written through bulk transactions is generally paid by the securitization vehicles that hold the mortgages; the mortgage note rate generally does not reflect the premium for the mortgage insurance.

Under the monthly premium plan, a monthly premium payment is made to MGIC to provide only one month of coverage, rather than one year of coverage provided by the annual premium plan. Under the annual premium plan, the initial premium is paid to MGIC in advance, and earned over the next twelve months of coverage, with annual renewal premiums paid in advance thereafter and earned over the subsequent twelve months of coverage. The annual premiums can be paid with either a higher premium rate for the initial year of coverage and lower premium rates for the renewal years, or with premium rates which are equal (level) for the initial year and subsequent renewal years. Under the single premium plan, a single payment is made to MGIC, covering a specified term exceeding 12 months.

During each of the last three years, the monthly premium plan represented more than 95% of MGIC's new insurance written. The annual and single premium plans represented the remaining new insurance written.

**Pool Insurance.** Pool insurance is generally used as an additional "credit enhancement" for certain secondary market mortgage transactions. Pool insurance generally covers the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Pool insurance may have a stated aggregate loss limit and may also have a deductible under which no losses are paid by the insurer until losses exceed the deductible.

New pool risk written during 2004 was \$208 million and was \$862 million in 2003. New pool risk written during these years was comprised of risk associated with loans delivered to Freddie Mac and Fannie Mae ("agency pool insurance"), loans delivered to the Federal Home Loan Banks under their mortgage purchase programs and loans made under state housing finance programs. Direct pool risk in force at December 31, 2004 was \$3.0 billion compared to \$2.9 billion and \$2.6 billion at December 31, 2003 and 2002, respectively. The risk amounts referred to above are contractual aggregate loss limits and, for the years ended December 31, 2004 and 2003, for \$4.9 billion of risk without such limits, risk is calculated at \$65 million and \$192 million, respectively, for new risk written and \$418 million and \$353 million, respectively, for risk in force, representing the estimated amount that would credit enhance these loans to a 'AA' level based on a rating agency model.

The settlement of a nationwide class action alleging that MGIC violated the Real Estate Settlement Procedures Act ("RESPA") by providing agency pool insurance and entering into

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other transactions with lenders that were not properly priced (the “RESPA Litigation”) became final in October 2003. In a February 1, 1999 circular addressed to all mortgage guaranty insurers licensed in New York, the New York Department of Insurance (“NYID”) advised that “significantly underpriced” agency pool insurance would violate the provisions of New York insurance law that prohibit mortgage guaranty insurers from providing lenders with inducements to obtain mortgage guaranty business. In a January 31, 2000 letter addressed to all mortgage guaranty insurers licensed in Illinois, the Illinois Department of Insurance advised that providing pool insurance at a “discounted or below market premium” in return for the referral of primary mortgage insurance would violate Illinois law.

**Risk Sharing Arrangements.** MGIC participates in risk sharing arrangements with the GSEs and captive reinsurance arrangements with subsidiaries of certain mortgage lenders that reinsure a portion of the risk on loans originated or purchased by the lender which have MGIC primary insurance. During the nine months ended September 30, 2004 and the year ended December 31, 2003, about 51% and 52%, respectively, of MGIC’s new insurance written on a flow basis was subject to risk sharing arrangements. (New insurance written through the bulk channel is not subject to such arrangements.) The percentage of new insurance written during a quarter covered by such arrangements normally increases after the end of the quarter because, among other reasons, the transfer of a loan in the secondary market can result in a mortgage insured during a quarter becoming part of such an arrangement in a subsequent quarter. Therefore, the percentage of new insurance written for 2004 covered by such arrangements is shown only for the nine months ended September 30, 2004.

In a February 1, 1999 circular addressed to all mortgage insurers licensed in New York, the NYID said that it was in the process of developing guidelines that would articulate the parameters under which captive mortgage reinsurance is permissible under New York insurance law. Such guidelines, which were to ensure that the reinsurance constituted a legitimate transfer of risk and were fair and equitable to the parties, have not yet been issued. The complaint in the RESPA Litigation alleged that MGIC pays “inflated” captive reinsurance premiums in violation of RESPA. During the three years ended December 31, 2002, 2003 and 2004, MGIC ceded \$83.7 million, \$99.4 million and \$101.7 million of written premium in captive reinsurance arrangements.

**External Reinsurance.** At December 31, 2004, disregarding reinsurance under captive structures, less than 2% of MGIC’s insurance in force was externally reinsured. Reinsuring against possible loan losses does not discharge MGIC from liability to a policyholder; however, the reinsurer agrees to indemnify MGIC for the reinsurer’s share of losses incurred.

**Bulk Transactions.** In bulk transactions, the individual loans in the insured portfolio are insured to specified levels of coverage. The premium in a bulk transaction, which is negotiated with the securitizer or other owner of the loans, is based on the mortgage insurer’s evaluation of the overall risk of the insured loans included in the transaction and is often a composite rate applied to all of the loans in the transaction.

In general, the loans insured by MGIC in bulk transactions consist of A- loans; subprime loans; cash out refinances that exceed the standard underwriting requirements of the GSEs; jumbo loans; and loans with reduced underwriting documentation. A- loans have FICO scores between 575 and 619 and subprime loans have FICO credit scores of less than 575. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. The conforming loan limit is subject to annual adjustment, and for mortgages covering a home with one dwelling unit is \$359,650 for 2005 and was \$333,700 in 2004 and \$322,700 in

2003.

Approximately 58% of MGIC's bulk loan risk in force at December 31, 2004 had FICO credit scores of at least 620, compared to 55% at December 31, 2003. Approximately 28% of MGIC's bulk loan risk in force at December 31, 2004 had A- FICO credit scores compared to 30% at December 31, 2003, and approximately 14% had subprime credit scores at December 31, 2004 compared to 15% at December 31, 2003. Most of the subprime loans insured by MGIC in 2004 were insured in bulk transactions. More than 30% of MGIC's bulk loan risk in force at December 31, 2004 had LTV ratios of 80% and below, compared to more than 40% at December 31, 2003.

New insurance written for bulk transactions was \$15.8 billion during 2004 compared to \$25.7 billion for 2003 and \$22.5 billion for 2002. 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 depends on, among other factors, the yield at which investors are willing to purchase tranches of the securitization with 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, which may be affected by the agency's view of the outlook for the insurer's claims paying ability. As the spread declines, competition from an execution in which the subordinate tranches bear the first loss increases. As a result of the sensitivities discussed above, bulk volume can vary materially from period to period.

#### ***Customers***

Originators of residential mortgage loans such as mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions and other lenders have historically determined the placement of mortgage insurance written on flow basis and as a result are the customers of MGIC. To obtain primary insurance from MGIC written on flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy ("Master Policy") from MGIC. MGIC had approximately 13,900 master policyholders at December 31, 2004 (not including policies issued to branches and affiliates of large lenders). In 2004, MGIC issued coverage on mortgage loans for approximately 4,000 of its master policyholders. MGIC's top 10 customers generated 31.9% of its new insurance written on a flow basis in 2004, compared to 33.1% in 2003 and 39.5% in 2002.

#### ***Sales and Marketing and Competition***

***Sales and Marketing.*** MGIC sells its insurance products through its own employees, located throughout all regions of the United States and Puerto Rico.

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**Competition.** For flow business, MGIC and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the Veterans Administration (“VA”). These agencies sponsor government-backed mortgage insurance programs, which during 2004 and 2003 accounted for approximately 35% of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance. Loans insured by the FHA cannot exceed maximum principal amounts which are determined by a percentage of the conforming loan limit. For 2005, the maximum FHA loan amount for homes with one dwelling unit in “high cost” areas is as high as \$312,896 and was as high as \$290,319 in 2004. Loans insured by the VA do not have mandated maximum principal amounts but have maximum limits on the amount of the guaranty provided by the VA to the lender. For loans closed on or after December 10, 2004 the maximum VA guarantee is \$89,912.

In addition to competition from the FHA and the VA, MGIC and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expansions of the authority of their state governments to insure residential mortgages.

Private mortgage insurers may also be subject to competition from Fannie Mae and Freddie Mac to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. Fannie Mae and Freddie Mac each have programs under which an up-front delivery fee can be paid to the GSE and primary mortgage insurance coverage is substantially reduced compared to the coverage requirements that would apply in the absence of the program. In October 1998, Freddie Mac’s charter was amended (and the amendment immediately repealed) to give Freddie Mac flexibility to use protection against default in addition to private mortgage insurance and the two other types of credit enhancement required by the charter for low down payment mortgages purchased by Freddie Mac. In addition, to the extent up-front delivery fees are not retained by the GSEs to compensate for their assumption of default risk, and are used instead to purchase supplemental coverage from mortgage insurers, the resulting concentration of purchasing power in the hands of the GSEs could increase competition among insurers to provide such coverage.

The capital markets may also develop as competitors to private mortgage insurers. During 1998, a newly-organized off-shore company funded by the sale of notes to institutional investors provided reinsurance to Freddie Mac against default on a specified pool of mortgages owned by Freddie Mac. Recently, a competitor of MGIC engaged in two transactions in which it transferred portions of the risk that it had written in certain bulk transactions to institutional investors in similar reinsurance structures.

MGIC and other mortgage insurers also compete with transactions structured to avoid mortgage insurance on low down payment mortgage loans. Such transactions include self-insuring, and “80-10-10” loans, which are loans comprised of both a first and a second mortgage (for example, an 80% LTV first mortgage and a 10% LTV second mortgage), with the LTV ratio of the first mortgage below what investors require for mortgage insurance, compared to a loan in which the first mortgage covers the entire borrowed amount (which in the preceding example would be a 90% LTV mortgage). Captive mortgage reinsurance and similar transactions also result in mortgage originators receiving a portion of the premium and the risk.

The private mortgage insurance industry currently consists of eight active mortgage insurers

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and their affiliates; one of the eight is a joint venture in which another mortgage insurer is one of the joint venturers. The names of these mortgage insurers are listed in “Management’s Discussion and Analysis—Risk Factors” in Item 7 of this Annual Report on Form 10-K. According to Inside Mortgage Finance, a mortgage industry publication, which obtains its data from reports to it by MGIC and other mortgage insurers that are to be prepared on the same basis as the reports by insurers to the trade association for the private mortgage insurance industry, for 1995 and subsequent years, MGIC has been the largest private mortgage insurer based on new primary insurance written (with a market share of 23.5% in 2004, 21.9% in 2003 and 24.8% in 2002) and at December 31, 2004, MGIC also had the largest book of direct primary insurance in force. Effective with the third quarter of 2001, these reports do not include as “primary mortgage insurance” insurance on certain loans classified by MGIC as primary insurance, such as loans insured through bulk transactions that already had mortgage insurance placed on the loans at origination.

The private mortgage insurance industry is highly competitive. The Company believes it competes with other private mortgage insurers for business written through the flow channel principally on the basis of programs involving captive mortgage reinsurance, agency pool insurance, and other similar structures involving lenders; the provision of contract underwriting and related fee-based services to lenders; the provision of other products and services that meet lender needs for risk management, affordable housing, loss mitigation, capital markets and training support; the strength of MGIC’s management team and field organization; and the effective use of technology and innovation in the delivery and servicing of MGIC’s insurance products. The Company believes MGIC’s additional competitive strengths, compared to other private insurers, are its customer relationships, name recognition, reputation and the depth of its database covering loans it has insured. The Company believes it competes for bulk business principally on the basis of the premium rate and the portion of loans submitted for insurance that the Company is willing to insure.

The complaint in the RESPA Litigation alleged, among other things, that captive mortgage reinsurance, agency pool insurance, and contract underwriting as provided by the Company violated RESPA.

Certain private mortgage insurers compete for flow business by offering lower premium rates than other companies, including MGIC, either in general or with respect to particular classes of business. MGIC on a case-by-case basis will adjust premium rates, generally depending on the risk characteristics, loss performance or class of business of the loans to be insured, or the costs associated with doing such business.

In the third quarter of 2001, the Office of Federal Housing Enterprise Oversight (“OFHEO”) adopted a risk-based capital stress test for the GSEs, which was amended in February 2002. One of the elements of the stress test is that future 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 (which in this document is also referred to as a “financial strength 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 a 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.

***Contract Underwriting and Related Services***

The Company performs contract underwriting services for lenders in which the Company judges whether the data relating to the borrower and the loan contained in the lender's mortgage loan application file comply with the lender's loan underwriting guidelines. The Company also provides an interface to submit such data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. A material portion of the Company's new insurance written through the flow channel in recent years involved loans for which the Company provided contract underwriting services. The complaint in the RESPA Litigation alleged, among other things, that the pricing of contract underwriting provided by the Company violated RESPA.

As part of its contract underwriting services, the Company is responsible for the quality of its underwriting decisions in accordance with the terms of the contract underwriting agreements with customers. Through December 31, 2004, the cost of remedies provided by the Company to customers for failing to meet the standards of the contracts has not been material to the Company. There can be no assurance that contract underwriting remedies will not be material in the future.

***Risk Management***

MGIC believes that mortgage credit risk is materially affected by

- the borrower's credit strength, including the borrower's credit history, debt-to-income ratios, and cash reserves; and
- the loan product, which encompasses the LTV ratio, the type of loan instrument (including whether the instrument provides for fixed or variable payments and the amortization schedule), the type of property and the purpose of the loan.

MGIC believes that mortgage credit risk is also affected by the origination practices of the lender and the condition of the housing market in the area in which the property is located.

MGIC believes that, excluding other factors, claim incidence increases for loans with lower FICO credit scores compared to loans with higher FICO credit scores; for loans with less than full underwriting documentation compared to loans with full underwriting documentation; for loans with higher LTV ratios compared to loans with lower LTV ratios; for ARMs during a prolonged period of rising interest rates compared to fixed rate loans in such a rate environment; for loans that permit the deferral of principal amortization compared to loans that require principal amortization with each monthly payment; for loans in which the original loan amount exceeds the conforming loan limit compared to loans below such limit; and for cash out refinance loans compared to rate and term refinance loans.

There are also other types of loan characteristics relating to the individual loan or borrower which affect the risk potential for a loan. The presence of a number of higher-risk characteristics in a loan materially increases the likelihood of a claim on such a loan unless there are other characteristics to lower the risk.

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MGIC charges higher premium rates to reflect the increased risk of claim incidence that it perceives is associated with a loan, although not all higher risk characteristics are reflected in the premium rate. There can be no assurance that MGIC's premium rates adequately reflect the increased risk, particularly in a period of economic recession.

**Delegated Underwriting and GSE Automated Underwriting Approvals.** Delegated underwriting is a program under which approved lenders are allowed to commit MGIC to insure loans originated through the flow channel utilizing their own underwriting guidelines and underwriting evaluation. Some major lenders having delegated underwriting authority use their own proprietary automated underwriting services to apply their underwriting guidelines to loans. In addition, since 2000, loans approved by the automated underwriting services of the GSEs have been automatically approved for MGIC mortgage insurance.

During the last three years, a substantial majority of the loans insured by MGIC through the flow channel were approved as a result of loan approvals by the automated underwriting services of the GSEs or through delegated underwriting programs, including those utilizing proprietary underwriting services. MGIC expects the portion of its flow business that is approved in this manner to continue to increase. The loan approval criteria of automated underwriting services are within the risk management discretion and control of the GSEs or the lender operating the service. As a result of accepting the loan approval decisions of these services, MGIC does not have the ability to control in advance the risk characteristics of such loans. MGIC's risk management approach to such flow business has been to monitor periodically the credit quality of the loans it has recently insured in this manner. If as a result of such review MGIC perceives certain loans insured in this manner have an unacceptably higher risk of claim, MGIC can continue to insure loans with such characteristics that are thereafter submitted to it at A- rates. In addition, in the case of loans approved other than through the automated underwriting systems of the GSEs, MGIC can decline to continue to insure loans having such characteristics.

**Bulk Transactions Risk Management.** The premium for loans insured in a bulk transaction is determined by MGIC's evaluation of the credit risk of the loans included in the transaction based on information about the loans represented to MGIC by the securitizer. Individual loan files are generally not reviewed in advance of the issuance of an insurance commitment but are reviewed at the time a claim is made to confirm that the loan involved in the claim generally conforms to the representations that were previously made. MGIC has the right to rescind coverage for loans that do not conform to such representations.

### ***Past Industry Losses; Defaults; and Claims***

**Past Industry Losses.** The private mortgage insurance industry experienced substantial losses in the mid-to-late 1980s. From the 1970s until 1981, rising home prices in the United States generally led to profitable insurance underwriting results for the industry and caused private mortgage insurers to emphasize market share. To maximize market share, until the mid-1980s, private mortgage insurers employed liberal underwriting practices, and charged premium rates which, in retrospect, generally did not adequately reflect the risk assumed (particularly on pool insurance). These industry practices compounded the losses which resulted from changing economic and market conditions which occurred during the early and mid-1980s, including (i) severe regional recessions and attendant declines in property values in the nation's energy producing states; (ii) the development by lenders of new mortgage products to defer the impact on home buyers of double digit mortgage interest rates; and (iii) changes in federal income tax incentives which initially encouraged the growth of investment in non-owner

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occupied properties.

**Defaults.** The claim cycle on private mortgage insurance begins with the insurer's receipt of notification of a default on an insured loan from the lender. MGIC defines a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify MGIC of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates and general borrower creditworthiness. Defaults that are not cured result in a claim to MGIC. Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage.

The following table shows the number of primary and pool loans insured in the MGIC Book, including loans insured in bulk transactions and A- and subprime loans, the related number of loans in default and the percentage of loans in default (default rate) as of December 31, 2000-2004:

**Default Statistics for the MGIC Book**

	December 31,				
	2004	2003	2002	2001	2000
<b>PRIMARY INSURANCE</b>					
Insured loans in force	1,413,678	1,551,331	1,655,887	1,580,283	1,448,348
Loans in default	85,487	86,372	73,648	54,653	37,422
Percentage of loans in default (default rate)	6.05%	5.57%	4.45%	3.46%	2.58%
Flow loans in force	44,925	45,259	43,196	36,193	29,889
Percentage of flow loans in default (default rate)	3.99%	3.76%	3.19%	2.65%	2.19%
Bulk loans in force	288,587	348,521	301,859	214,917	83,513
Bulk loans in default	40,562	41,113	30,452	18,460	7,533
Percentage of bulk loans in default (default rate)	14.06%	11.80%	10.09%	8.59%	9.02%
A-minus and subprime loans in force <sup>(1)</sup>	217,306	244,175	201,195	134,888	64,086
A-minus and subprime loans in default <sup>(1)</sup>	35,824	34,525	25,504	15,649	6,126
Percentage of A-minus and subprime loans in default (default rate)	16.49%	14.14%	12.68%	11.60%	9.34%
<b>POOL INSURANCE</b>					
Insured loans in force	790,935	1,035,696	1,208,157	1,351,266	1,360,059
Loans in default	25,500	28,135	26,676	23,623	18,209
Percentage of loans in default (default rate)	3.22%	2.72%	2.21%	1.75%	1.34%

<sup>(1)</sup>A portion of A-minus and subprime loans is included in the data for flow loans and the remainder is included in the data for bulk loans. Most A-minus and subprime credit loans are written through the bulk channel.

The default rate for flow loans has generally increased due to an increase in the risk profile of loans insured since 2000 and the continued maturation of MGIC's insurance in force. The default rate for bulk loans reflects the higher default rate associated with such loans. The number of pool insurance loans in force peaked at December 31, 2000 as a result of agency pool insurance writings, and the number of pool insurance loans in default in subsequent years increased due to the aging of the loans in the pools.

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Regions of the United States may experience different default rates due to varying localized economic conditions from year to year. The following table shows the percentage of the MGIC Book's primary loans in default by MGIC region at the dates indicated:

### Default Rates for Primary Insurance By Region\*

	Dec. 31 2004	Dec. 31 2003	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000
<b>MGIC REGION:</b>					
New England	3.43%	3.43%	2.91%	2.27%	1.84%
Northeast	6.15	5.65	4.74	3.90	3.15
Mid-Atlantic.	4.81	4.53	4.05	3.27	2.69
Southeast	6.33	6.02	4.87	3.65	2.72
Great Lakes	8.19	6.99	5.17	3.74	2.68
North Central	5.78	5.38	4.22	3.21	2.22
South Central	6.35	5.94	4.65	3.56	2.56
Plains	4.51	4.03	3.41	2.76	1.98
Pacific	3.92	4.21	3.73	3.38	2.63
National	6.05%	5.57%	4.45%	3.46%	2.58%

\* The default rate is affected by both the number of loans in default at any given date as well as the number of insured loans in force at such date.

**Claims.** Claims result from defaults which are not cured. Whether a claim results from an uncured default principally depends on the borrower's equity in the home at the time of default and the borrower's (or the lender's) ability to sell the home for an amount sufficient to satisfy all amounts due under the mortgage. Claims are affected by various factors, including local housing prices and employment levels, and interest rates.

Under the terms of the Master Policy, the lender is required to file a claim for primary insurance with MGIC within 60 days after it has acquired good and marketable title to the underlying property through foreclosure. Depending on the applicable state foreclosure law, generally at least 12 months transpires from the date of default to payment of a claim on an uncured default.

Within 60 days after the claim has been filed, MGIC has the option of either (i) paying the coverage percentage specified for that loan, with the insured retaining title to the underlying property and receiving all proceeds from the eventual sale of the property or (ii) paying 100% of the claim amount in exchange for the lender's conveyance of good and marketable title to the property to MGIC. MGIC will then sell the property for its own account.

Claim activity is not evenly spread throughout the coverage period of a book of primary business. For prime loans, relatively few claims are received during the first two years following issuance of coverage on a loan. This is followed by a period of rising claims which, based on industry experience, has historically reached its highest level in the third through fifth years after the year of loan origination. Thereafter, the number of claims received has historically declined at a gradual rate, although the rate of decline can be affected by conditions in the economy, including lower housing price appreciation. There can be no assurance that this historical pattern of claims will continue in the future and due in part to the subprime component of loans insured

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in bulk transactions, MGIC expects that the peak claim period for bulk loans will occur earlier than for prime loans. Moreover, when a loan is refinanced, because the new loan replaces, and is a continuation of, an earlier loan, the pattern of claims frequency for that new loan may be different from the historical pattern of other loans. As of December 31, 2004, 82.0% of the MGIC Book primary insurance in force had been written during 2002 - 2004, although a portion of such insurance arose from the refinancing of earlier originations.

In addition to the increasing level of claim activity arising from the maturing of the MGIC Book, another important factor affecting MGIC Book losses is the amount of the average claim paid, which is generally referred to as claim severity. The main determinants of claim severity are the amount of the mortgage loan and the coverage percentage on the loan. The average claim severity on the MGIC Book primary insurance was \$24,438 for 2004 as compared to \$22,925 in 2003 and \$20,115 in 2002.

### ***Loss Reserves***

A significant period of time may elapse between the occurrence of the borrower's default on a mortgage payment (the event triggering a potential future claim payment by MGIC), the reporting of such default to MGIC and the eventual payment of the claim related to such uncured default. To recognize the liability for unpaid losses related to outstanding reported defaults (known as the default inventory), the Company, similar to other private mortgage insurers, establishes loss reserves, representing the estimated percentage of defaults which will ultimately result in a claim (known as the claim rate), and the estimated severity of the claims which will arise from the defaults included in the default inventory. In accordance with industry accounting practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

The Company also establishes reserves to provide for the estimated costs of settling claims, including legal and other fees, and general expenses of administering the claims settlement process ("loss adjustment expenses"), and for losses and loss adjustment expenses from defaults which have occurred, but which have not yet been reported to the insurer.

The Company's reserving process is based upon the assumption that past experience, adjusted for the anticipated effect of current economic conditions and projected future economic trends, provides a reasonable basis for estimating future events. However, estimation of loss reserves is inherently judgmental. Economic conditions that have affected the development of the loss reserves in the past may not necessarily affect development patterns in the future, in either a similar manner or degree.

For further information about loss reserves, see "Management's Discussion and Analysis—Results of Operations—Losses" in Item 7 of this Annual Report on Form 10-K and Note 6 to the consolidated financial statements of the Company in Item 8 of this Annual Report on Form 10-K.

### ***Geographic Dispersion***

The following table reflects the percentage of primary risk in force in the top 10 states and top 10 metropolitan statistical areas ("MSAs") for the MGIC Book at December 31, 2004:

**Dispersion of Primary Risk in Force**

## Top 10 States

1. California	8.8%
2. Florida	8.1
3. Texas	6.7
4. Michigan	5.3
5. Illinois	5.0
6. Ohio	4.8
7. New York	3.9
8. Pennsylvania	3.9
9. Georgia	3.2
10. Arizona	<u>2.8</u>
Total	<u>52.5%</u>

## Top 10 MSAs

1. Chicago	3.7%
2. Detroit	2.3
3. Atlanta	2.3
4. Los Angeles	2.2
5. Phoenix	2.0
6. Boston	1.9
7. Washington, D.C.	1.9
8. Houston	1.8
9. Riverside-San Bernardino	1.7
10. Minneapolis	<u>1.7</u>
Total	<u>21.5%</u>

The percentages shown above for various MSAs can be affected by changes, from time to time, in the federal government's definition of an MSA.

**Insurance in Force by Policy Year**

The following table sets forth for the MGIC Book the dispersion of MGIC's primary insurance in force as of December 31, 2004, by year(s) of policy origination since MGIC began operations in 1985:

**Primary Insurance In Force by Policy Year**

Policy Year	Primary Insurance in Force (In millions of dollars)	Percent of Total
1985-1998	\$ 11,041	6.2%
1999	3,698	2.1
2000	3,415	1.9
2001	13,747	7.8
2002	30,167	17.0
2003	60,056	33.9
2004	54,967	31.1
Total	<u>\$177,091</u>	<u>100.0%</u>

**Risk Force and Product Characteristics of Risk in Force**

At December 31, 2004 and 2003, 93.8% and 94.4%, respectively, of MGIC's risk in force was primary insurance and the remaining risk in force was pool insurance. The following table sets forth for the MGIC Book the dispersion of MGIC's primary risk in force as of December 31, 2004, by year(s) of policy origination since MGIC began operations in 1985:

**Primary Risk In Force by Policy Year**

Policy Year	Primary Risk in Force (In millions of dollars)	Percent of Total
1985-1998	\$ 2,635	5.7%
1999	908	2.0
2000	861	1.9
2001	3,497	7.6
2002	7,806	17.0
2003	15,559	33.8
2004	14,715	32.0
Total	<u>\$45,981</u>	<u>100.0%</u>

The following table reflects at the dates indicated the (i) total dollar amount of primary risk in force for the MGIC Book and (ii) percentage of such primary risk in force (as determined on the basis of information available on the date of mortgage origination) by the categories indicated.

**Characteristics of Primary Risk in Force**

	December 31, 2004	December 31, 2003
Direct Risk in Force (In Millions):	\$ 45,981	\$ 48,658
LTV: (1)		
100s	13.5%	10.0%
95s	32.4	32.7
90s(2)	45.7	45.9
80s	<u>8.4</u>	<u>11.4</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Loan Type:		
Fixed(3)	77.2%	77.3%
Adjustable rate mortgages (“ARMs”)(4).	<u>22.8</u>	<u>22.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Original Insured Loan Amount(5):		
Conforming loan limit and below	93.4%	93.9%
Non-conforming	<u>6.6</u>	<u>6.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Mortgage Term:		
15-years and under	4.3%	5.1%
Over 15 years	<u>95.7</u>	<u>94.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Property Type:		
Single-family(6)	93.6%	93.9%
Condominium	6.2	5.9
Other(7)	<u>0.2</u>	<u>0.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Occupancy Status:		
Primary residence	93.4%	94.1%
Second home	2.3	1.8
Non-owner occupied	<u>4.3</u>	<u>4.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>
Documentation:		
Alt-A(8)	11.7%	11.7%
Other	<u>88.3</u>	<u>88.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>
FICO Score:		
Prime (FICO 620 and above)	84.2%	82.4%
A Minus (FICO 575 – 619)	11.3	12.6
Subprime (FICO below 575)	<u>4.5</u>	<u>5.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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- (1) Loan-to-value represents the ratio (expressed as a percentage) of the dollar amount of the mortgage loan to the value of the property at the time the loan became insured. For purposes of the table, LTV ratios are classified as in excess of 95% (“100s”, a classification that includes 97% to 103% LTV loans); in excess of 90% LTV and up to 95% LTV (“95s”); in excess of 80% LTV and up to 90% LTV (“90s”); and equal to or less than 80% LTV (“80s”).
- (2) MGIC includes in its classification of 90s, loans where the borrower makes a down payment of 10% and finances the associated mortgage insurance premium payment as part of the mortgage loan. At December 31, 2004 and 2003, 1.8% of the primary risk in force consisted of these types of loans.
- (3) Includes fixed rate mortgages with temporary buydowns (where in effect the applicable interest rate is typically reduced by one or two percentage points during the first two years of the loan), ARMs in which the initial interest rate is fixed for at least five years and balloon payment mortgages (a loan with a maturity, typically five to seven years, that is shorter than the loan’s amortization period).
- (4) Includes ARMs where payments adjust fully with interest rate adjustments. Also includes ARMs with negative amortization, which at December 31, 2004 and 2003, represented 0.8% and 0.6%, respectively, of primary risk in force. Does not include ARMs in which the initial interest rate is fixed for at least five years. As of December 31, 2004 and 2003, ARMs with LTVs in excess of 90% represented 5.9% and 4.7%, respectively, of primary risk in force.
- (5) Loans within the conforming loan limit have an original principal balance that does not exceed the maximum original principal balance of loans that the GSEs are eligible to purchase. The conforming loan limit is subject to annual upward adjustment and was \$333,700 for 2004 and \$322,700 for 2003. Non-conforming loans are loans with an original principal balance above the conforming loan limit.
- (6) Includes townhouse-style attached housing with fee simple ownership.
- (7) Includes cooperatives and manufactured homes deemed to be real estate.
- (8) Alt-A loans are originated under programs in which there is a reduced level of verification or disclosure compared to traditional mortgage loan underwriting, including programs in which the borrower’s income and/or assets are disclosed in the loan application but there is no verification of those disclosures and programs in which there is no disclosure of income or assets in the loan application. At December 31, 2004 and 2003, Alt-A loans represented 6.9% and 6.7%, respectively, of risk in force written through the flow channel and 25.8% and 24.9%, respectively, of risk in force written through the bulk channel.

### **C. Other Business and Joint Ventures**

The Company, through subsidiaries, provides various mortgage services for the mortgage finance industry, such as contract underwriting, portfolio retention and secondary marketing of mortgage-related assets. The Company's eMagic.com LLC subsidiary provides an Internet portal through which mortgage originators can access products and services of wholesalers, investors, and vendors necessary to make a home mortgage loan.

At December 31, 2004, the Company also owned approximately 46% of C-BASS and approximately 42% of Sherman, joint ventures with senior management of the joint ventures and Radian Group Inc. Effective January 1, 2003, the Company and Radian Group Inc. each sold 4 percentage points of their respective interest in Sherman to Sherman's management for cash. For further information about C-BASS and Sherman (which are the principal joint ventures included in the "Income from joint ventures, net of tax" line in the Company's Consolidated Statement of Operations), see "Management's Discussion and Analysis—Results of Operations" in Item 7 of this Annual Report on Form 10-K and Note 8 to the consolidated financial statements of the Company in Item 8 of this Annual Report on Form 10-K.

In 1997, the Company, through subsidiaries, began insuring second mortgages, including home equity loans. New insurance written on second mortgages in 2002, 2001 and 2000 was approximately \$37.8 million, \$1.3 billion and \$1.1 billion, respectively. The Company discontinued writing new second mortgage risk for loans closing after December 31, 2001.

### **D. Investment Portfolio**

#### *Policy and Strategy*

Approximately 79% of the Company's long-term investment portfolio is managed by a subsidiary of The Northwestern Mutual Life Insurance Company, although the Company maintains overall control of investment policy and strategy. The Company maintains direct management of the remainder of its investment portfolio.

The Company's current policies emphasize preservation of capital, as well as total return. Therefore, the Company's investment portfolio consists almost entirely of high-quality, fixed-income investments. Liquidity is sought through diversification and investment in publicly traded securities. The Company attempts to maintain a level of liquidity commensurate with its perceived business outlook and the expected timing, direction and degree of changes in interest rates. The Company's investment policies in effect at December 31, 2004 limited investments in the securities of a single issuer (other than the U.S. government) and generally limit the purchase of fixed income securities to those that are rated investment grade by at least one rating agency. At that date, the maximum aggregate book value of the holdings of a single obligor or non-government money market mutual fund was:

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U.S. Government securities	No limit
Pre-refunded municipals escrowed in Treasury Securities	No limit
U.S. Government Agencies (in total)*	10% of admitted assets
Securities rated "AA" or "AAA"	\$60 million
Securities rated "Baa" or "A"	\$25 million

\* As used with respect to the Company's investment portfolio, Government Agencies include Fannie Mae and Freddie Mac.

At December 31, 2004, based on amortized cost, approximately 99.6% of the Company's total fixed income investment portfolio was invested in securities rated 'A' or better, with 84.2% rated 'AAA' and 14.7% rated 'AA,' in each case by at least one nationally recognized securities rating organization.

The Company's investment policies and strategies are subject to change depending upon regulatory, economic and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of the Company.

### *Investment Operations*

At December 31, 2004, the market value of the Company's investment portfolio was approximately \$5.6 billion. At December 31, 2004, municipal securities represented 81.2% of the market value of the total investment portfolio. Securities due within one year, within one to five years, within five to ten years, and after ten years, represented 4.0%, 18.2%, 21.6% and 56.2%, respectively, of the total book value of the Company's investment in debt securities. The Company's net pre-tax investment income was \$215.1 million for the year ended December 31, 2004. The Company's after-tax yield for 2004 was 3.8%, which was comparable to the after-tax yield in 2003.

The ten largest holdings of the Company at December 31, 2004 appear in the table below:

	<u>Market Value</u> (in thousands of dollars)
1. San Joaquin Hills California	\$ 70,989
2. Chicago, Illinois	51,549
3. New Jersey St. Transportation	48,017
4. Jefferson County Alabama Sewer	46,608
5. Chicago, Illinois Met Wtr Reclamation	43,422
6. State of Illinois Sales Tax	44,698
7. Ohio St. Wtr Dev. Auth	42,059
8. North Carolina Municipal Power	49,609
9. Metropolitan Trans Auth NY	41,745
10. University of Texas	40,826
	<u>\$ 479,522</u>

Note: This table excludes U.S. Governments, Government Agencies and CMOs.

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The top ten sectors of the Company's investment portfolio appear in the table below:

	<u>Market Value</u> (in millions of dollars)
1. Tax-free Municipal	\$ 4,426.1
2. U.S. Treasuries	617.1
3. Asset Backed	218.9
4. Cash Equivalents	163.6
5. Taxable Municipal	98.7
6. Corporate	20.7
7. Foreign	16.4
8. Certified Capital Companies	8.2
9. Aff Hsg State Tax Credits	2.6
10. Preferred Stock	2.4
	<u>\$ 5,574.7</u>

For further information concerning investment operations, see Note 4 to the consolidated financial statements of the Company, included in Item 8 of this Annual Report on Form 10-K.

## **E. Regulation**

### *Direct Regulation*

The Company and its insurance subsidiaries, including MGIC, are subject to regulation, principally for the protection of policyholders, by the insurance departments of the various states in which each is licensed to do business. The nature and extent of such regulation varies, but generally depends on statutes which delegate regulatory, supervisory and administrative powers to state insurance commissioners.

In general, such regulation relates, among other things, to licenses to transact business; policy forms; premium rates; insurable loans; annual and other reports on financial condition; the basis upon which assets and liabilities must be stated; requirements regarding contingency reserves equal to 50% of premiums earned; minimum capital levels and adequacy ratios; reinsurance requirements; limitations on the types of investment instruments which may be held in an investment portfolio; the size of risks and limits on coverage of individual risks which may be insured; deposits of securities; limits on dividends payable; and claims handling. Most states also regulate transactions between insurance companies and their parents or affiliates and have restrictions on transactions that have the effect of inducing lenders to place business with the insurer. For a discussion of a February 1, 1999 circular letter from the NYID and a January 31, 2000 letter from the Illinois Department of Insurance, see "The MGIC Book—Types of Product—Pool Insurance, —Risk Sharing Arrangements." For a description of limits on dividends payable, see "Management's Discussion and Analysis—Liquidity and Capital Resources" in Item 7 of this Annual Report on Form 10-K and Note 11 to the consolidated financial statements of the Company in Item 8 of this Annual Report on Form 10-K.

Mortgage insurance premium rates are also subject to state regulation to protect policyholders against the adverse effects of excessive, inadequate or unfairly discriminatory rates and to encourage competition in the insurance marketplace. Any increase in premium rates must be justified, generally on the basis of the insurer's loss experience, expenses and future trend

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analysis. The general mortgage default experience may also be considered. Premium rates are subject to review and challenge by state regulators.

A number of states generally limit the amount of insurance risk which may be written by a private mortgage insurer to 25 times the insurer's total policyholders' reserves, commonly known as the "risk-to-capital" requirement.

MGIC is required to establish a contingency loss reserve in an amount equal to 50% of earned premiums. Such amounts cannot be withdrawn for a period of 10 years, except under certain circumstances.

Mortgage insurers are generally single-line companies, restricted to writing residential mortgage insurance business only. Although the Company, as an insurance holding company, is prohibited from engaging in certain transactions with MGIC without submission to and, in some instances, prior approval of applicable insurance departments, the Company is not subject to insurance company regulation on its non-insurance businesses.

Wisconsin's insurance regulations generally provide that no person may acquire control of the Company unless the transaction in which control is acquired has been approved by the Office of the Commissioner of Insurance of Wisconsin. The regulations provide for a rebuttable presumption of control when a person owns or has the right to vote more than 10% of the voting securities.

As the most significant purchasers and sellers of conventional mortgage loans and beneficiaries of private mortgage insurance, Freddie Mac and Fannie Mae impose requirements on private mortgage insurers in order for such insurers to be eligible to insure loans sold to such agencies. These requirements of Freddie Mac and Fannie Mae are subject to change from time to time. Currently, MGIC is an approved mortgage insurer for both Freddie Mac and Fannie Mae. In addition, to the extent Fannie Mae or Freddie Mac assumes default risk for itself that would otherwise be insured, changes current guarantee fee arrangements (including as a result of primary mortgage insurance coverage being restructured as described under "The MGIC Book—Types of Product—Primary Insurance"), allows alternative credit enhancement, alters or liberalizes underwriting guidelines on low down payment mortgages they purchase, or otherwise changes its business practices or processes with respect to such mortgages, private mortgage insurers may be affected.

Fannie Mae has issued primary mortgage insurance master policy guidelines applicable to MGIC and all other Fannie Mae-approved private mortgage insurers, establishing certain minimum terms of coverage necessary in order for an insurer to be eligible to insure loans purchased by Fannie Mae. The terms of MGIC's Master Policy comply with these guidelines.

In December 2003 Standard & Poor's Rating Services ("S&P") announced that it lowered MGIC's financial strength rating to 'AA' from 'AA+' and the Company's long-term

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counterparty credit rating to ‘A’ from ‘A+’ “because of a weakening of MGIC’s operating performance from a very strong to a strong level, as well as rising delinquencies. In addition, the level of risk in MGIC’s book of business is increasing relative to its peers, in part due to the growth in its bulk in-force book, which has grown to about 25% of the total in-force.” S&P said in its announcement that the outlook for MGIC’s and the Company’s ratings was stable. Shortly before S&P’s announcement, Moody’s Investors Service and Fitch Ratings reaffirmed their respective ‘Aa2’ and ‘AA+’ financial strength ratings of MGIC.

Maintenance of a financial strength rating of at least AA-/Aa3 is critical to a mortgage insurer’s ability to continue to write new business. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer’s capital to withstand extreme loss scenarios under assumptions determined by the rating agency, rating agencies review a mortgage insurer’s historical and projected operating performance, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

### ***Indirect Regulation***

The Company and MGIC are also indirectly, but significantly, impacted by regulations affecting purchasers of mortgage loans, such as Freddie Mac and Fannie Mae, and regulations affecting governmental insurers, such as the FHA and VA, and lenders. Private mortgage insurers, including MGIC, are highly dependent upon federal housing legislation and other laws and regulations to the extent they affect the demand for private mortgage insurance and the housing market generally. From time to time, those laws and regulations have been amended to affect competition from government agencies. Proposals are discussed from time to time by Congress and certain federal agencies to reform or modify the FHA and the Government National Mortgage Association, which securitizes mortgages insured by the FHA.

Subject to certain exceptions, in general, RESPA prohibits any person from giving or receiving any “thing of value” pursuant to an agreement or understanding to refer settlement services. See “Management’s Discussion and Analysis — Risk Factors — The mortgage insurance industry is subject to litigation risk.”

The OTS, the OCC, the Federal Reserve Board, and the Federal Deposit Insurance Corporation have uniform guidelines on real estate lending by insured lending institutions under their supervision. The guidelines specify that a residential mortgage loan originated with an LTV of 90% or greater should have appropriate credit enhancement in the form of mortgage insurance or readily marketable collateral, although no depth of coverage percentage is specified in the guidelines.

Lenders are subject to various laws, including the Home Mortgage Disclosure Act, the Community Reinvestment Act and the Fair Housing Act, and Fannie Mae and Freddie Mac are subject to various laws, including laws relating to government sponsored enterprises, which may impose obligations or create incentives for increased lending to low and moderate income persons, or in targeted areas.

There can be no assurance that other federal laws and regulations affecting such institutions and entities will not change, or that new legislation or regulations will not be adopted which will adversely affect the private mortgage insurance industry. In this regard, see the penultimate risk factor under “Management’s Discussion and Analysis — Risk Factors” in Item 7 of this Annual Report on Form 10-K.

## **F. Employees**

At December 31, 2004, the Company and its consolidated subsidiaries had approximately 1,200 full- and part-time employees, of whom approximately 36% were assigned to MGIC's field offices. The number of employees given above does not include "on-call" employees. The number of "on-call" employees can vary substantially, primarily as a result of changes in demand for contract underwriting services.

## **G. Website Access**

The Company makes available, free of charge, through its Internet website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with the SEC. The address of the Company's website is [www.mgic.com](http://www.mgic.com), and such reports and amendments are accessible through the "Investor" link at such address.

## **Item 2. Properties.**

At December 31, 2004, the Company leased office space in various cities throughout the United States under leases expiring between 2005 and 2009 and which required annual rentals of \$3.3 million in 2004.

The Company owns its headquarters facility and an additional office/warehouse facility, both located in Milwaukee, Wisconsin, which contain an aggregate of approximately 310,000 square feet of space.

## **Item 3. Legal Proceedings.**

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.

In March 2003 an action against MGIC was filed in Federal District Court in Orlando, Florida seeking certification of a nationwide class of consumers who were required to pay for private mortgage insurance written by MGIC and whose loans were insured at less than MGIC's "best available rate" based on credit scores obtained by MGIC. The action alleged that the Federal Fair Credit Reporting Act ("FCRA") requires a notice to borrowers of such "adverse action" and that MGIC has violated FCRA by failing to give such notice. The action sought statutory damages (which in the case of willful violations, in addition to punitive damages, may be awarded in an amount of \$100 to \$1,000 per class member) and/or actual damages of the persons in the class, and attorneys fees, as well as declaratory and injunctive relief. The action also alleged that the failure to give notice to borrowers in Florida in the circumstances alleged was a violation of Florida's Unfair and Deceptive Acts and Practices Act and sought declaratory and injunctive relief for such violation. Similar actions were commenced against six other mortgage insurers.

In December 2003, the Court denied MGIC's motion seeking dismissal of the portion of the case covering damages under FCRA but dismissed the remainder of the case. In June 2004, the

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Court denied the plaintiffs motion to certify the class. In December 2004, MGIC settled the named plaintiffs claims and their action was dismissed with prejudice. There can be no assurance that MGIC will not be subject to further litigation under FCRA.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Executive Officers**

Certain information with respect to the Company's executive officers as of March 1, 2005 is set forth below:

<u>Name and Age</u>	<u>Title</u>
Curt S. Culver, 52	Chairman of the Board, President and Chief Executive Officer of the Company and MGIC; Director of the Company and MGIC
J. Michael Lauer, 60	Executive Vice President and Chief Financial Officer of the Company and MGIC
Patrick Sinks, 48	Executive Vice President—Field Operations of MGIC
Lawrence J. Pierzchalski, 52	Executive Vice President— Risk Management of MGIC
James A. Karpowicz, 57	Senior Vice President—Chief Investment Officer and Treasurer of the Company and MGIC
Jeffrey H. Lane, 55	Senior Vice President, General Counsel and Secretary of the Company and MGIC
Michael G. Meade, 55	Senior Vice President—Information Services and Chief Information Officer of MGIC

Mr. Culver has served as President of the Company since January 1999, as Chief Executive Officer since January 2000 and as Chairman of the Board since January 2005. He has been President of MGIC since May 1996 and was Chief Operating Officer of MGIC from May 1996 until he became Chief Executive Officer in January 1999. Mr. Culver has been a senior officer of MGIC since 1988 having responsibility at various times during his career with MGIC for field operations, marketing and corporate development. From March 1985 to 1988, he held various management positions with MGIC in the areas of marketing and sales.

Mr. Lauer has served as Executive Vice President and Chief Financial Officer of the Company and MGIC since March 1989.

Mr. Sinks has served as Executive Vice President-Field Operations of MGIC since January 2004 and was Senior Vice President-Field Operations of MGIC from July 2002 to January 2004. From March 1985 to July 2002, he held various positions within MGIC's finance and accounting organization, the last of which was Senior Vice President, Controller and Chief Accounting Officer.

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Mr. Pierzchalski has served as Executive Vice President-Risk Management of MGIC since May 1996 and prior thereto as Senior Vice President-Risk Management or Vice President-Risk Management of MGIC from April 1990. From March 1985 to April 1990, he held various management positions with MGIC in the areas of market research, corporate planning and risk management.

Mr. Karpowicz has served as Senior Vice President–Chief Investment Officer and Treasurer of the Company and MGIC since January, 2005 and has been Treasurer since 1998. From 1986 to January, 2005, he held various positions within MGIC’s investment operations organization, the last of which was Vice President.

Mr. Lane has served as Senior Vice President, General Counsel and Secretary of the Company and MGIC since August 1996. For more than five years prior to his joining the Company, Mr. Lane was a partner of Foley & Lardner, a law firm headquartered in Milwaukee, Wisconsin.

Mr. Meade has served as Senior Vice President–Information Services and Chief Information Officer since February 1992. From 1985 to 1992 he held various positions within MGIC’s information services organization, the last of which was Vice President–Information Services.

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.**

(a) The Company's Common Stock is listed on the New York Stock Exchange under the symbol "MTG." The following table sets forth for 2003 and 2004 by calendar quarter the high and low sales prices of the Common Stock on the New York Stock Exchange Composite Tape.

Quarter	2003		2004	
	High	Low	High	Low
First	\$47.74	\$35.30	\$70.80	\$56.20
Second	57.75	38.99	76.99	63.90
Third	58.77	46.08	78.95	62.42
Fourth	58.18	49.13	69.94	60.00

In 2003 and 2004 the Company declared and paid the following cash dividends:

Quarter	2003	2004
	First	\$.0250
Second	.0250	.0375
Third	.0250	.0750
Fourth	.0375	.0750
	<u>\$.1125</u>	<u>\$.2250</u>

The Company is a holding company and the payment of dividends from its insurance subsidiaries is restricted by insurance regulation. For a discussion of these restrictions, see the sixth paragraph under "Management's Discussion and Analysis — Liquidity and Capital Resources" in Item 7 of this Annual Report on Form 10-K and Note 11 of the Notes to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K, which are incorporated by reference.

As of February 10, 2005, the number of shareholders of record was 160. In addition, the Company estimates there are approximately 200,000 beneficial owners of shares held by brokers and fiduciaries.

Information regarding equity compensation plans is contained in Item 12 of this Annual Report on Form 10-K.

(b) Not applicable.

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(c) Information about shares of Common Stock repurchased during the fourth quarter of 2004 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)
October 1, 2004 through October 31, 2004	1,167,400	\$ 63.25	1,167,400	5,082,700
November 1, 2004 through November 30, 2004	—	\$ —	—	5,082,700
December 1, 2004 through December 31, 2004	525,000	\$ 67.48	525,000	4,557,700
Total	1,692,400	\$ 64.57	1,692,400	4,557,700

(A) On October 24, 2002 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 May 8, 2003 the Company announced that its Board authorized the repurchase of an additional five million shares in the open market or in private transactions.

**Item 6. Selected Financial Data.**

	Year Ended December 31,				
	2004	2003	2002	2001	2000
<i>(In thousands of dollars, except per share data)</i>					
<b>Summary of Operations</b>					
Revenues:					
Net premiums written	\$ 1,305,417	\$ 1,364,631	\$ 1,177,955	\$ 1,036,353	\$ 887,388
Net premiums earned	\$ 1,329,428	\$ 1,366,011	\$ 1,182,098	\$ 1,042,267	\$ 890,091
Investment income, net	215,053	202,881	207,516	204,393	178,535
Realized investment gains, net	17,242	36,862	29,113	37,352	1,432
Other revenue	50,970	79,657	65,836	30,448	18,424
Total revenues	<u>1,612,693</u>	<u>1,685,411</u>	<u>1,484,563</u>	<u>1,314,460</u>	<u>1,088,482</u>
Losses and expenses:					
Losses incurred, net	700,999	766,028	365,752	160,814	91,723
Underwriting and other expenses	278,786	302,473	265,633	234,494	201,058
Interest expense	41,131	41,113	36,776	30,623	28,759
Total losses and expenses	<u>1,020,916</u>	<u>1,109,614</u>	<u>668,161</u>	<u>425,931</u>	<u>321,540</u>
Income before tax and joint ventures	591,777	575,797	816,402	888,529	766,942
Provision for income tax	159,348	146,027	240,971	277,590	239,151
Income from joint ventures, net of tax	120,757	64,109	53,760	28,198	14,208
Net income	<u>\$ 553,186</u>	<u>\$ 493,879</u>	<u>\$ 629,191</u>	<u>\$ 639,137</u>	<u>\$ 541,999</u>
Weighted average common shares outstanding (in thousands)	<u>98,245</u>	<u>99,022</u>	<u>104,214</u>	<u>107,795</u>	<u>107,260</u>
Diluted earnings per share	<u>\$ 5.63</u>	<u>\$ 4.99</u>	<u>\$ 6.04</u>	<u>\$ 5.93</u>	<u>\$ 5.05</u>
Dividends per share	<u>\$ .2250</u>	<u>\$ .1125</u>	<u>\$ .10</u>	<u>\$ .10</u>	<u>\$ .10</u>
<b>Balance sheet data</b>					
Total investments	\$ 5,582,627	\$ 5,205,161	\$ 4,726,472	\$ 4,069,447	\$ 3,472,195
Total assets	6,380,691	5,917,387	5,300,303	4,567,012	3,857,781
Loss reserves	1,185,594	1,061,788	733,181	613,664	609,546
Short- and long-term debt	639,303	599,680	677,246	472,102	397,364
Shareholders' equity	4,143,639	3,796,902	3,395,192	3,020,187	2,464,882
Book value per share	43.05	38.58	33.87	28.47	23.07

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	Year Ended December 31,				
	2004	2003	2002	2001	2000
<b>New primary insurance written</b> (\$ millions)	\$ <b>62,902</b>	\$ 96,803	\$ 92,532	\$ 86,122	\$ 41,546
<b>New primary risk written</b> (\$ millions)	<b>16,792</b>	25,209	23,403	21,038	10,353
<b>New pool risk written</b> (\$ millions) (1)	<b>208</b>	862	674	412	345
<b>Insurance in force (at year-end)</b> (\$ millions)					
Direct primary insurance	<b>177,091</b>	189,632	196,988	183,904	160,192
Direct primary risk	<b>45,981</b>	48,658	49,231	45,243	39,175
Direct pool risk (1)	<b>3,022</b>	2,895	2,568	1,950	1,676
<b>Primary loans in default ratios</b>					
Policies in force	<b>1,413,678</b>	1,551,331	1,655,887	1,580,283	1,448,348
Loans in default	<b>85,487</b>	86,372	73,648	54,653	37,422
Percentage of loans in default	<b>6.05%</b>	5.57%	4.45%	3.46%	2.58%
Percentage of loans in default — bulk	<b>14.06%</b>	11.80%	10.09%	8.59%	9.02%
<b>Insurance operating ratios (GAAP)</b>					
Loss ratio	<b>52.7%</b>	56.1%	30.9%	15.4%	10.3%
Expense ratio (2)	<b>14.6%</b>	14.1%	14.8%	16.5%	16.4%
Combined ratio	<b>67.3%</b>	70.2%	45.7%	31.9%	26.7%
<b>Risk-to-capital ratio (statutory)</b>					
MGIC	<b>6.8:1</b>	8.1:1	8.7:1	9.1:1	10.6:1

(1) Represents contractual aggregate loss limits and, for the years ended December 31, 2004, 2003 and 2002, for \$4.9 billion, \$4.9 billion and \$3.0 billion, respectively, of risk without such limits, risk is calculated at \$65 million, \$192 million and \$147 million, respectively, for new risk written and \$418 million, \$353 million and \$161 million, respectively, for risk in force, the estimated amount that would credit enhance these loans to a 'AA' level based on a rating agency model.

(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 the combined insurance operations underwriting expenses to net premiums written.

## ITEM 7. 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 80-10-10 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.
- 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 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

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securities. The principal factors that influence investment income are the size of the portfolio and its yield.

- Losses incurred

Losses incurred are the expense that results from a payment delinquency on an insured loan. As explained under “Critical Accounting Policies” below, 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 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 years after a loan is originated are a period of relatively low claims, with claims increasing substantially for several years after that 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.

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, C-BASS and 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 loans owned by C-BASS and underlying C-BASS’s mortgage securities investments are serviced by Litton Loan Servicing, a subsidiary of C-BASS. Litton’s servicing operations primarily support C-BASS’s investment in credit risk, and investments made by funds managed or co-managed by C-BASS, rather than generating fees for servicing loans owned by third-parties.

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

- Net interest income

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Net interest income is principally a function of the size of C-BASS's portfolio of whole loans and mortgage 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 special services 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").

- 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.

- 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.

- 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 "hedged" under FAS 133.

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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 the business of purchasing and collecting for its own account delinquent consumer assets which are primarily unsecured. 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 receivable portfolios

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

- Amortization of receivables 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 predicated, cost is fully recovered before any net revenue (the difference between revenues from a receivable portfolio and that portfolio’s amortization) is recognized.

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

*2004 Results*

The Company's results of operations in 2004 were principally affected by:

- Losses incurred

In 2004, compared to 2003, losses incurred decreased primarily due to a decrease in the delinquency inventory compared to the prior period increase. This decrease in delinquency inventory was in part offset by increases in the estimates regarding how many delinquencies will eventually result in a claim and how much will be paid on claims.

- Premiums written and earned

During 2004, the Company's written and earned premiums were lower than in 2003 due to a decline in the average insurance in force, as well as a decrease in NIW through the flow and bulk channels.

- Investment income

During 2004, investment income was higher than in 2003 due to an increase in the average investment portfolio.

- Underwriting and other expenses

Underwriting and other expenses decreased in 2004, compared to 2003, primarily as a result of decreases in expenses related to contract underwriting activity.

- Income from joint ventures

Income from joint ventures increased in 2004, compared to 2003, due to higher income from each of Sherman and C-BASS which was driven by growth in their respective assets.

[Table of Contents](#)**Results of Operations**

As discussed under “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.

*NIW*

The amount of MGIC’s NIW (this term is defined in the “Overview-Business and General Environment” section) during the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004	Year Ended December 31, 2003 (\$ billions)	2002
Flow NIW	\$ 47.1	\$ 71.1	\$ 70.0
Bulk NIW	<u>15.8</u>	<u>25.7</u>	<u>22.5</u>
Total NIW	<u>\$ 62.9</u>	<u>\$ 96.8</u>	<u>\$ 92.5</u>

Refinance volume as a % of primary flow NIW	30%	47%	43%
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The decrease in NIW on a flow basis in 2004 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. The Company expects NIW in 2005 to approximate NIW in 2004.

The increase in NIW on a flow basis in 2003, compared to 2002, was related to the increase in refinance volume from 2002 to 2003.

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### *Cancellations and insurance in force*

NIW and cancellations of primary insurance in force during the three years ended December 31, 2004, 2003 and 2002, and the direct primary insurance in force at the end of each of those years was as follows:

	Year Ended December 31,		
	2004	2003	2002
		(\$ billions)	
NIW	\$ 62.9	\$ 96.8	\$ 92.5
Cancellations	(75.4)	(104.2)	(79.4)
Change in primary insurance in force	<u>\$ (12.5)</u>	<u>\$ (7.4)</u>	<u>\$ 13.1</u>
As of December 31, Direct primary insurance in force	<u>\$ 177.1</u>	<u>\$ 189.6</u>	<u>\$ 197.0</u>

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) of 60.2% at December 31, 2004 increased from 47.1% at December 31, 2003 and 56.8% at December 31, 2002. The Company expects modest improvement in the persistency rate in 2005, although this expectation assumes the absence of significant declines in the level of mortgage interest rates from their level in late February 2005.

Cancellation activity increased in 2003, compared to 2002, principally due to the lower interest rate environment.

### *Bulk transactions*

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, which may be affected by the agency's view of the outlook for the insurer's claims-paying ability. 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

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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.

The spread referred to above was narrower in 2004 compared to 2003 and, along with continued competition from other mortgage insurers, adversely affected the competitiveness of the mortgage insurance execution during the year. The competitiveness of the Company's bulk offering was enhanced beginning in the third quarter of 2004 by, among other things, changes in MGIC's expectations for losses on certain types of loans to reflect better than expected historical performance of such loan types. As it has in past years, the Company priced the bulk business written in 2004 to generate acceptable returns; there can be no assurance, however, that the assumptions underlying the premium rates will achieve this objective.

NIW during 2003 for bulk transactions was higher than NIW during 2002 primarily due to the more favorable spread referred to above.

### *Pool insurance*

In addition to providing primary insurance coverage, the Company also insures pools of mortgage loans. New pool risk written during the years ended December 31, 2004, 2003 and 2002 was \$208 million, \$862 million and \$674 million, respectively. The Company's direct pool risk in force was \$3.0 billion, \$2.9 billion and \$2.6 billion at December 31, 2004, 2003 and 2002, respectively. These risk amounts are contractual aggregate loss limits and for contracts without such limits, risk is calculated at the estimated amount that would credit enhance the loans in the pool to a 'AA' level based on a rating agency model. At December 31, 2004, 2003 and 2002, there was \$4.9 billion, \$4.9 billion and \$3.0 billion, respectively, of risk without such limits for which risk in force was calculated on this basis at \$418 million, \$353 million and \$161 million, respectively. During the years ended December 31, 2004, 2003 and 2002, new risk written calculated on this basis was \$65 million, \$192 million and \$147 million, respectively.

### *Net premiums written and earned*

Net premiums written and earned during 2004 decreased, compared to 2003, due to a decline in the average insurance in force, as well as a decrease in new insurance written through the flow and bulk channels. The Company expects the average insurance in force during 2005 to be lower than during 2004. As a result, the Company anticipates that net premiums written and earned in 2005 will decline compared to 2004.

Net premiums written and earned increased in 2003 compared to 2002 primarily as a result of a higher percentage of premiums on products with higher premium rates, principally on insurance written through the bulk channel.

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### *Risk sharing arrangements*

Through the nine months ended September 30, 2004, approximately 50.8% of the Company's new insurance written on a flow basis was subject to captive reinsurance arrangements with subsidiaries of certain mortgage lenders or risk sharing arrangements with the GSEs (collectively, "risk sharing arrangements") compared to 52.3% for the year ended December 31, 2003 and 53.8% for the year ended December 31, 2002. (New insurance written through the bulk channel is not subject to risk sharing arrangements.) The percentage of new insurance written during a period covered by risk sharing 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 a risk sharing arrangement in a subsequent period. Therefore, the percentage of new insurance written covered by risk sharing arrangements is not shown for the current quarter. Premiums ceded in risk sharing arrangements are reported in the period in which they are ceded regardless of when the mortgage was insured. During the three years ended December 31, 2002, 2003 and 2004, MGIC ceded \$83.7 million, \$99.4 million and \$101.7 million of written premium in captive reinsurance arrangements.

### *Investment income*

Investment income for 2004 increased due to an increase in the amortized cost of average invested assets to \$5.2 billion for 2004 from \$4.7 billion for 2003. The portfolio's average pre-tax investment yield was 4.3% at December 31, 2004 and 2003. The portfolio's average after-tax investment yield was 3.8% at December 31, 2004 and 2003. The Company's net realized gains in 2004 and 2003 resulted primarily from the sale of fixed maturities. As discussed in Note 2 "New Accounting Standards" to the Company's consolidated financial statements, the impact of the final issuance of proposed FSP EITF 03-1-a cannot be determined at this time. Under the proposed guidance, it may be more likely that a decrease in the market value of certain investments in the Company's fixed income portfolio will be required to be recognized as a realized loss in the statement of operations than under the existing accounting standard.

Investment income in 2003 decreased compared to 2002 due to a decrease in the average investment yield, offset by an increase in the amortized cost of average invested assets to \$4.7 billion for 2003 from \$4.2 billion for 2002. At December 31, 2002, the portfolio's average pre-tax investment yield was 4.7% and the portfolio's after-tax investment yield was 4.2%. The Company's net realized gains in 2002 resulted primarily from the sale of fixed maturities.

### *Other revenue*

The decrease in other revenue in 2004, compared to 2003, is primarily the result of decreased revenue from contract underwriting due to a lower level of mortgage origination activity during 2004 compared to 2003.

The increase in other revenue in 2003, compared to 2002, is primarily the result of increased revenue from contract underwriting.

### *Losses*

As discussed in "Critical Accounting Policies" below, consistent with industry practice, loss reserves for future claims are established only for loans that are currently delinquent. (The terms

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“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.

In 2004, net losses incurred were \$701 million, of which \$714 million pertained to current year loss development and (\$13) million pertained to prior years’ loss development. In 2003, net losses incurred were \$766 million, of which \$652 million pertained to current year loss development and \$114 million pertained to prior years’ loss development.

The amount of losses incurred pertaining to current year loss development represents the estimated amount to be ultimately paid on default notices received in the current year. Losses incurred pertaining to the current year increased in 2004, compared to 2003, primarily due to increases in the estimates regarding how many primary default notices will eventually result in a claim and how much will be paid on claims. These increases in estimates relate to current trends in the default inventory such as an increase in defaults in the Midwest, which experienced higher claim rates and claim severity in 2004, as well as an increase in defaults on the 2003 book of business which has higher loan exposures with expected higher average claim payments. These increases in estimates were partially offset by a decrease in the total number of default notices compared to the prior period increase in notices.

The amount of losses incurred pertaining to prior year loss development represents actual claim payments that were higher or lower than what was estimated by the Company at the end of the prior year as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation is the result of management’s review of current trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in relative level of defaults by geography and the change in average loan exposure. In 2004, the \$13 million reduction in losses incurred pertaining to prior years was due primarily to more stable loss trends experienced during the year. In 2003, there were significant increases in the rate at which the defaults went to claim (claim rate) and significant increases in individual claim amounts (severity). Management believes these increases were attributable to such factors as an increase in defaults with higher risk characteristics, higher average loan amounts and deeper coverages. As a result of these trends, there was a \$114 million increase, in 2003, in losses incurred pertaining to prior years.

Subject to the level of delinquencies in 2005, the Company expects that incurred losses during full year 2005 will approximate the level of 2004.

Losses incurred increased in 2003 compared to 2002. This increase was principally the result of a higher number of defaults (both bulk and flow) and increases in the estimates regarding how many defaults will eventually result in a claim and how much will be paid on claims.

Information about the composition of the primary insurance default inventory at December 31, 2004, 2003 and 2002 appears in the table below.

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total loans delinquent	85,487	86,372	73,648
Percentage of loans delinquent (default rate)	6.05%	5.57%	4.45%
Flow loans delinquent	44,925	45,259	43,196
Percentage of flow loans delinquent (default rate)	3.99%	3.76%	3.19%
Bulk loans delinquent	40,562	41,113	30,452
Percentage of bulk loans delinquent (default rate)	14.06%	11.80%	10.09%
A-minus and subprime credit loans delinquent*	35,824	34,525	25,504
Percentage of A-minus and subprime credit loans delinquent (default rate)	16.49%	14.14%	12.68%

\*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 average primary claim paid for 2004 was \$24,438 compared to \$22,925 in 2003 and \$20,115 in 2002.

The pool notice inventory decreased from 28,135 at December 31, 2003 to 25,500 at December 31, 2004; the pool notice inventory was 26,676 at December 31, 2002.

Information about net losses paid in 2004, 2003 and 2002 appears in the table below.

Net paid claims (In millions)	Year Ended December 31,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Flow	\$ 273	\$ 194	\$ 117
Bulk	227	160	65
Pool and other	77	80	59
	<u>\$ 577</u>	<u>\$ 434</u>	<u>\$ 241</u>

As of December 31, 2004, 82% of the Company's primary insurance in force was written subsequent to December 31, 2001. On the Company's flow business, the highest claim frequency years have typically been the third through fifth 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). The Company expects the period of

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highest claims frequency on bulk loans will occur earlier than in the historical pattern on the Company's flow business.

### *Underwriting and other expenses*

The decrease in underwriting and other expenses in 2004 is primarily attributable to decreases in expenses related to contract underwriting activity when compared to 2003.

The increase in underwriting and other expenses in 2003, compared to 2002, was primarily attributable to increases in expenses related to insurance and contract underwriting activity.

### *Consolidated ratios*

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

Consolidated Insurance Operations:	Year Ended December 31,		
	2004	2003	2002
Loss ratio	52.7%	56.1%	30.9%
Expense ratio	14.6%	14.1%	14.8%
Combined ratio	<u>67.3%</u>	<u>70.2%</u>	<u>45.7%</u>

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 26.9% in 2004, compared to 25.4% in 2003 and 29.5% in 2002. During those periods, the effective tax rate was below the statutory rate of 35%, reflecting the benefits recognized from tax preferred investments. Tax preferred 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 higher effective tax rate in 2004 compared to 2003 was principally due to less benefits being recognized from these investments.

The lower effective tax rate in 2003, compared to 2002, principally resulted from a higher percentage of total income before tax being generated from tax-preferred investments.

### *Joint ventures*

The Company's equity in the earnings from the C-BASS and Sherman joint ventures with Radian Group Inc. 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 in 2004, compared to 2003, as well as the increase in 2003, compared to 2002, is primarily the result of

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increased equity earnings from each of Sherman and C-BASS.

### C-BASS

C-BASS is a mortgage investment and servicing firm specializing in credit-sensitive single-family residential mortgage assets and residential mortgage-backed securities. C-BASS principally invests in whole loans (including subprime loans) and mezzanine and subordinated residential mortgage-backed securities backed by non-conforming residential mortgage loans. C-BASS's principal sources of revenues during the last three years were net interest income (including accretion on mortgage securities), servicing fees, money management fees from C-BASS CBOs and investment funds sponsored by C-BASS, and gains on securitization and liquidation of mortgage-related assets, offset by hedging losses. C-BASS's quarterly results of operations may be affected by the timing of its securitization transactions.

Virtually all of C-BASS's assets do not have readily ascertainable market values and, as a result, their value for financial statement purposes is estimated by the management of C-BASS based on, among other things, valuations provided by financing counterparties. The ultimate value of these assets is the net present value of their future cash flows, which depends on, among other things, the level of losses on the mortgages or underlying collateral and prepayment activity by the mortgage borrowers or other persons obligated on the collateral. Fair value adjustments could impact C-BASS's results of operations and the Company's share of those results. In addition, there can be no assurance that C-BASS's portfolio of mortgage loans and mortgage and other securities could be sold for their carrying values in C-BASS's balance sheet, particularly if substantial portions of the portfolio were being sold.

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

#### Summary Balance Sheets:

	December 31,	
	2004	2003
	(In millions)	
Total assets	\$4,009	\$3,182
Total liabilities	3,409	2,711
Debt*	2,648	2,176
Owners' equity	600	471

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

Included in total assets and total liabilities at December 31, 2004 and 2003 are approximately \$457 million and \$331 million, respectively of assets and the same amount of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above.

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### Summary Income Statements:

	Year Ended December 31,		
	2004	2003	2002
	(In millions)		
Revenues	\$479.1	\$356.8	\$311.5
Expenses	271.0	212.9	173.2
Income before tax	<u>\$208.1</u>	<u>\$143.9</u>	<u>\$138.3</u>
Company's share of pretax income	<u>\$ 97.9</u>	<u>\$ 66.1</u>	<u>\$ 63.5</u>

The increased contribution from C-BASS in 2004 compared to 2003 was primarily due to an increase in gains on sales and liquidation to third parties of securities and mortgage loans, higher net interest income, higher mark-to-market from calls by C-BASS of CBO securitizations and lower hedging losses. Gains on sale and liquidation to third parties increased principally due to calls of securities at par which had a book value below par. Higher net interest income was principally the result of a higher average portfolio of mortgage loans. Higher mark-to-market and lower hedging losses were reflective of changes in interest rates. The increased contribution from C-BASS in 2003 compared to 2002 was principally attributable to a higher average portfolio of mortgage loans.

The Company's investment in C-BASS on an equity basis at December 31, 2004 was \$285.2 million. The Company received \$32.5 million in distributions from C-BASS during 2004 versus \$15.0 million during 2003.

The Company does not anticipate that C-BASS's income before tax in 2005 will exceed its income before tax in 2004. However, the first quarter of 2005 is expected to be stronger than the first quarter of 2004, assuming there is no significant decline in the level of short term interest rates during March 2005.

### Sherman

Sherman is principally engaged in the business of purchasing and servicing delinquent consumer assets such as charged-off credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in consumer receivable portfolios that do not have readily ascertainable market values. Sherman's results of operations are sensitive to estimates by Sherman's management of ultimate collections on these portfolios. Effective January 1, 2003, the Company sold four percentage points of its interest in Sherman to Sherman's management for cash, reducing the Company's interest in Sherman to 41.5%.

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

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### Summary Balance Sheets:

	December 31,	
	2004	2003
	(In millions)	
Total assets	\$484	\$500
Total liabilities	245	341
Debt	143	277
Members' equity	239	159

In mid-January 2005, Sherman distributed \$125 million to its owners, reducing members' equity on a pro forma basis for this distribution to \$114 million. The Company's investment in Sherman on an equity basis at December 31, 2004 was \$97.0 million and on a pro forma basis for this distribution is \$45.1 million. The Company received \$49.8 million in distributions from Sherman during 2004 compared to \$12.5 million during 2003.

In March 2005, Sherman acquired the holding company for First National Bank of Marin for a payment of cash and subordinated notes. This acquisition materially increased Sherman's consolidated assets as well as its debt and financial leverage. In 2004, the Bank was the 43rd largest credit card issuer in the United States, as measured by the amount of receivables generated. The Bank's operations following the acquisition will consist of originating subprime credit cards.

### Summary Income Statements:

	Year Ended December 31,		
	2004	2003	2002
	(In millions)		
Revenues, net of amortization	\$524.9	\$293.6	\$156.3
Expenses	324.3	222.7	116.0
Income before tax	\$200.6	\$ 70.9	\$ 40.3
Company's share of pretax income	\$ 83.3	\$ 29.4	\$ 18.3

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The increased contribution from Sherman during 2004 compared to 2003 and during 2003 compared to 2002 was primarily due to increased net revenue from receivable portfolios owned during the comparison periods attributable to continuing collections and lower amortization on those portfolios, and from higher collections due to growth in the amount of receivable portfolios owned by Sherman in sequential periods. The Company does not anticipate that Sherman's income before tax in 2005 will exceed its income before tax in 2004. However, the first quarter of 2005 is expected to be materially stronger than the first quarter of 2004.

### **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, 7.5% Senior Notes due in October 2005 and \$200 million, 6% Senior Notes due in 2007 outstanding at December 31, 2004 and 2003. The Company intends to refinance the \$300 million of Senior Notes through the issuance of senior debt. In March 2005, the Company obtained a bank commitment for a credit facility of \$300 million expiring on the earlier of 364 days after the closing of the facility or the repayment of the 7.5% Senior Notes. The Company intends to draw upon this facility to refinance these Senior Notes if they cannot otherwise be refinanced. At December 31, 2004 and 2003, the market value of the Company's outstanding debt was \$661.3 million and \$644.3 million, respectively.

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

As of December 31, 2004, 79% of the investment portfolio was invested in tax-preferenced securities. In addition, based on book value, the Company's fixed income securities were approximately 99% invested in 'A' rated and above, readily marketable securities, concentrated in maturities of less than 15 years.

At December 31, 2004, 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 December 31, 2004, the effective duration of the Company's fixed income investment portfolio was 5.5 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 5.5% 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 \$285 million commercial paper program, which is rated 'A-1' by Standard & Poor's Rating Services and 'P-1' by Moody's Investors Service. At December 31, 2004 and 2003, the Company had \$139.5 million and \$100.0 million in commercial paper outstanding with a weighted average interest rate of 2.36% and 1.18%, respectively.

The Company had a \$285 million credit facility available at December 31, 2004 expiring in May 2006. Under the terms of the credit facility, the Company must maintain shareholders' equity of at least \$2.25 billion and MGIC must maintain a risk-to-capital ratio of not more than 22:1 and policyholders position (which includes MGIC's statutory surplus and its contingency reserve) of not less than the amount required by Wisconsin insurance regulation. At December 31, 2004, the Company met these requirements. The facility is currently being 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 \$145.5 million and \$185.0 million at December 31, 2004 and 2003, respectively.

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In May 2002, a swap designated as a cash flow hedge was amended to coincide with the credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facility and is designated as a cash flow hedge. The cash flow swap outstanding at December 31, 2004 and 2003 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. Swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Expense on the interest rate swaps during 2004, 2003 and 2002 of approximately \$3.3 million, \$3.4 million and \$1.8 million, respectively, was included in interest expense. Gains or losses arising from the amendment or termination of previously held 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. In 2005, MGIC can pay up to \$177.7 million in dividends without the approval of the Office of the Commissioner of Insurance of the State of Wisconsin.

During 2004, the Company repurchased 3.1 million shares of Common Stock under publicly announced programs at a cost of \$205.0 million. At December 31, 2004, the Company had authority covering the purchase of an additional 4.6 million shares under these programs. From mid-1997 through December 31, 2004, the Company has repurchased 26.8 million shares under publicly announced programs at a cost of \$1.4 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 December 31, 2004, MGIC's direct (before any reinsurance) primary and pool risk in force (which is the unpaid or original 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 \$53.5 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 December 31, 2004, 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 7.9:1 at December 31, 2004 compared to 9.4:1 at December 31, 2003. The decrease was due to an increase in capital and a decrease in risk in force during 2004.

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

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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.

For certain material risks of the Company's business, see "Risk Factors" below.

### Contractual Obligations

At December 31, 2004, the approximate future payments under the contractual obligations of the Company of the type described in the table below are as follows:

Contractual Obligations (In millions):	Total	Payments Due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 500	\$ 300	\$ 200	\$ —	\$ —
Operating lease obligations	12	5	5	2	—
Purchase obligations	2	1	1	—	—
Other long-term liabilities	1,186	632	480	74	—
<b>Total</b>	<b>\$ 1,700</b>	<b>\$ 938</b>	<b>\$ 686</b>	<b>\$ 76</b>	<b>\$ —</b>

The Company's long-term debt obligations consist of \$300 million, 7.5% Senior Notes due in October 2005 and \$200 million, 6% Senior Notes due in 2007, as discussed in Note 5, "Short- and long-term debt" to the Company's consolidated financial statements and under "Liquidity and Capital Resources" above. The Company's operating lease obligations include operating leases on certain office space, data processing equipment and autos, as discussed in Note 12, "Leases" to the Company's consolidated financial statements. The Company's purchase obligations include obligations to purchase computer software, home office furniture and equipment.

The Company's Other long-term liabilities represent the loss reserves established to recognize the liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. The future loss payment periods are estimated based on historical experience.

### Critical Accounting Policies

The Company believes that the accounting policies described below involved significant judgments and estimates used in the preparation of its consolidated financial statements.

#### *Loss reserves*

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. A default is defined as an

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insured loan with a mortgage payment that is 45 days or more past due. Reserves are also established for estimated losses incurred on notices of default not yet reported. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default.

Reserves are established by management using estimated claims rates and claims amounts in estimating the ultimate loss. The estimated claims rates and claims amounts represent what management believes best reflect the estimate of what will actually be paid on the loans in default. These estimates are based on management's review of trends in the default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in the level of defaults by geography and the change in average loan exposure. Amounts for salvage recoverable are considered in the determination of the reserve estimates. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported ("IBNR") reserves referred to above result from defaults occurring prior to the close of an accounting period, but which have not been reported to the Company. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claims rates and claims amounts for the estimated number of defaults not reported. As of December 31, 2004 and 2003, the Company has established IBNR reserves in the amount of \$113 million and \$94 million, respectively.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process.

### *Revenue recognition*

When the policy term ends, the primary mortgage insurance written by the Company is renewable at the insured's option through continued payment of the premium in accordance with the schedule established at the inception of the policy term. The Company has no ability to reunderwrite or reprice these policies after issuance. Premiums written under policies having single and annual premium payments are initially deferred as unearned premium reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as the monthly coverage is provided. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the lender and will have no effect on earned premium. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs discussed below.

Fee income of the non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay.

### *Deferred insurance policy acquisition costs*

Costs associated with the acquisition of mortgage insurance policies, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and

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reported as deferred insurance policy acquisition costs (“DAC”). DAC arising from each book of business is charged against revenue in the same proportion that the underwriting profit for the period of the charge bears to the total underwriting profit over the life of the policies. The underwriting profit and the life of the policies are estimated and are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development. Interest is accrued on the unamortized balance of DAC.

### **Risk Factors**

The Company’s revenues and losses could be affected by the risk factors discussed below that are applicable to the Company, and the Company’s income from joint ventures could be affected by the risk factors discussed below that are applicable to C-BASS and Sherman. These risk factors are an integral part of Management’s Discussion and Analysis.

These risk 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.

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 structuring mortgage originations 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 80-10-10 loans and related products are a significant percentage of mortgage originations in which borrowers make down payments of less than 20% and that their use, which the Company believes is primarily by borrowers with higher credit scores, continues to increase. 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 but there can be no assurance that it will be successful.

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

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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.

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 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 8% of the Company's risk in force written through the flow channel, and more than half of the Company's risk in force written through the bulk channel, consists of 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 has recently increased. Because interest-only loans are a relatively recent development, the Company has no data on their historical performance. The Company believes claim rates on certain interest-only loans will be substantially higher than on comparable loans requiring amortization. Interest-only loans may also be ARMs.

The performance of the servicing function on a mortgage loan, particularly a subprime loan, can affect the likelihood that the loan will default as well as the loss resulting from a default. The Company believes Select Portfolio Servicing ("Select") f/k/a Fairbanks Capital Corp. is the servicer of approximately 1.0% of the loans insured by the Company and approximately 4.8% of the loans insured by the Company written through the bulk channel (a substantial number of which are subprime). In 2003, the servicer ratings assigned to Select by Moody's and S&P were downgraded to "below average" due in part to concerns expressed by those rating agencies about Select's regulatory compliance and operational controls. In the second quarter of 2004, these rating agencies raised Select's service ratings to "average."

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

Competition for private mortgage insurance premiums occurs not only among private mortgage insurers but also with mortgage lenders through 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.

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.

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Our private mortgage insurance competitors include:

- PMI Mortgage Insurance Company
- GE Capital Mortgage Insurance Corporation
- United Guaranty Residential Insurance Company
- Radian Guaranty Inc.
- Republic Mortgage Insurance Company
- Triad Guaranty Insurance Corporation
- CMG Mortgage Insurance Company

Assured Guaranty Limited f/k/a/ AGC Holdings Limited, a financial guaranty company whose mortgage insurance business is primarily reinsurance, has announced that it intends to write investment grade mortgage guaranty insurance on a direct basis.

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 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, 2004 persistency was at 60.2%, 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,

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- 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 Fannie Mae and Freddie Mac 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

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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 litigation risk.

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including the Company's MGIC subsidiary, have been involved in litigation alleging violations of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and 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.

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

The regulations of the Department of Housing and Urban Development under the Real Estate Settlement Procedures Act prohibit paying lenders for the referral of settlement services, including mortgage insurance, and prohibit lenders from receiving such payments. In July 2002, the Department of Housing and Urban Development 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 was 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 the Real Estate Settlement Procedures Act 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 the business of C-BASS or Sherman.

*C-BASS:* 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.

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With respect to credit risk, an increasing proportion of non-conforming mortgage originations (the types of mortgages C-BASS principally purchases), are 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, such growth may not continue if interest rates increase or the economy weakens. There is an increasing amount of competition to purchase non-conforming mortgages, including from newly established 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. The continuing decrease in credit spreads has also heightened competition in the purchase of non-conforming mortgages and other securities.

*Sherman:* Sherman's results 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.

The March 2005 acquisition of First National Bank of Marin is intended to provide Sherman with the capability to originate subprime credit card receivables. This acquisition has materially increased Sherman's assets as well as its debt and its financial leverage. There can be no assurance that the benefits projected from the acquisition by Sherman will be achieved.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

At December 31, 2004, 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 December 31, 2004, the effective duration of the Company's fixed income investment portfolio was 5.5 years. This means that for an instantaneous parallel shift in the yield curve of 100 basis points there would be an approximate 5.5% change in the market value of the Company's fixed income portfolio.

The Company's borrowings under its commercial paper program are subject to interest rates that are variable. A discussion of the Company's interest rate swaps appears in the fourth and fifth paragraphs of Item 7 of this Annual Report on Form 10-K under "Liquidity and Capital Resources" and such discussion is incorporated by reference.

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**Item 8. Financial Statements and Supplementary Data.**

The following consolidated financial statements of the Company are filed pursuant to this Item 8:

	<u>Page No.</u>
Consolidated statements of operations for each of the three years in the period ended December 31, 2004	60
Consolidated balance sheets at December 31, 2004 and 2003	61
Consolidated statements of shareholders' equity for each of the three years in the period ended December 31, 2004	62
Consolidated statements of cash flows for each of the three years in the period ended December 31, 2004	63
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CONSOLIDATED STATEMENTS OF OPERATIONS  
Years Ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars, except per share data)		
<b>Revenues:</b>			
Premiums written:			
Direct	\$ 1,420,643	\$ 1,482,349	\$ 1,292,283
Assumed	307	97	336
Ceded (note 7)	<u>(115,533)</u>	<u>(117,815)</u>	<u>(114,664)</u>
Net premiums written	1,305,417	1,364,631	1,177,955
Decrease in unearned premiums	<u>24,011</u>	<u>1,380</u>	<u>4,143</u>
Net premiums earned (note 7)	1,329,428	1,366,011	1,182,098
Investment income, net of expenses (note 4)	215,053	202,881	207,516
Realized investment gains, net (note 4)	17,242	36,862	29,113
Other revenue	<u>50,970</u>	<u>79,657</u>	<u>65,836</u>
Total revenues	<u>1,612,693</u>	<u>1,685,411</u>	<u>1,484,563</u>
<b>Losses and expenses:</b>			
Losses incurred, net (notes 6 and 7)	700,999	766,028	365,752
Underwriting and other expenses	278,786	302,473	265,633
Interest expense	<u>41,131</u>	<u>41,113</u>	<u>36,776</u>
Total losses and expenses	<u>1,020,916</u>	<u>1,109,614</u>	<u>668,161</u>
Income before tax and joint ventures	591,777	575,797	816,402
Provision for income tax (note 10)	159,348	146,027	240,971
Income from joint ventures, net of tax	<u>120,757</u>	<u>64,109</u>	<u>53,760</u>
Net income	<u>\$ 553,186</u>	<u>\$ 493,879</u>	<u>\$ 629,191</u>
<b>Earnings per share (note 11):</b>			
Basic	<u>\$ 5.67</u>	<u>\$ 5.00</u>	<u>\$ 6.07</u>
Diluted	<u>\$ 5.63</u>	<u>\$ 4.99</u>	<u>\$ 6.04</u>

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
	(In thousands of dollars)	
<b>ASSETS</b>		
Investment portfolio (note 4):		
Securities, available-for-sale, at fair value:		
Fixed maturities	\$ 5,413,662	\$ 5,059,147
Equity securities	5,326	8,280
Short-term investments	<u>163,639</u>	<u>137,734</u>
Total investment portfolio (amortized cost, 2004-\$5,388,763; 2003-\$4,977,100)	5,582,627	5,205,161
Cash	2,829	23,612
Accrued investment income	67,255	59,588
Reinsurance recoverable on loss reserves (note 7)	17,302	18,074
Prepaid reinsurance premiums (note 7)	6,836	7,528
Premiums receivable	95,396	122,290
Home office and equipment, net	36,382	36,722
Deferred insurance policy acquisition costs	27,714	32,613
Investments in joint ventures (note 8)	414,309	308,213
Other assets	<u>130,041</u>	<u>103,586</u>
Total assets	<u>\$ 6,380,691</u>	<u>\$ 5,917,387</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Loss reserves (notes 6 and 7)	\$ 1,185,594	\$ 1,061,788
Unearned premiums (note 7)	143,433	168,137
Short- and long-term debt (note 5)	639,303	599,680
Income taxes payable	109,741	118,126
Other liabilities	<u>158,981</u>	<u>172,754</u>
Total liabilities	<u>2,237,052</u>	<u>2,120,485</u>
Contingencies (note 13)		
Shareholders' equity (note 11):		
Common stock, \$1 par value, shares authorized 300,000,000; shares issued 2004 - 122,324,295; 2003 - 121,587,417 outstanding 2004 - 96,260,864; 2003 - 98,412,844	122,324	121,587
Paid-in capital	270,450	239,485
Treasury stock (shares at cost 2004 - 26,063,431 2003 - 23,174,573)	(1,313,473)	(1,115,969)
Accumulated other comprehensive income, net of tax (note 2)	123,383	140,651
Retained earnings (note 11)	<u>4,940,955</u>	<u>4,411,148</u>
Total shareholders' equity	<u>4,143,639</u>	<u>3,796,902</u>
Total liabilities and shareholders' equity	<u>\$ 6,380,691</u>	<u>\$ 5,917,387</u>

See accompanying notes to consolidated financial statements.

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MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Years Ended December 31, 2004, 2003 and 2002

	Common stock	Paid-in capital	Treasury stock	Accumulated other comprehensive income (note 2)	Retained earnings	Comprehensive income
	(In thousands of dollars)					
Balance, December 31, 2001	\$ 121,111	\$ 214,040	\$ (671,168)	\$ 46,644	\$ 3,309,560	
Net income	—	—	—	—	629,191	\$ 629,191
Change in unrealized investment gains and losses, net	—	—	—	114,724	—	114,724
Unrealized gain (loss) on derivatives, net	—	—	—	(442)	—	(442)
Minimum pension liability adjustment, net	—	—	—	(13,018)	—	(13,018)
Comprehensive income	—	—	—	—	—	<u>\$ 730,455</u>
Change in members' equity	—	380	—	—	—	—
Dividends declared	—	—	—	—	(10,358)	—
Common stock shares issued	308	16,101	—	—	—	—
Repurchase of outstanding common shares	—	—	(373,281)	—	—	—
Reissuance of treasury stock	—	2,809	8,591	—	—	—
Balance, December 31, 2002	\$ 121,419	\$ 233,330	\$ (1,035,858)	\$ 147,908	\$ 3,928,393	
Net income	—	—	—	—	493,879	\$ 493,879
Change in unrealized investment gains and losses, net	—	—	—	(20,948)	—	(20,948)
Unrealized gain (loss) on derivatives, net	—	—	—	2,494	—	2,494
Minimum pension liability adjustment, net	—	—	—	13,018	—	13,018
Change in members' equity	—	609	—	—	—	—
Dividends declared	—	—	—	—	(11,124)	—
Common stock shares issued	168	7,479	—	—	—	—
Repurchase of outstanding common shares	—	—	(94,133)	—	—	—
Reissuance of treasury stock	—	(1,933)	14,022	—	—	—
Other	—	—	—	(1,821)	—	(1,821)
Comprehensive income	—	—	—	—	—	<u>\$ 486,622</u>
Balance, December 31, 2003	\$ 121,587	\$ 239,485	\$ (1,115,969)	\$ 140,651	\$ 4,411,148	
Net income	—	—	—	—	553,186	\$ 553,186
Change in unrealized investment gains and losses, net (note 4)	—	—	—	(22,228)	—	(22,228)
Unrealized gain (loss) on derivatives, net (note 5)	—	—	—	3,849	—	3,849
Dividends declared	—	—	—	—	(22,032)	—
Common stock shares issued	737	35,618	—	—	—	—
Repurchase of outstanding common shares	—	—	(205,014)	—	—	—
Reissuance of treasury stock	—	9,483	7,510	—	—	—
Equity compensation (note 11)	—	(14,136)	—	—	—	—
Other	—	—	—	1,111	(1,347)	1,111
Comprehensive income	—	—	—	—	—	<u>\$ 535,918</u>
Balance, December 31, 2004	<u>\$ 122,324</u>	<u>\$ 270,450</u>	<u>\$ (1,313,473)</u>	<u>\$ 123,383</u>	<u>\$ 4,940,955</u>	

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
		(In thousands of dollars)	
<b>Cash flows from operating activities:</b>			
Net income	\$ 553,186	\$ 493,879	\$ 629,191
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Amortization of deferred insurance policy acquisition costs	26,020	29,455	25,862
Capitalized deferred insurance policy acquisition costs	(21,121)	(30,197)	(25,606)
Depreciation and other amortization	21,631	21,224	12,292
(Increase) decrease in accrued investment income	(7,667)	(1,156)	604
Decrease in reinsurance recoverable on loss reserves	772	2,971	5,843
Decrease in prepaid reinsurance premiums	692	652	235
Decrease (increase) in premium receivable	26,894	(24,539)	(18,897)
Increase in loss reserves	123,806	328,607	119,517
Decrease in unearned premiums	(24,704)	(2,030)	(4,378)
Equity earnings in joint ventures	(176,499)	(91,997)	(81,240)
Distributions from joint ventures	82,300	27,450	20,138
Other	(46,150)	(67,683)	(70,231)
Net cash provided by operating activities	<u>559,160</u>	<u>686,636</u>	<u>613,330</u>
<b>Cash flows from investing activities:</b>			
Purchase of fixed maturities	(1,782,395)	(3,822,762)	(2,804,029)
Investments in joint ventures	(12,137)	(7,769)	(17,528)
Proceeds from sale of equity securities	8,244	1,798	12,465
Proceeds from sale of fixed maturities	1,102,533	3,017,411	1,751,000
Proceeds from maturity of fixed maturities	<u>286,946</u>	<u>351,731</u>	<u>536,018</u>
Net cash used in investing activities	<u>(396,809)</u>	<u>(459,591)</u>	<u>(522,074)</u>
<b>Cash flows from financing activities:</b>			
Dividends paid to shareholders	(22,032)	(11,124)	(10,358)
Proceeds from issuance of long-term debt	—	—	199,992
Net proceeds from (repayment of) short-term debt	37,804	(78,873)	2,095
Reissuance of treasury stock	2,633	305	6,179
Repurchase of common stock	(205,014)	(94,134)	(373,070)
Common stock shares issued	<u>29,380</u>	<u>4,856</u>	<u>10,825</u>
Net cash used in financing activities	<u>(157,229)</u>	<u>(178,970)</u>	<u>(164,337)</u>
Net increase (decrease) in cash and cash equivalents	5,122	48,075	(73,081)
Cash and cash equivalents at beginning of year	161,346	113,271	186,352
Cash and cash equivalents at end of year	<u>\$ 166,468</u>	<u>\$ 161,346</u>	<u>\$ 113,271</u>

See accompanying notes to consolidated financial statements.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004, 2003 and 2002

**1. Nature of business**

MGIC Investment Corporation (“Company”) is a holding company which, through Mortgage Guaranty Insurance Corporation (“MGIC”) and several other subsidiaries, is principally engaged in the mortgage insurance business. The Company provides mortgage insurance to lenders throughout the United States and to government sponsored entities (“GSEs”) to protect against loss from defaults on low down payment residential mortgage loans. Through certain other non-insurance subsidiaries, the Company also provides various services for the mortgage finance industry, such as contract underwriting and portfolio analysis and retention.

At December 31, 2004, the Company’s direct primary insurance in force (representing the principal balance in the Company’s records of all mortgage loans that it insures) and direct primary risk in force (representing the insurance in force multiplied by the insurance coverage percentage), excluding MGIC Indemnity Corporation (“MIC”), was approximately \$177.1 billion and \$46.0 billion, respectively. In addition to providing direct primary insurance coverage, the Company also insures pools of mortgage loans. The Company’s direct pool risk in force at December 31, 2004 was approximately \$3.0 billion. MIC’s direct primary insurance in force, direct primary risk in force and direct pool risk in force was approximately \$124 million, \$37 million and \$118 million, respectively, at December 31, 2004.

**2. Basis of presentation and summary of significant accounting policies**

The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (“GAAP”). In accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Principles of consolidation**

The consolidated financial statements include the accounts of MGIC Investment Corporation and its majority-owned subsidiaries. All intercompany transactions have been eliminated. The Company’s 46.1% investment in Credit-Based Asset Servicing and Securitization LLC (“C-BASS”) and 41.5% investment in Sherman Financial Group LLC (“Sherman”), which are joint ventures with Radian Group Inc., are accounted for using the equity method of accounting and recorded on the balance sheet as investments in joint ventures. The Company has certain other joint ventures and investments, accounted for in accordance with the equity method of accounting, of an immaterial amount. The Company’s

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equity in the earnings of these joint ventures is shown separately, net of tax, on the statement of operations. (See note 8.)

### **Investments**

The Company categorizes its investment portfolio according to its ability and intent to hold the investments to maturity. Investments which the Company does not have the ability and intent to hold to maturity are considered to be available-for-sale and are reported at fair value and the related unrealized gains or losses are, after considering the related tax expense or benefit, recognized as a component of accumulated other comprehensive income in shareholders' equity. The Company's entire investment portfolio is classified as available-for-sale. Realized investment gains and losses are reported in income based upon specific identification of securities sold. (See note 4.)

The Company completes a quarterly review of invested assets for evidence of "other than temporary" impairments. A cost basis adjustment and realized loss will be taken on invested assets whose value decline is deemed to be "other than temporary". Additionally, for investments written down, income accruals will be stopped absent evidence that payment is likely and an assessment of the collectability of previously accrued income made. Factors used in determining investments whose value decline may be considered "other than temporary" include the following:

- Investments with a market value less than 80% of amortized costs
- For fixed income and preferred stocks, declines in credit ratings to below investment grade from appropriate rating agencies
- Other securities which are under pressure due to market constraints or event risk
- Intention of management to hold fixed income securities to maturity

In 2004, a charge of \$1.3 million was recognized as an "other than temporary" asset impairment. There were no "other than temporary" asset impairment charges for the periods ending December 31, 2003 and 2002.

### **Home office and equipment**

Home office and equipment is carried at cost net of depreciation. For financial statement reporting purposes, depreciation is determined on a straight-line basis for the home office, equipment and data processing hardware over estimated lives of 45, 5 and 3 years, respectively. For income tax purposes, the Company uses accelerated depreciation methods.

Home office and equipment is shown net of accumulated depreciation of \$43.5 million, \$42.6 million and \$38.6 million at December 31, 2004, 2003 and 2002, respectively. Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was \$5.0 million, \$4.9 million and \$5.5 million, respectively.

### **Deferred insurance policy acquisition costs**

Costs associated with the acquisition of mortgage insurance business, consisting of employee compensation and other policy issuance and underwriting expenses, are initially deferred and reported as deferred insurance policy acquisition costs (“DAC”). Because Statement of Financial Accounting Standards (“SFAS”) No. 60, Accounting and Reporting by Insurance Enterprises, specifically excludes mortgage guaranty insurance from its guidance relating to the amortization of DAC, amortization of these costs for each underwriting year book of business is charged against revenue in proportion to estimated gross profits over the estimated life of the policies using the guidance of SFAS No. 97, Accounting and Reporting by Insurance Enterprises For Certain Long Duration Contracts and Realized Gains and Losses From the Sale of Investments. This includes accruing interest on the unamortized balance of DAC. The estimates for each underwriting year are reviewed quarterly and updated when necessary to reflect actual experience and any changes to key variables such as persistency or loss development.

During 2004, 2003 and 2002, the Company amortized \$26.0 million, \$29.5 million and \$25.9 million, respectively, of deferred insurance policy acquisition costs.

### **Loss reserves**

Reserves are established for reported insurance losses and loss adjustment expenses based on when notices of default on insured mortgage loans are received. Reserves are also established for estimated losses incurred on notices of default not yet reported by the lender. Consistent with industry practices, the Company does not establish loss reserves for future claims on insured loans which are not currently in default. Reserves are established by management using estimated claims rates and claims amounts in estimating the ultimate loss. Amounts for salvage recoverable are considered in the determination of the reserve estimates. Adjustments to reserve estimates are reflected in the financial statements in the years in which the adjustments are made. The liability for reinsurance assumed is based on information provided by the ceding companies.

The incurred but not reported (“IBNR”) reserves result from defaults occurring prior to the close of an accounting period, but which have not been reported to the Company. Consistent with reserves for reported defaults, IBNR reserves are established using estimated claims rates and claims amounts for the estimated number of defaults not reported.

Reserves also provide for the estimated costs of settling claims, including legal and other expenses and general expenses of administering the claims settlement process. (See note 6.)

### **Revenue recognition**

The insurance subsidiaries write policies which are guaranteed renewable contracts at the insured’s option on a single, annual or monthly premium basis. The insurance subsidiaries have no ability to reunderwrite or reprice these contracts. Premiums written on a single premium basis and an annual premium basis are initially deferred as unearned premium

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reserve and earned over the policy term. Premiums written on policies covering more than one year are amortized over the policy life in accordance with the expiration of risk which is the anticipated claim payment pattern based on historical experience. Premiums written on annual policies are earned on a monthly pro rata basis. Premiums written on monthly policies are earned as coverage is provided. When a policy is cancelled, all premium that is non-refundable is immediately earned. Any refundable premium is returned to the lender and will have no effect on earned premium. Policy cancellations also lower the persistency rate which is a variable used in calculating the rate of amortization of deferred policy acquisition costs.

Fee income of the non-insurance subsidiaries is earned and recognized as the services are provided and the customer is obligated to pay. Fee income consists primarily of contract underwriting and related fee-based services provided to lenders and is included in "Other revenue" on the statement of operations.

### **Income taxes**

The Company and its subsidiaries file a consolidated federal income tax return. A formal tax sharing agreement exists between the Company and its subsidiaries. Each subsidiary determines income taxes based upon the utilization of all tax deferral elections available. This assumes tax and loss bonds are purchased and held to the extent they would have been purchased and held on a separate company basis since the tax sharing agreement provides that the redemption or non-purchase of such bonds shall not increase such member's separate taxable income and tax liability on a separate company basis.

Federal tax law permits mortgage guaranty insurance companies to deduct from taxable income, subject to certain limitations, the amounts added to contingency loss reserves. Generally, the amounts so deducted must be included in taxable income in the tenth subsequent year. The deduction is allowed only to the extent that U.S. government non-interest bearing tax and loss bonds are purchased and held in an amount equal to the tax benefit attributable to such deduction. The Company accounts for these purchases as a payment of current federal income taxes.

Deferred income taxes are provided under the liability method, which recognizes the future tax effects of temporary differences between amounts reported in the financial statements and the tax bases of these items. The expected tax effects are computed at the current federal tax rate. (See note 10.)

### **Benefit plans**

The Company has a non-contributory defined benefit pension plan covering substantially all employees. Retirement benefits are based on compensation and years of service. The Company recognizes these retirement benefit costs over the period during which employees render the service that qualifies them for benefits. The Company's policy is to fund pension cost as required under the Employee Retirement Income Security Act of 1974. (See note 9.)

The Company accrues the estimated costs of retiree medical and life benefits over the period during which employees render the service that qualifies them for benefits. The Company

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offers both medical and dental benefits for retired employees and their spouses. Benefits are generally funded on a pay-as-you-go basis. The cost to the Company was not significant in 2004, 2003 and 2002. (See note 9.)

### Stock-based compensation

The Company has certain stock-based compensation plans. (See note 11). Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, prospectively to all employee awards granted or modified on or after January 1, 2003. The adoption of 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 2004 and 2003 is 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 in each period.

	Years Ended December 31,		
	2004	2003	2002
	(in thousands of dollars, except per share data)		
Net income, as reported	\$ 553,186	\$ 493,879	\$ 629,191
Add stock-based employee compensation expense included in reported net income, net of tax	7,656	4,146	2,610
Deduct stock-based employee compensation expense, determined under the fair value method for all awards, net of tax	<u>(11,683)</u>	<u>(10,503)</u>	<u>(12,425)</u>
Pro forma net income	\$ 549,159	\$ 487,522	\$ 619,376
Earnings per share:			
Basic, as reported	\$ 5.67	\$ 5.00	\$ 6.07
Basic, pro forma	\$ 5.63	\$ 4.94	\$ 5.97
Diluted, as reported	\$ 5.63	\$ 4.99	\$ 6.04
Diluted, pro forma	\$ 5.59	\$ 4.92	\$ 5.94

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### Reinsurance

Loss reserves and unearned premiums are reported before taking credit for amounts ceded under reinsurance treaties. Ceded loss reserves are reflected as “Reinsurance recoverable on loss reserves”. Ceded unearned premiums are reflected as “Prepaid reinsurance premiums”. The Company remains contingently liable for all reinsurance ceded. (See note 7.)

### 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. 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 would 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. (See note 11.)

	Years Ended December 31,		
	2004	2003	2002
	(shares in thousands)		
Weighted-average shares -			
Basic	97,549	98,776	103,725
Common stock equivalents	696	246	489
Weighted-average shares -			
Diluted	<u>98,245</u>	<u>99,022</u>	<u>104,214</u>

For the years ended December 31, 2004, 2003 and 2002, 0.6 million, 1.4 million and 0.9 million shares attributable to outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive. For the year ended December 31, 2004, 0.3 million shares of performance stock awards have been excluded from the calculation of diluted earnings per share because the number of shares ultimately issued is contingent on performance measures established for a specific performance period.

### Statement of cash flows

The Company’s short-term investments consist primarily of money market funds and commercial paper. For purposes of the consolidated statement of cash flows, the Company considers short-term investments to be cash equivalents.

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### Comprehensive income

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

	Years Ended December 31,		
	2004	2003	2002
	(In thousands of dollars)		
Net income	\$ 553,186	\$ 493,879	\$ 629,191
Other comprehensive (loss) income	(17,268)	(7,257)	101,264
<b>Total comprehensive income</b>	<b>\$ 535,918</b>	<b>\$ 486,622</b>	<b>\$ 730,455</b>
Other comprehensive income (loss) (net of tax):			
Change in unrealized net derivative gains (losses)	\$ 2,812	\$ 1,412	\$ (1,524)
Amortization of deferred losses on derivatives	1,037	1,082	1,082
Change in unrealized gains and losses on investments	(22,228)	(20,948)	114,724
Minimum pension liability adjustment	—	13,018	(13,018)
Other	1,111	(1,821)	—
Other comprehensive (loss) income	<b>\$ (17,268)</b>	<b>\$ (7,257)</b>	<b>\$ 101,264</b>

At December 31, 2004, accumulated other comprehensive income of \$123.4 million included \$126.0 million of net unrealized gains on investments, (\$1.9) million relating to derivative financial instruments and (\$0.7) million relating to the accumulated other comprehensive income/loss of the Company's joint venture investment. At December 31, 2003, accumulated other comprehensive income of \$140.7 million included \$148.2 million of net unrealized gains on investments, (\$5.7) million relating to derivative financial instruments and (\$1.8) million relating to the accumulated other comprehensive loss of the Company's joint venture investment. (See notes 4 and 5.)

### Recent accounting pronouncements

The guidance contained in EITF 03-1 has been delayed by FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1 'The meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments'". The delay of the effective date will be superseded with the final issuance of proposed FSP EITF Issue 03-1-a, "Implication Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1" which was subject to comments through October 29, 2004. As a result of the comments received, the FASB will reconsider EITF 03-1 in its entirety, therefore the impact of FSP EITF 03-1-a on the Company's financial position or results of operations cannot be determined at this time. Under the proposed guidance, it may be more likely that a decrease in the market value of certain investments in the Company's fixed income portfolio will be required to be recognized as a realized loss in the statement of operations than under the existing accounting standard.

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In December 2004 the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R, "Share-Based Payment". This statement is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". The fair value recognition provisions of FASB No 123 were voluntarily adopted by the Company in 2003 prospectively to all employee awards granted or modified on or after January 1, 2003 under FASB No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure". The adoption did not have a material effect on the Company's results of operations or its financial position. FASB 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 will be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The statement will be adopted by the Company beginning July 1, 2005 under the modified prospective method. The adoption will not have a material effect on the Company's results of operations or its financial position.

### **Reclassifications**

Certain reclassifications have been made in the accompanying financial statements to 2003 and 2002 amounts to allow for consistent financial reporting.

### **3. Related party transactions**

The Company provided certain services to C-BASS and Sherman in 2004, 2003 and 2002 in exchange for fees. In addition, C-BASS provided certain services to the Company during 2004, 2003 and 2002 in exchange for fees. The net impact of these transactions was not material to the Company.

[Table of Contents](#)**4. Investments**

The following table summarizes the Company's investments at December 31, 2004 and 2003:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Financial Statement Value</u>
(In thousands of dollars)			
<b>At December 31, 2004:</b>			
Securities, available-for-sale:			
Fixed maturities	\$ 5,219,798	\$ 5,413,662	\$ 5,413,662
Equity securities	5,326	5,326	5,326
Short-term investments	<u>163,639</u>	<u>163,639</u>	<u>163,639</u>
Total investment portfolio	<u>\$ 5,388,763</u>	<u>\$ 5,582,627</u>	<u>\$ 5,582,627</u>
<b>At December 31, 2003:</b>			
Securities, available-for-sale:			
Fixed maturities	\$ 4,831,086	\$ 5,059,147	\$ 5,059,147
Equity securities	8,280	8,280	8,280
Short-term investments	<u>137,734</u>	<u>137,734</u>	<u>137,734</u>
Total investment portfolio	<u>\$ 4,977,100</u>	<u>\$ 5,205,161</u>	<u>\$ 5,205,161</u>

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The amortized cost, gross unrealized gains and losses and fair value of the investment portfolio at December 31, 2004 and 2003 are shown below. Debt securities consist of fixed maturities and short-term investments.

December 31, 2004:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 611,465	\$ 9,131	\$ (3,474)	\$ 617,122
Obligations of U.S. states and political subdivisions	4,351,789	190,210	(6,309)	4,535,690
Corporate debt securities	237,667	3,813	(454)	241,026
Mortgage-backed securities	166,437	808	(215)	167,030
Debt securities issued by foreign sovereign governments	16,079	354	—	16,433
Total debt securities	5,383,437	204,316	(10,452)	5,577,301
Equity securities	5,326	—	—	5,326
 Total investment portfolio	 \$ 5,388,763	 \$ 204,316	 \$ (10,452)	 \$ 5,582,627
 December 31, 2003:	 	 	 	 
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands of dollars)		
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 911,133	\$ 11,159	\$ (1,917)	\$ 920,375
Obligations of U.S. states and political subdivisions	3,667,747	212,807	(1,523)	3,879,031
Corporate debt securities	213,635	6,987	(918)	219,704
Mortgage-backed securities	161,260	884	(593)	161,551
Debt securities issued by foreign sovereign governments	15,045	1,175	—	16,220
Total debt securities	4,968,820	233,012	(4,951)	5,196,881
Equity securities	8,280	—	—	8,280
 Total investment portfolio	 \$ 4,977,100	 \$ 233,012	 \$ (4,951)	 \$ 5,205,161

The amortized cost and fair values of debt securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Because most mortgage-backed securities provide for periodic payments throughout their lives, they are listed below in a separate category.

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	Amortized Cost	Fair Value
	(In thousands of dollars)	
Due in one year or less	\$ 220,330	\$ 221,270
Due after one year through five years	996,813	1,016,064
Due after five years through ten years	1,150,367	1,204,229
Due after ten years	2,849,490	2,968,708
	<u>5,217,000</u>	<u>5,410,271</u>
Mortgage-backed securities	<u>166,437</u>	<u>167,030</u>
<b>Total at December 31, 2004</b>	<b><u>\$ 5,383,437</u></b>	<b><u>\$ 5,577,301</u></b>

At December 31, 2004 and 2003, fixed maturity investments had gross unrealized losses of \$10.5 million and \$5.0 million, respectively. For those securities in an unrealized loss position, the length of time the securities were in such a position, as measured by their month-end fair values, is as follows:

December 31, 2004	Amortized Cost	Unrealized Loss	Fair Value
	(in thousands of dollars)		
Less than 12 months	\$ 887,917	\$ (9,303)	\$ 878,614
12 months or longer	<u>67,486</u>	<u>(1,149)</u>	<u>66,337</u>
<b>Total</b>	<b><u>\$ 955,403</u></b>	<b><u>\$ (10,452)</u></b>	<b><u>\$ 944,951</u></b>
December 31, 2003	Amortized Cost	Unrealized Loss	Fair Value
	(in thousands of dollars)		
Less than 12 months	\$ 498,146	\$ (4,913)	\$ 493,233
12 months or longer	<u>1,116</u>	<u>(38)</u>	<u>1,078</u>
<b>Total</b>	<b><u>\$ 499,262</u></b>	<b><u>\$ (4,951)</u></b>	<b><u>\$ 494,311</u></b>

Of those securities that have been in an unrealized loss position for 12 months or longer, none has an unrealized loss of more than 20% of that security's amortized cost.

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Net investment income is comprised of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Fixed maturities	\$ 210,555	\$ 198,968	\$ 199,472
Equity securities	2,748	2,764	3,707
Short-term investments	2,844	1,996	5,611
Other	<u>1,283</u>	<u>1,293</u>	<u>832</u>
Investment income	217,430	205,021	209,622
Investment expenses	<u>(2,377)</u>	<u>(2,140)</u>	<u>(2,106)</u>
Net investment income	<u>\$ 215,053</u>	<u>\$ 202,881</u>	<u>\$ 207,516</u>

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The net realized investment gains (losses) and change in net unrealized appreciation (depreciation) of investments are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
<b>Net realized investment gains (losses) on sale of investments:</b>			
Fixed maturities	\$ 11,827	\$ 38,946	\$ 38,357
Equity securities	5,290	(701)	(9,283)
Joint ventures	125	(1,385)	—
Short-term investments	<u>—</u>	<u>2</u>	<u>39</u>
	<u>\$ 17,242</u>	<u>\$ 36,862</u>	<u>\$ 29,113</u>
<b>Change in net unrealized appreciation (depreciation):</b>			
Fixed maturities	\$ (34,197)	\$ (32,227)	\$ 175,822
Equity securities	—	—	735
Short-term investments	<u>—</u>	<u>—</u>	<u>(59)</u>
	<u>\$ (34,197)</u>	<u>\$ (32,227)</u>	<u>\$ 176,498</u>

The reclassification adjustment relating to the change in investment gains and losses is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Unrealized holding (losses) gains arising during the period, net of tax	\$ (15,112)	\$ 7,178	\$ 135,104
Less: reclassification adjustment for net gains included in net income, net of tax	<u>(7,116)</u>	<u>(28,126)</u>	<u>(20,380)</u>
Change in unrealized investment gains and losses, net of tax	<u>\$ (22,228)</u>	<u>\$ (20,948)</u>	<u>\$ 114,724</u>

The gross realized gains and the gross realized losses on sales of securities were \$22.1 million and \$4.9 million, respectively, in 2004, \$54.6 million and \$17.7 million, respectively, in 2003 and \$47.2 million and \$18.1 million, respectively, in 2002.

The tax (benefit) expense of the changes in net unrealized (depreciation) appreciation was (\$12.0) million, (\$11.3) million and \$61.8 million for 2004, 2003 and 2002, respectively.

The Company had \$23.1 million and \$22.6 million of investments on deposit with various states at December 31, 2004 and 2003, respectively, due to regulatory requirements of those state insurance departments.

## 5. Short- and long-term debt

The Company has a \$285 million commercial paper program, which is rated “A-1” by Standard and Poors and “P-1” by Moody’s. At December 31, 2004 and 2003, the Company had \$139.5 million and \$100.0 million in commercial paper outstanding with a weighted average interest rate of 2.36% and 1.18%, respectively.

The Company had a \$285 million credit facility available at December 31, 2004, expiring 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 December 31, 2004, the Company met these requirements. The facility is currently being 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 \$145.5 million and \$185.0 million at December 31, 2004 and 2003, respectively.

The Company had \$300 million, 7.5% Senior Notes due in 2005 and \$200 million, 6% Senior Notes due in 2007 outstanding at December 31, 2004 and 2003. At December 31, 2004 and 2003, the market value of the outstanding debt was \$661.3 million and \$644.3 million, respectively. Interest payments on all long-term and short-term debt were \$42.1 million, \$41.8 million, and \$36.2 million for the years ended December 31, 2004, 2003 and 2002, respectively.

In May 2002, a swap designated as a cash flow hedge was amended to coincide with the credit facility. Under the terms of the swap contract, the Company pays a fixed rate of 5.43% and receives an interest rate based on LIBOR. The swap has an expiration date coinciding with the maturity of the credit facility and is designated as a cash flow hedge. The cash flow swap outstanding at December 31, 2004 and December 31, 2003 is evaluated quarterly using regression analysis with any ineffectiveness being recorded as an expense. To date this evaluation has not resulted in any hedge ineffectiveness. Swaps are subject to credit risk to the extent the counterparty would be unable to discharge its obligations under the swap agreements.

Expense on the interest rate swaps for the years ended December 31, 2004 and 2003 of approximately \$3.3 million and \$3.4 million, respectively, was included in interest expense. Gains or losses arising from the amendment or termination of previously held interest rate swaps are deferred and amortized to interest expense over the life of the hedged items.

## 6. Loss reserves

As described in Note 2, the Company establishes reserves to recognize the estimated liability for losses and loss adjustment expenses related to defaults on insured mortgage loans. The establishment of loss reserves is subject to inherent uncertainty and requires significant judgment by management. The following table provides a reconciliation of beginning and ending loss reserves for each of the past three years:

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Reserve at beginning of year	\$ 1,061,788	\$ 733,181	\$ 613,664
Less reinsurance recoverable	<u>18,074</u>	<u>21,045</u>	<u>26,888</u>
Net reserve at beginning of year	1,043,714	712,136	586,776
Losses incurred:			
Losses and LAE incurred in respect of default notices received in:			
Current year	714,450	652,231	440,004
Prior years (1)	<u>(13,451)</u>	<u>113,797</u>	<u>(74,252)</u>
Subtotal	<u>700,999</u>	<u>766,028</u>	<u>365,752</u>
Losses paid:			
Losses and LAE paid in respect of default notices received in:			
Current year	35,668	34,505	19,546
Prior years	<u>540,753</u>	<u>399,945</u>	<u>220,846</u>
Subtotal	<u>576,421</u>	<u>434,450</u>	<u>240,392</u>
Net reserve at end of year	1,168,292	1,043,714	712,136
Plus reinsurance recoverables	<u>17,302</u>	<u>18,074</u>	<u>21,045</u>
Reserve at end of year	<u>\$ 1,185,594</u>	<u>\$ 1,061,788</u>	<u>\$ 733,181</u>

- (1) A negative number for a prior year indicates a redundancy of loss reserves, and a positive number for a prior year indicates a deficiency of loss reserves.

The top portion of the table above shows losses incurred on default notices received in the current year and in prior years, respectively. The amount of losses incurred relating to default notices received in the current year represents the estimated amount to be ultimately paid on such default notices. The amount of losses incurred relating to default notices received in prior years represents actual claim payments that were higher or lower than what was estimated by the Company at the end of the prior year, as well as a re-estimation of amounts to be ultimately paid on defaults remaining in inventory from the end of the prior year. This re-estimation is the result of management's review of current trends in default inventory, such as defaults that have resulted in a claim, the amount of the claim, the change in the relative level of defaults by geography and the change in average loan exposure.

Current year losses incurred increased from 2003 to 2004 primarily due to increases in the estimates regarding how many primary default notices will eventually result in a claim and how much will be paid on claims, offset by a decrease in the number of primary default notices compared to the prior period increase in notices. The primary insurance notice

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inventory decreased from 86,372 at December 31, 2003 to 85,487 at December 31, 2004 and pool insurance notice inventory decreased from 28,135 at December 31, 2003 to 25,500 at December 31, 2004. The average primary claim paid for 2004 was \$24,438 compared to \$22,925 in 2003.

The development of the reserves in 2004, 2003 and 2002 is reflected in the prior year line. In 2004, the \$13.5 million reduction in losses incurred related to prior years was due primarily to more stable loss trends experienced during the year. In 2003, there were significant increases in the rate at which the defaults went to claim (claim rate) and significant increases in individual claim amounts (severity). As a result, there was a \$113.8 million increase in losses incurred related to prior years.

The lower portion of the table above shows the breakdown between claims paid on default notices received in the current year and default notices received in prior years. Since it takes, on average, about twelve months for a default which is not cured to develop into a paid claim, most losses paid relate to default notices received in prior years.

Information about the composition of the primary insurance default inventory at December 31, 2004 and 2003 appears in the table below.

	December 31, 2004	December 31, 2003
Total loans delinquent	85,487	86,372
Percentage of loans delinquent (default rate)	6.05%	5.57%
Flow loans delinquent	44,925	45,259
Percentage of flow loans delinquent (default rate)	3.99%	3.76%
Bulk loans delinquent	40,562	41,113
Percent of bulk loans delinquent (default rate)	14.06%	11.80%
A-minus and subprime credit loans delinquent*	35,824	34,525
Percentage of A-minus and subprime credit loans delinquent (default rate)	16.49%	14.14%

\*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.

## 7. Reinsurance

The Company cedes a portion of its business to reinsurers and records assets for reinsurance recoverable on loss reserves and prepaid reinsurance premiums. Business written between 1985 and 1993 is ceded under various reinsurance agreements with several reinsurers. The Company also cedes primary business to reinsurance subsidiaries of certain mortgage lenders, primarily under aggregate excess of loss agreements for each reinsurance period. The majority of ceded premiums relates to these agreements. Additionally, certain pool policies written by the Company have been reinsured with one domestic reinsurer. The Company receives a ceding commission under certain reinsurance agreements.

The Company monitors the financial strength of its reinsurers including their claims paying ability rating and does not currently anticipate any collection problems. Generally, reinsurance recoverables on primary loss reserves and prepaid reinsurance premiums are backed by trust funds or letters of credit. No reinsurer represents more than \$10 million of the aggregate amount recoverable.

The effect of these agreements on premiums earned and losses incurred is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Premiums earned:			
Direct	\$ 1,445,321	\$ 1,484,249	\$ 1,296,548
Assumed	333	227	448
Ceded	<u>(116,226)</u>	<u>(118,465)</u>	<u>(114,898)</u>
Net premiums earned	<u>\$ 1,329,428</u>	<u>\$ 1,366,011</u>	<u>\$ 1,182,098</u>
Losses incurred:			
Direct	\$ 706,782	\$ 769,531	\$ 367,149
Assumed	(358)	(163)	(208)
Ceded	<u>(5,425)</u>	<u>(3,340)</u>	<u>(1,189)</u>
Net losses incurred	<u>\$ 700,999</u>	<u>\$ 766,028</u>	<u>\$ 365,752</u>

## 8. Investments in joint ventures

### C-BASS

C-BASS is a mortgage investment and servicing firm specializing in credit-sensitive single-family residential mortgage assets and residential mortgage-backed securities. C-BASS principally invests in whole loans (including subprime loans) and mezzanine and subordinated residential mortgage-backed securities backed by non-conforming residential mortgage loans. C-BASS's principal sources of revenues during the last three years were net interest income (including accretion on mortgage securities), servicing fees, money management fees from C-BASS CBOs and investment funds sponsored by C-BASS, and gains on securitization and liquidation of mortgage-related assets, offset by hedging losses. C-BASS's results of operations are affected by the timing of its securitization transactions. Virtually all of C-BASS's assets do not have readily ascertainable market values and, as a result, their value for financial statement purposes is estimated by the management of C-BASS based on, among other things, valuations provided by financing counterparties. The ultimate value of these assets is the net present value of their future cash flows, which depends on, among other things, the level of losses on the underlying mortgages and prepayment activity by the mortgage borrowers. Market value adjustments could impact C-BASS's results of operations and the Company's share of those results. The Company's investment in C-BASS on an equity basis at December 31, 2004 was \$285.2 million.

#### Summary Balance Sheets:

	December 31,	
	2004	2003
	(\$ millions)	
Total assets	\$4,009	\$3,182
Total liabilities	3,409	2,711
Debt	2,648	2,176
Owners' equity	600	471

Included in total assets and total liabilities at December 31, 2004 and 2003 are approximately \$457 million and \$331 million, respectively of assets and the same amount of liabilities from securitizations that did not qualify for off-balance sheet treatment. The liabilities from these securitizations are not included in Debt in the table above.

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### Summary Income Statements:

	Year Ended December 31,		
	2004	2003	2002
	(\$ millions)		
Revenues	\$479.1	\$356.8	\$311.5
Expenses	271.0	212.9	173.2
Income before tax	<u>\$208.1</u>	<u>\$143.9</u>	<u>\$138.3</u>
Company's share of pretax income	<u>\$ 97.9</u>	<u>\$ 66.1</u>	<u>\$ 63.5</u>

### Sherman

Sherman is principally engaged in the business of purchasing and servicing delinquent consumer assets such as credit card loans and Chapter 13 bankruptcy debt. A substantial portion of Sherman's consolidated assets are investments in consumer receivable portfolios that do not have readily ascertainable market values. Sherman's results of operations are sensitive to estimates by Sherman's management of ultimate collections on these portfolios. Effective January 1, 2003, the Company sold four percentage points of its interest in Sherman to Sherman's management for cash, reducing the Company's interest in Sherman to 41.5%. The Company's investment in Sherman on an equity basis at December 31, 2004 was \$97.0 million.

### Summary Balance Sheets:

	December 31,	
	2004	2003
	(\$ millions)	
Total assets	\$484	\$500
Total liabilities	245	341
Debt	143	277
Members' equity	239	159

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Summary Income Statements:

	Year Ended December 31,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(\$ millions)		
Revenues, net of amortization	\$524.9	\$293.6	\$156.3
Expenses	<u>324.3</u>	<u>222.7</u>	<u>116.0</u>
Income before tax	<u>\$200.6</u>	<u>\$ 70.9</u>	<u>\$ 40.3</u>
Company's share of pretax income	<u>\$ 83.3</u>	<u>\$ 29.4</u>	<u>\$ 18.3</u>

Because C-BASS and Sherman are accounted for using the equity method, they are not consolidated with the Company and their assets and liabilities do not appear in the Company's balance sheet. The "investments in joint ventures" item in the Company's balance sheet reflects the amount of capital contributed by the Company to joint ventures plus the Company's share of their comprehensive income (or minus its share of their comprehensive loss) and minus capital distributed to the Company by the joint ventures. (See note 2.)

**9. Benefit plans**

The following tables provide reconciliations of the changes in the benefit obligation, fair value of plan assets and funded status of the pension and other postretirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
(In thousands of dollars)				
<b>Reconciliation of projected benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 141,202	\$ 111,185	\$ 61,685	\$ 46,310
Service cost	9,137	7,963	3,459	3,135
Interest cost	8,741	7,671	3,525	3,300
Plan participants' contributions	—	—	220	184
Plan amendment (1)	927	1,361	(1,972)	—
Actuarial loss (gain)	(1,312)	14,650	(2,376)	9,794
Benefits paid	(1,988)	(1,628)	(955)	(1,038)
<b>Benefit obligation at end of year</b>	<b>\$ 156,707</b>	<b>\$ 141,202</b>	<b>\$ 63,586</b>	<b>\$ 61,685</b>
<b>Reconciliation of fair value of plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 139,074	\$ 91,165	\$ 22,940	\$ 13,186
Adjustment	160	343	—	—
Actual return on plan assets	19,358	24,194	2,751	4,354
Employer contributions	23,500	25,000	4,736	6,254
Plan participants' contributions	—	—	220	184
Benefits paid	(1,988)	(1,628)	(955)	(1,038)
<b>Fair value of plan assets at end of year</b>	<b>\$ 180,104</b>	<b>\$ 139,074</b>	<b>\$ 29,692</b>	<b>\$ 22,940</b>
<b>Balance Sheet at end of year</b>				
Accumulated benefit obligation	\$(132,002)	\$(117,630)	N/A	N/A
Effect of salary projection	(24,705)	(23,572)	N/A	N/A
Projected benefit obligation	(156,707)	(141,202)	\$(63,586)	\$(61,685)
Fair value of plan assets	180,104	139,074	29,692	22,940
Funded status	23,397	(2,128)	(33,894)	(38,745)
Unrecognized net actuarial loss (gain)	21,759	33,464	14,209	18,115
Unrecognized net transition obligation	—	—	2,268	4,770
Unrecognized prior service cost	5,423	5,198	—	—
<b>Net amount recognized</b>	<b>\$ 50,579</b>	<b>\$ 36,534</b>	<b>\$(17,417)</b>	<b>\$(15,860)</b>

- (1) The pension plan has been amended to provide additional benefits for certain participants as listed in the plan documents and for the increased benefit and salary limits on the projected benefit obligation. The postretirement medical plan has been amended for changes in coverage levels, deductibles and out-of-pocket limits.

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	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
(In thousands of dollars)				
<b>Net amount recognized in consolidated balance sheet</b>				
Prepaid benefit cost	\$ 50,579	\$ 36,534	N/A	N/A
Accrued benefit liability	—	—	N/A	N/A
Intangible asset	—	—	N/A	N/A
Accumulated other comprehensive income	—	—	N/A	N/A
Net amount recognized	<u>\$ 50,579</u>	<u>\$ 36,534</u>	N/A	N/A
<b>Reconciliation of Prepaid/(Accrued) benefit cost</b>				
Prepaid/(Accrued) benefit cost at beginning of year	\$ 36,534	\$ 22,934	\$ (15,860)	\$ (15,479)
Net periodic benefit cost	(9,455)	(11,400)	(6,293)	(6,635)
Contributions	23,500	25,000	4,000	5,400
Benefits paid (net of participants contributions)	—	—	736	854
Prepaid benefit cost at end of year	<u>\$ 50,579</u>	<u>\$ 36,534</u>	<u>\$ (17,417)</u>	<u>\$ (15,860)</u>

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

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
(In thousands of dollars)						
Service cost	\$ 9,137	\$ 7,963	\$ 6,580	\$ 3,459	\$ 3,135	\$ 3,137
Interest cost	8,741	7,671	6,585	3,525	3,300	2,711
Expected return on plan assets	(10,370)	(6,796)	(6,712)	(1,720)	(989)	(1,058)
Recognized net actuarial loss (gain)	1,246	1,950	32	499	659	152
Amortization of transition obligation	—	—	—	530	530	530
Amortization of prior service cost	701	612	507	—	—	—
Net periodic benefit cost	<u>\$ 9,455</u>	<u>\$ 11,400</u>	<u>\$ 6,992</u>	<u>\$ 6,293</u>	<u>\$ 6,635</u>	<u>\$ 5,472</u>

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The following benefit payments, which reflect future service, are expected to be paid in the following fiscal years:

Fiscal Year	Pension Benefits	Other Postretirement Benefits		Net Benefits
		Gross Benefits	Medicare Part D Subsidy	
(in thousands of dollars)				
2005	\$ 1,927	\$ 1,175	\$ —	\$ 1,175
2006	2,295	1,364	91	1,273
2007	2,835	1,628	109	1,519
2008	3,455	1,891	134	1,757
2009	4,196	2,236	158	2,078
Years 2010 - 2014	38,120	17,161	1,383	15,778

On December 8, 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“Act”) was signed into law. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Beginning in the second quarter of 2004, the effects of the subsidy are reflected in the measurement of the net periodic postretirement benefit costs. The effect of the subsidy on the measurement of the annual net periodic postretirement benefit cost for the current year was a \$1.4 million reduction. The components of the reduction include \$0.5 million related to service cost, \$0.5 million related to interest cost and \$0.4 million related to recognized net actuarial gain/loss. The effect of the subsidy on the Accumulated Postretirement Benefit Obligation was a \$7.5 million reduction.

Employer pension and postretirement contributions for the fiscal year ending December 31, 2005 are expected to approximate \$10.9 million and \$4.9 million, respectively. The ERISA minimum required pension contribution is zero.

### Allocation of Plan Assets

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
<b>Actual</b>				
Equity securities	82%	80%	100%	100%
Debt securities	15%	16%	—	—
Real estate	3%	4%	—	—
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Target</b>				
Equity securities	82%	80%	100%	100%
Debt securities	15%	16%	—	—
Real estate	3%	4%	—	—
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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The Company's pension plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in CPI
- Achieve competitive investment results
- Provide consistent investment returns
- Exceed the actuarial return assumption of the retirement plan

The primary focus in developing asset allocation ranges for the account is the assessment of the account's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed securities and equity securities are:

	<u>Minimum</u>	<u>Maximum</u>
Fixed	0%	30%
Equity	70%	100%
Cash equivalents	0%	10%

Investment in international oriented funds is limited to a maximum of 15% of the equity range.

The Company's postretirement plan portfolio returns are expected to achieve the following objectives over each market cycle and for at least 5 years:

- Total return should exceed growth in CPI
- Provide consistent investment returns
- Exceed the actuarial return assumption of the retirement plan

The primary focus in developing asset allocation ranges for the account is the assessment of the account's investment objectives and the level of risk that is acceptable to obtain those objectives. To achieve these goals the minimum and maximum allocation ranges for fixed income securities and equity securities are:

	<u>Minimum</u>	<u>Maximum</u>
Fixed	0%	40%
Equity	60%	100%
Cash equivalents	0%	40%

Given the long term nature of this portfolio and the lack of any immediate need for cash flow, it is anticipated that the equity investments will consist of growth stocks and will typically be at the higher end of the allocation ranges above. Investment in international oriented funds is limited to a maximum of 15% of the equity range.

The assumptions used in the measurement of the Company's pension and other postretirement benefit obligations are shown in the following table:

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	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted average assumptions						
Used to determine year-end benefit obligation:						
Discount rate	6.25%	6.25%	6.75%	6.25%	6.25%	6.75%
Rate of compensation increase	4.50%	4.50%	4.50%	N/A	N/A	N/A
Used to determine net periodic benefit cost:						
Discount rate	6.25%	6.75%	7.00%	6.25%	6.75%	7.00%
Expected return on plan assets	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	4.50%	4.50%	4.50%	N/A	N/A	N/A

In selecting the expected long-term rate of return on assets, the Company considered the average rate of earnings expected on the classes of funds invested or to be invested to provide for the benefits of these plans. This included considering the trusts' targeted asset allocation for the year and the expected returns likely to be earned over the next 20 years. The assumptions used for the return of each asset class are conservative when compared to long-term historical returns.

Plan assets consist of fixed maturities, equity securities and real estate. The Company is amortizing the unrecognized transition obligation for other postretirement benefits over 20 years.

For measurement purposes a 10% health care trend rate was used for 2004. In 2005, the rate is assumed to be 10%, decreasing to 5% by 2015 and remaining at this level beyond.

A 1% change in the health care trend rate assumption would have the following effects on other postretirement benefits:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In thousands of dollars)	
Effect on total service and interest cost components	\$ 1,666	\$ (1,281)
Effect on postretirement benefit obligation	13,317	(10,456)

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The Company has a profit sharing and 401(k) savings plan for employees. At the discretion of the Board of Directors, the Company may make a profit sharing contribution of up to 5% of each participant's eligible compensation. The Company provides a matching 401(k) savings contribution on employees' before-tax contributions at a rate of 80% of the first \$1,000 contributed and 40% of the next \$2,000 contributed. The Company recognized profit sharing expense and 401(k) savings plan expense of \$5.7 million, \$7.7 million and \$6.3 million in 2004, 2003 and 2002, respectively.

### 10. Income taxes

Net deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
	(In thousands of dollars)	
Deferred tax assets	\$ 150,876	\$ 137,133
Deferred tax liabilities	(108,692)	(121,157)
Net deferred tax asset	<u>\$ 42,184</u>	<u>\$ 15,976</u>

Management believes that all gross deferred tax assets at December 31, 2004 are fully realizable and no valuation reserve was established.

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The components of the net deferred tax asset as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
	(In thousands of dollars)	
Unearned premium reserves	\$ 13,220	\$ 16,520
Deferred policy acquisition costs	(9,700)	(11,415)
Loss reserves	32,485	31,293
Unrealized appreciation in investments	(66,438)	(75,736)
Statutory contingency loss reserves	(20,851)	(26,668)
Mortgage investments	54,605	58,779
Benefit plans	(6,844)	(2,690)
Deferred compensation	9,301	5,614
Investments in joint ventures	35,748	19,291
Other, net	658	988
Net deferred tax asset	<u>\$ 42,184</u>	<u>\$ 15,976</u>

The following summarizes the components of the provision for income tax:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Federal:			
Current	\$ 158,104	\$ 170,353	\$ 267,718
Deferred	(762)	(28,277)	(30,234)
State	<u>2,006</u>	<u>3,951</u>	<u>3,487</u>
Provision for income tax	<u>\$ 159,348</u>	<u>\$ 146,027</u>	<u>\$ 240,971</u>

The Company paid \$203.2 million, \$182.1 million and \$261.3 million in federal income tax in 2004, 2003 and 2002, respectively. At December 31, 2004, 2003 and 2002, the Company owned \$1,468.5 million, \$1,316.9 million and \$1,181.9 million, respectively, of tax and loss bonds.

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The reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Tax exempt municipal bond interest	(8.4)	(8.2)	(5.7)
Mortgage investments	—	(1.9)	—
Other, net	<u>0.3</u>	<u>0.5</u>	<u>0.2</u>
Effective income tax rate	<u>26.9%</u>	<u>25.4%</u>	<u>29.5%</u>

The Internal Revenue Service (“IRS”) is presently examining the Company’s federal income tax returns for 2000 and 2001. The Company has not received any proposed adjustments to taxable income or assessments from the IRS related to these years. Management believes that income taxes related to these years have been properly provided for in the financial statements.

### **11. Shareholders’ equity and dividend restrictions**

The Company’s insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders’ surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”) is the lesser of adjusted statutory net income or 10% of statutory policyholders’ surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. In 2005, MGIC can pay \$177.7 million of dividends under these restrictions. The other insurance subsidiaries of the Company can pay \$3.0 million of dividends to the Company without such regulatory approval.

Certain of the Company’s non-insurance subsidiaries also have requirements as to maintenance of net worth. These restrictions could also affect the Company’s ability to pay dividends.

In 2004, 2003 and 2002, the Company paid dividends of \$22.0 million, \$11.1 million and \$10.4 million, respectively, or \$0.225 per share in 2004, \$0.1125 in 2003 and \$0.10 in 2002.

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The principles used in determining statutory financial amounts differ from GAAP, primarily for the following reasons:

Under statutory accounting practices, mortgage guaranty insurance companies are required to maintain contingency loss reserves equal to 50% of premiums earned. Such amounts cannot be withdrawn for a period of ten years except as permitted by insurance regulations. Changes in contingency loss reserves impact the statutory statement of operations. Contingency loss reserves are not reflected as liabilities under GAAP and changes in contingency loss reserves do not impact GAAP operations.

Under statutory accounting practices, insurance policy acquisition costs are charged against operations in the year incurred. Under GAAP, these costs are deferred and amortized as the related premiums are earned commensurate with the expiration of risk.

Under statutory accounting practices, purchases of tax and loss bonds are accounted for as investments. Under GAAP, purchases of tax and loss bonds are recorded as payments of current income taxes.

Under statutory accounting practices, fixed maturity investments are generally valued at amortized cost. Under GAAP, those investments which the Company does not have the ability and intent to hold to maturity are considered to be available-for-sale and are recorded at market, with the unrealized gain or loss recognized, net of tax, as an increase or decrease to shareholders' equity.

Under statutory accounting practices, certain assets, designated as non-admitted assets, are charged directly against statutory surplus. Such assets are reflected on the GAAP financial statements.

Under statutory accounting practices, the Company's share of the net income or loss of its investments in joint ventures is credited directly to statutory surplus. Under GAAP, income from joint ventures is shown separately, net of tax, on the statement of operations.

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The statutory net income, equity and the contingency reserve liability of the insurance subsidiaries (excluding the non- insurance companies) are as follows:

<u>Year Ended December 31,</u>	<u>Net Income</u>	<u>Equity</u> (In thousands of dollars)	<u>Contingency Reserve</u>
2004	\$ 179,623	\$ 1,840,084	\$ 4,234,157
2003	286,473	1,699,295	3,800,265
2002	296,595	1,634,707	3,521,100

The Company has 1991 and 2002 stock incentive plans. When the 2002 plan was adopted in 2002, 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 10 million shares plus the number of shares covered by awards under the 1991 plan that were outstanding on March 1, 2002 that are subsequently forfeited and 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 1 million shares. Both plans provide for the award of stock options with maximum terms of 10 years and for the grant of restricted stock, 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. Directors may receive awards under the 2002 plan and were eligible for awards of restricted stock under the 1991 plan.

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A summary of option activity in the stock incentive plans during 2002, 2003 and 2004 is as follows:

	Weighted Average Exercise Price	Shares Subject to Option
Outstanding, December 31, 2001	\$ 43.56	<u>3,337,687</u>
Granted	63.86	818,000
Exercised	34.46	(516,828)
Forfeited or expired	49.32	<u>(51,300)</u>
Outstanding, December 31, 2002	49.42	<u>3,587,559</u>
Granted	43.70	606,000
Exercised	30.15	(168,780)
Forfeited or expired	55.08	<u>(121,880)</u>
Outstanding, December 31, 2003	49.19	<u>3,902,899</u>
Granted	68.20	612,000
Exercised	43.69	(787,678)
Forfeited or expired	54.94	<u>(191,800)</u>
Outstanding, December 31, 2004	<u>\$ 53.39</u>	<u>3,535,421</u>

The exercise price of the options granted in 2002, 2003 and 2004 was equal to the market value of the stock on the date of grant. The options are exercisable between one and ten years after the date of grant.

Information about restricted stock granted during 2002, 2003 and 2004 is as follows:

	Year Ended December 31,		
	2004	2003	2002
Shares granted	<u>274,869</u>	<u>298,674</u>	<u>95,638</u>
Weighted average grant date fair market value	\$ 68.08	\$ 43.44	\$ 64.33

For the year ended December 31, 2004, approximately 81 thousand shares of restricted stock became vested and approximately 35 thousand shares of restricted stock were forfeited. At December 31, 2004, 8,634,001 shares were available for future grant under the 2002 stock incentive plan. Of the shares available for future grant, only 480,336 are available for restricted stock awards.

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For purposes of determining the pro forma net income disclosure in Note 2, the fair value of these options was estimated at grant date using the binomial option pricing model for the 2004 options and the Black-Scholes model for prior years with the following weighted average assumptions for each year:

	Grants Issued in Year Ended December 31,		
	2004	2003	2002
Risk free interest rate	3.27%	2.91%	4.51%
Expected life	5.50 years	4.87 years	5.0 years
Expected volatility	30.20%	29.40%	41.96%
Expected dividend yield	0.25%	0.25%	0.24%
Fair value of each option	\$ 21.68	\$ 13.12	\$ 27.15

The following is a summary of stock options outstanding at December 31, 2004:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Shares	Remaining Average Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$30.25-\$47.31	1,789,571	5.2	\$ 43.08	889,351	\$ 41.56
\$53.70-\$68.63	1,745,850	7.3	\$ 63.96	575,950	\$ 61.69
<b>Total</b>	<b>3,535,421</b>	<b>6.2</b>	<b>\$ 53.39</b>	<b>1,465,301</b>	<b>\$ 49.47</b>

At December 31, 2003 and 2002, option shares of 1,754,929 and 1,539,559 were exercisable at an average exercise price of \$45.88 and \$41.62, respectively. The Company also granted an immaterial amount of equity instruments other than options and restricted stock during 2002, 2003 and 2004.

Under terms of the Company's Shareholder Rights Agreement each outstanding share of the Company's Common Stock is accompanied by one Right. The "Distribution Date" occurs ten days after an announcement that a person has become the beneficial owner (as defined in the Agreement) of the Designated Percentage of the Company's Common Stock (the date on which such an acquisition occurs is the "Shares Acquisition Date" and a person who makes such an acquisition is an "Acquiring Person"), or ten business days after a person announces or begins a tender offer in which consummation of such offer would result in ownership by a person of 15 percent or more of the Common Stock. The Designated Percentage is 15% or more, except that for certain investment advisers and investment companies advised by such advisers, the Designated Percentage is 20% or more if certain conditions are met. The Rights are not exercisable until the Distribution Date. Each Right will initially entitle shareholders to buy one-half of one share of the Company's Common Stock at a Purchase Price of \$225 per full share (equivalent to \$112.50 for each one-half share), subject to adjustment. If there is an Acquiring Person, then each Right (subject to certain limitations) will entitle its holder to purchase, at the Rights' then-current Purchase Price, a number of

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shares of Common Stock of the Company (or if after the Shares Acquisition Date, the Company is acquired in a business combination, common shares of the acquiror) having a market value at the time equal to twice the Purchase Price. The Rights will expire on July 22, 2009, subject to extension. The Rights are redeemable at a price of \$0.001 per Right at any time prior to the time a person becomes an Acquiring Person. Other than certain amendments, the Board of Directors may amend the Rights in any respect without the consent of the holders of the Rights.

### **12. Leases**

The Company leases certain office space as well as data processing equipment and autos under operating leases that expire during the next six years. Generally, all rental payments are fixed.

Total rental expense under operating leases was \$8.0 million, \$8.2 million and \$7.4 million in 2004, 2003 and 2002, respectively.

At December 31, 2004, minimum future operating lease payments are as follows (in thousands of dollars):

2005	\$ 4,979
2006	2,835
2007	2,034
2008	1,196
2009 and thereafter	<u>547</u>
Total	<u>\$11,591</u>

### **13. Litigation and contingencies**

Consumers are bringing a growing number of lawsuits against home mortgage lenders and settlement service providers. In recent years, seven mortgage insurers, including the Company's MGIC subsidiary, have been involved in litigation alleging violations of the Real Estate Settlement Procedures Act, which is commonly known as RESPA, and 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.

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 years ended December 31, 2004, 2003 or 2002.

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See note 10 for a description of federal income tax contingencies.

**14 Unaudited quarterly financial data**

2004	Quarter				2004
	First	Second	Third	Fourth	Year
	(In thousands of dollars, except per share data)				
Net premiums written	\$ 329,062	\$ 319,126	\$ 320,803	\$ 336,426	\$ 1,305,417
Net premiums earned	341,516	331,128	324,224	332,560	1,329,428
Investment income, net of expenses	53,141	52,314	54,187	55,411	215,053
Losses incurred, net	190,677	154,073	169,802	186,447	700,999
Underwriting and other expenses	67,314	72,723	68,782	69,967	278,786
Net income	130,073	154,524	134,069	134,520	553,186
Earnings per share (a):					
Basic	1.32	1.57	1.37	1.40	5.67
Diluted	1.31	1.56	1.36	1.39	5.63

  

2003	Quarter				2003
	First	Second	Third	Fourth	Year
	(In thousands of dollars, except per share data)				
Net premiums written	\$ 341,566	\$ 320,522	\$ 346,612	\$ 355,931	\$ 1,364,631
Net premiums earned	332,156	337,135	346,605	350,115	1,366,011
Investment income, net of expenses	51,083	50,314	50,049	51,435	202,881
Losses incurred, net	142,211	173,120	220,726	229,971	766,028
Underwriting and other expenses	74,283	79,221	76,800	72,169	302,473
Net income	141,110	143,777	105,129	103,863	493,879
Earnings per share (a):					
Basic	1.42	1.46	1.07	1.05	5.00
Diluted	1.42	1.46	1.06	1.05	4.99

- (a) Due to the use of weighted average shares outstanding when calculating earnings per share, the sum of the quarterly per share data may not equal the per share data for the year.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
of MGIC Investment Corporation:

We have completed an integrated audit of MGIC Investment Corporation and Subsidiaries' December 31, 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its December 31, 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of MGIC Investment Corporation and Subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we

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plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP  
Chicago, Illinois  
March 11, 2005

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Management's Conclusion Regarding the Effectiveness of Disclosure Controls**

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 Annual Report on Form 10-K. 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.

**Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)). The Company's internal control over financial reporting is designed 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. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's internal control over financial reporting using the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2004.

PricewaterhouseCoopers LLP, an independent registered public accounting firm that audited the Company's financial statements included in this Annual Report, has audited and issued an attestation report on management's assessment of the Company's internal control over financial reporting. Their report is included at the end of Item 8 of this Annual Report.

**Changes in Internal Control during the Fourth Quarter**

There was no change in the Company's internal control over financial reporting that occurred during the fourth quarter of 2004 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

This information (other than on the executive officers) will be included in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders, and is hereby incorporated by reference. The information on the executive officers appears at the end of Part I of this Form 10-K.

The Company intends to disclose on its website any waivers and amendments to its Code of Business Conduct that are required to be disclosed under Item 5.05 of Form 8-K.

**Item 11. Executive Compensation.**

This information will be included in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders and, other than information covered by Instruction (9) to Item 402 (a) of Regulation S-K of the Securities and Exchange Commission, is hereby incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

This information, other than information regarding equity compensation plans required by Item 201 (d) of Regulation S-K of the Securities and Exchange Commission which appears below, will be included in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders, and is hereby incorporated by reference.

The table below sets forth certain information, as of December 31, 2004, about options outstanding under the Company's 1991 Stock Incentive Plan (the "1991 Plan") and its 2002 Stock Incentive Plan (the "2002 Plan"). Other than under these plans, no options, warrants or rights were outstanding at that date under any compensation plan or individual compensation arrangement of the Company. The Company has no compensation plan under which its equity securities may be issued that has not been approved by shareholders. Share units issued under the Deferred Compensation Plan for Non-Employee Directors, which have no voting power and can be settled only in cash, are not considered to be equity securities for this purpose.

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Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	3,535,421	\$ 53.39	8,634,001*
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	3,535,421	\$ 53.39	8,634,001*

\*All of these shares are available under the 2002 Plan. The 2002 Plan provides that the number of shares covered by awards under the 1991 Plan that were outstanding on March 1, 2002 and that are subsequently forfeited are available under the 2002 Plan. The amount in column (c) includes such shares that had been forfeited as of December 31, 2004. In addition, the 2002 Plan provides that the number of shares available is increased by the number of shares that must be purchased at a purchase price of not less than fair market value as a condition to the award of restricted stock. The 2002 Plan limits the number of shares awarded as restricted stock or deliverable under restricted stock units to 1,000,000 shares, of which 480,336 shares remained available at December 31, 2004.

### **Item 13. Certain Relationships and Related Transactions.**

To the extent applicable, this information will be included in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders, and is hereby incorporated by reference.

### **Item 14. Principal Accountant Fees and Services.**

This information will be included in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders, and is hereby incorporated by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

1. Financial statements. The following financial statements are filed in Item 8 of this Annual Report on Form 10-K:

Report of independent registered public accounting firm

Consolidated statements of operations for each of the three years in the period ended December 31, 2004

Consolidated balance sheets at December 31, 2004 and 2003

Consolidated statements of shareholders' equity for each of the three years in the period ended December 31, 2004

Consolidated statements of cash flows for each of the three years in the period ended December 31, 2004

Notes to consolidated financial statements

2. Financial statement schedules. The following financial statement schedules are filed as part of this Form 10-K and appear immediately following the signature page:

Report of independent registered public accounting firm on financial statement schedules

Schedules at and for the specified years in the three-year period ended December 31, 2004:

Schedule I- Summary of investments, other than investments in related parties

Schedule II- Condensed financial information of Registrant

Schedule IV- Reinsurance

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements and notes thereto.

3. 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-K. Exhibit 32 is not filed as part of this Form 10-K but accompanies this Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 March 14, 2005.

**MGIC INVESTMENT CORPORATION**

By /s/ Curt S. Culver

Curt S. Culver  
Chairman of the Board, President and Chief  
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of the date set forth above by the following persons on behalf of the registrant and in the capacities indicated.

**Name and Title**

/s/ Curt S. Culver

Curt S. Culver  
Chairman of the Board, President, Chief  
Executive Officer and Director

/s/ David S. Engelman

David S. Engelman, Director

/s/ Thomas M. Hagerty

Thomas M. Hagerty, Director

/s/ J. Michael Lauer

J. Michael Lauer  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

/s/ Kenneth M. Jastrow, II

Kenneth M. Jastrow, II, Director /s/ Daniel P. Kearney

/s/ Joseph J. Komanecki

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

/s/ Michael E. Lehman

Michael E. Lehman, Director

/s/ James A. Abbott

James A. Abbott, Director

/s/ William A. McIntosh

William A. McIntosh, Director

/s/ Mary K. Bush

Mary K. Bush, Director

/s/ Leslie M. Muma

Leslie M. Muma, Director

/s/ Karl E. Case

Karl E. Case, Director

**Report of Independent Registered Public Accounting Firm on  
Financial Statement Schedules**

To the Board of Directors  
of MGIC Investment Corporation:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting, referred to in our report dated March 11, 2005 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP  
Chicago, Illinois  
March 11, 2005

**MGIC INVESTMENT CORPORATION**  
**SCHEDULE I — SUMMARY OF INVESTMENTS -**  
**OTHER THAN INVESTMENTS IN RELATED PARTIES**

**December 31, 2004**

<u>Type of Investment</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amount at which shown in the balance sheet</u>
(In thousands of dollars)			
<b>Fixed maturities:</b>			
Bonds:			
United States Government and government agencies and authorities	\$ 611,465	\$ 617,122	\$ 617,122
States, municipalities and political subdivisions	4,351,789	4,535,690	4,535,690
Foreign governments	16,079	16,433	16,433
Public utilities	2,095	2,338	2,338
All other corporate bonds	238,370	242,079	242,079
Total fixed maturities	<u>5,219,798</u>	<u>5,413,662</u>	<u>5,413,662</u>
<b>Equity securities:</b>			
Common stocks:			
Industrial, miscellaneous and all other	5,326	5,326	5,326
Total equity securities	<u>5,326</u>	<u>5,326</u>	<u>5,326</u>
Short-term investments	163,639	163,639	163,639
Total investments	<u>\$ 5,388,763</u>	<u>\$ 5,582,627</u>	<u>\$ 5,582,627</u>

**MGIC INVESTMENT CORPORATION**  
**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**CONDENSED BALANCE SHEETS**  
**PARENT COMPANY ONLY**  
**December 31, 2004 and 2003**

	2004	2003
	(In thousands of dollars)	
<b>ASSETS</b>		
Investment portfolio, at fair value:		
Fixed maturities	\$ 2,781	\$ 11,164
Cash and short-term investments	15,574	18,226
Total investment portfolio	18,355	29,390
Investment in subsidiaries, at equity in net assets	4,767,631	4,377,133
Accounts receivable — affiliates	274	—
Income taxes receivable — affiliates	1,060	7,797
Accrued investment income	62	213
Other assets	9,985	3,706
Total assets	<u>\$ 4,797,367</u>	<u>\$ 4,418,239</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Short- and long-term debt	\$ 639,263	\$ 599,645
Accounts payable — affiliates	—	57
Other liabilities	14,465	21,635
Total liabilities	653,728	621,337
<b>Shareholders' equity (note B):</b>		
Common stock, \$1 par value, shares authorized 300,000,000; shares issued 2004 - 122,324,295; 2003 - 121,587,417; outstanding 2004 - 96,260,864; 2003 - 98,412,844	122,324	121,587
Paid-in capital	270,450	239,485
Treasury stock (shares at cost, 2004 - 26,063,431; 2003 - 23,174,573)	(1,313,473)	(1,115,969)
Accumulated other comprehensive income, net of tax	123,383	140,651
Retained earnings	4,940,955	4,411,148
Total shareholders' equity	4,143,639	3,796,902
Total liabilities and shareholders' equity	<u>\$ 4,797,367</u>	<u>\$ 4,418,239</u>

See accompanying supplementary notes to Parent Company condensed financial statements.

**MGIC INVESTMENT CORPORATION**  
**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**PARENT COMPANY ONLY**  
**Years Ended December 31, 2004, 2003 and 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
<b>Revenues:</b>			
Equity in undistributed net income of subsidiaries	\$ 416,385	\$ 288,305	\$ 487,660
Dividends received from subsidiaries	162,900	232,023	164,653
Investment income, net	1,240	645	2,338
Realized investment gains, net	<u>4</u>	<u>—</u>	<u>42</u>
Total revenues	580,529	520,973	654,693
<b>Expenses:</b>			
Operating expenses	272	228	1,313
Interest expense	<u>41,124</u>	<u>41,107</u>	<u>36,640</u>
Total expenses	<u>41,396</u>	<u>41,335</u>	<u>37,953</u>
Income before tax	539,133	479,638	616,740
Credit for income tax	<u>(14,053)</u>	<u>(14,241)</u>	<u>(12,451)</u>
Net income	<u>553,186</u>	<u>493,879</u>	<u>629,191</u>
Other comprehensive (loss) income, net	<u>(17,268)</u>	<u>(7,257)</u>	<u>101,264</u>
Comprehensive income	<u>\$ 535,918</u>	<u>\$ 486,622</u>	<u>\$ 730,455</u>

See accompanying supplementary notes to Parent Company condensed financial statements.

## MGIC INVESTMENT CORPORATION

## SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

## CONDENSED STATEMENTS OF CASH FLOWS

## PARENT COMPANY ONLY

Years Ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands of dollars)		
Cash flows from operating activities:			
Net income	\$ 553,186	\$ 493,879	\$ 629,191
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(416,385)	(288,305)	(487,660)
Increase in accounts receivable — affiliates	(331)	—	—
Decrease (increase) in income taxes receivable	6,737	(4,723)	(177)
Decrease (increase) in accrued investment income	151	(206)	80
(Increase) decrease in other assets	(6,279)	2,637	(1,072)
Decrease (increase) in other liabilities	(7,170)	(6,031)	2,664
Other	<u>31,528</u>	<u>18,950</u>	<u>12,190</u>
Net cash provided by operating activities	<u>161,437</u>	<u>216,201</u>	<u>155,216</u>
Cash flows from investing activities:			
Transactions with subsidiaries	(15,199)	(9,479)	(12,160)
Purchase of fixed maturities	(2,078)	(10,000)	(99,604)
Sale of fixed maturities	<u>10,417</u>	<u>294</u>	<u>100,291</u>
Net cash used in investing activities	<u>(6,860)</u>	<u>(19,185)</u>	<u>(11,473)</u>
Cash flows from financing activities:			
Dividends paid to shareholders	(22,032)	(11,124)	(10,358)
Proceeds from issuance of long-term debt	—	—	199,992
Net proceeds from (repayment of) short-term debt	37,804	(78,873)	2,095
Reissuance of treasury stock	2,633	305	6,179
Repurchase of common stock	(205,014)	(94,134)	(373,070)
Common stock issued	<u>29,380</u>	<u>4,856</u>	<u>10,825</u>
Net cash used in financing activities	<u>(157,229)</u>	<u>(178,970)</u>	<u>(164,337)</u>
Net (decrease) increase in cash and short-term investments	(2,652)	18,046	(20,594)
Cash and cash equivalents at beginning of year	<u>18,226</u>	<u>180</u>	<u>20,774</u>
Cash and cash equivalents at end of year	<u>\$ 15,574</u>	<u>\$ 18,226</u>	<u>\$ 180</u>

See accompanying notes to Parent Company condensed financial statements.

**SCHEDULE II — CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**PARENT COMPANY ONLY**

**SUPPLEMENTARY NOTES**

**Note A**

The accompanying Parent Company financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing in Item 8 of this Annual Report on Form 10-K.

**Note B**

The Company's insurance subsidiaries are subject to statutory regulations as to maintenance of policyholders' surplus and payment of dividends. The maximum amount of dividends that the insurance subsidiaries may pay in any twelve-month period without regulatory approval by the Office of the Commissioner of Insurance of the State of Wisconsin is the lesser of adjusted statutory net income or 10% of statutory policyholders' surplus as of the preceding calendar year end. Adjusted statutory net income is defined for this purpose to be the greater of statutory net income, net of realized investment gains, for the calendar year preceding the date of the dividend or statutory net income, net of realized investment gains, for the three calendar years preceding the date of the dividend less dividends paid within the first two of the preceding three calendar years. In 2005, MGIC can pay \$177.7 million of dividends under these restrictions. The other insurance subsidiaries of the Company can pay \$3.0 million of dividends without such regulatory approval.

Certain of the Company's non-insurance subsidiaries also have requirements as to maintenance of net worth. These restrictions could also affect the Company's ability to pay dividends.

In 2004, 2003 and 2002, the Company paid dividends of \$22.0 million, \$11.1 million and \$10.4 million, respectively, or \$0.225 per share in 2004, and \$0.1125 in 2003 and \$0.10 in 2002.

**MGIC INVESTMENT CORPORATION**  
**SCHEDULE IV — REINSURANCE**  
**MORTGAGE INSURANCE PREMIUMS EARNED**  
**Years Ended December 31, 2004, 2003 and 2002**

	<u>Gross Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
Year ended December 31,			(In thousands of dollars)		
2004	<u>\$ 1,445,321</u>	<u>\$ 116,226</u>	<u>\$ 333</u>	<u>\$ 1,329,428</u>	0.0%
2003	<u>\$ 1,484,249</u>	<u>\$ 118,465</u>	<u>\$ 227</u>	<u>\$ 1,366,011</u>	0.0%
2002	<u>\$ 1,296,548</u>	<u>\$ 114,898</u>	<u>\$ 448</u>	<u>\$ 1,182,098</u>	0.0%

**INDEX TO EXHIBITS**

[Item 15(a)3]

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
3.1	Articles of Incorporation, as amended <sup>(1)</sup>
3.2	Amended and Restated Bylaws <sup>(2)</sup>
4.1	Article 6 of the Articles of Incorporation (included within Exhibit 3.1)
4.2	Amended and Restated Bylaws (included as Exhibit 3.2)
4.3	Rights Agreement, dated as of July 22, 1999, between MGIC Investment Corporation and Firststar Bank Milwaukee, N.A., which includes as Exhibit A thereto the Form of Right Certificate and as Exhibit B thereto the Summary of Rights to Purchase Common shares <sup>(3)</sup>
4.3.1	First Amendment to Rights Agreement, dated as of October 28, 2002, between the Company and U.S. Bank National Association <sup>(4)</sup>
4.3.2	Second Amendment to Rights Agreement, dated as of October 28, 2002, between the Company and Wells Fargo Bank Minnesota, National Association (as successor Rights Agent to U.S. Bank National Association) <sup>(5)</sup>
4.3.3	Third Amendment to Rights Agreement, dated as of May 14, 2004, between the Company and Wells Fargo Bank Minnesota, National Association <sup>(6)</sup>
4.4	Indenture, dated as of October 15, 2000, between the Company and Bank One Trust Company, National Association, as Trustee <sup>(7)</sup> [The Company is a party to various other agreements with respect to its long-term debt. These agreements are not being filed pursuant to Reg. S-K Item 602(b) (4) (iii) (A). The Company hereby agrees to furnish a copy of such agreements to the Commission upon its request.]
10.1	Form of Stock Option Agreement under 2002 Stock Incentive Plan <sup>(8)</sup>
10.1.1	Form of Incorporated Terms to Stock Option Agreement under 2002 Stock Incentive Plan <sup>(9)</sup>

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<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.2	Form of Restricted Stock Agreement under 2002 Stock Incentive Plan <sup>(10)</sup>
10.2.1	Form of Incorporated Terms to Restricted Stock Agreement under 2002 Stock Incentive Plan <sup>(11)</sup>
10.2.2	Form of Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan
10.2.3	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan
10.2.4	Form of Restricted Stock and Restricted Stock Unit Agreement (for Directors)
10.2.5	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement
10.3	MGIC Investment Corporation 1991 Stock Incentive Plan <sup>(12)</sup>
10.3.1	MGIC Investment Corporation 2002 Stock Incentive Plan <sup>(13)</sup>
10.4	Two Forms of Stock Option Agreement under 1991 Stock Incentive Plan. <sup>(14)</sup>
10.4.1	Form of Stock Option Agreement under 1991 Stock Incentive Plan <sup>(15)</sup>
10.4.2	Form of Incorporated Terms to Stock Option Agreement under 1991 Stock Incentive Plan <sup>(16)</sup>
10.5	Two Forms of Restricted Stock Award Agreement under 1991 Stock Incentive Plan <sup>(17)</sup>
10.5.1	Form of Restricted Stock Agreement under 1991 Stock Incentive Plan <sup>(18)</sup>
10.5.2	Form of Incorporated Terms to Restricted Stock Agreement under 1991 Stock Incentive Plan <sup>(19)</sup>
10.6	Executive Bonus Plan
10.7	Supplemental Executive Retirement Plan <sup>(20)</sup>
10.8	MGIC Investment Corporation Deferred Compensation Plan for Non-Employee Directors. <sup>(21)</sup>
10.9	MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors. <sup>(22)</sup>

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<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.10	Two Forms of Award Agreement under MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors.(23)
10.11	Form of Key Executive Employment and Severance Agreement.(24)
10.12	Form of Agreement Not to Compete(25)
10.13	Other Compensation Agreements with Executive Officers and Directors
11	Statement re: computation of per share earnings
21	Direct and Indirect Subsidiaries and Joint Ventures(26)
23	Consent of Independent Registered Public Accounting Firm
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 15 of this Annual Report on Form 10-K, this Exhibit is not being “filed”).

Supplementary List of the above Exhibits which relate to management contracts or compensatory plans or arrangements:

10.1	Form of Stock Option Agreement under 2002 Stock Incentive Plan
10.1.1	Form of Incorporated Terms to Stock Option Agreement under 2002 Stock Incentive Plan
10.2	Form of Restricted Stock Agreement under 2002 Stock Incentive Plan
10.2.1	Form of Incorporated Terms to Restricted Stock Agreement under 2002 Stock Incentive Plan
10.2.2	Form of Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan
10.2.3	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement under 2002 Stock Incentive Plan
10.2.4	Form of Restricted Stock and Restricted Stock Unit Agreement (for Directors)
10.2.5	Form of Incorporated Terms to Restricted Stock and Restricted Stock Unit Agreement
10.3	MGIC Investment Corporation 1991 Stock Incentive Plan

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10.3.1	MGIC Investment Corporation 2002 Stock Incentive Plan
10.4	Two Forms of Stock Option Agreement under 1991 Stock Incentive Plan
10.4.1	Form of Stock Option Agreement under 1991 Stock Incentive Plan
10.4.2	Form of Incorporated Terms to Stock Option Agreement under 1991 Stock Incentive Plan
10.5	Two Forms of Restricted Stock Award Agreement under 1991 Stock Incentive Plan
10.5.1	Form of Restricted Stock Agreement under 1991 Stock Incentive Plan
10.5.2	Form of Incorporated Terms to Restricted Stock Agreement under 1991 Stock Incentive Plan
10.6	Executive Bonus Plan
10.7	Supplemental Executive Retirement Plan.
10.8	MGIC Investment Corporation Deferred Compensation Plan for Non-Employee Directors
10.9	MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors
10.10	Two Forms of Award Agreement under MGIC Investment Corporation 1993 Restricted Stock Plan for Non-Employee Directors
10.11	Form of Key Executive Employment and Severance Agreement
10.12	Form of Agreement Not to Compete
10.13	Other Compensation Agreements with Executive Officers and Directors

The following documents, identified in the footnote references above, are incorporated by reference, as indicated, to: the Company's Annual Reports on Form 10-K for the years ended December 31, 1993, 1994, 1997, 1999, 2001, 2002, or 2003 (the "1993 10-K," "1994 10-K," "1997 10-K," "1999 10-K," "2001 10-K," "2002 10-K" and "2003 10-K," respectively); to the Company's Quarterly Reports on Form 10-Q for the Quarters ended June 30, 1994 or 1998 or September 30, 2002 or 2004 (the "June 30, 1994 10-Q," "June 30, 1998 10-Q," "September 30, 2002 10-Q" and "September 30, 2004 10-Q," respectively); to the Company's registration Statement Form 8-A filed July 27, 1999 (the "8-A"), as amended by Amendment No. 1 filed

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October 29, 2002 (the “8-A/A-No. 1”) and by Amendment No. 2 filed May 14, 2004 (the “8-A/A-No. 2”); to the Company’s Current Reports on Form 8-K dated October 17, 2000 (the “October 2000 8-K”) and February 1, 2005 (the “February 2005 8-K”); or to the Company’s Proxy Statement for its 2002 Annual Meeting of Shareholders (the “2002 Proxy Statement”). The documents are further identified by cross-reference to the Exhibits in the respective documents where they were originally filed:

- 
- (1) Exhibit 3 to the June 30, 1998 10-Q.
  - (2) Exhibit 3 to the September 30, 2004 10-Q.
  - (3) Exhibit 4.1 to the 8-A.
  - (4) Exhibit 4.2 to the 8-A/A-No. 1.
  - (5) Exhibit 4.3 to the 8-A/A-No. 1.
  - (6) Exhibit 4.4 to the 8-A/A-No. 2.
  - (7) Exhibit 4.1 to the October 2000 8-K.
  - (8) Exhibit 10.1 to the 2002 10-K.
  - (9) Exhibit 10.1.1 to the 2002 10-K.
  - (10) Exhibit 10.2 to the 2002 10-K.
  - (11) Exhibit 10.2.1 to the 2002 10-K.
  - (12) Exhibit 10.7 to the 1999 10-K.
  - (13) Exhibit A to the 2002 Proxy Statement.
  - (14) Exhibit 10.9 to the 1999 10-K.
  - (15) Exhibit 10.4.1 to the 2001 10-K.
  - (16) Exhibit 10.4.2 to the 2001 10-K.
  - (17) Exhibit 10.10 to the 1999 10-K.
  - (18) Exhibit 10.5.1 to the 2001 10-K.
  - (19) Exhibit 10.5.2 to the 2001 10-K.
  - (20) Exhibit 10.7 to the 2003 10-K.
  - (21) Exhibit 10 to the September 30, 2002 10-Q.

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(22) Exhibit 10.24 to the 1993 10-K.

(23) Exhibits 10.27 and 10.28 to the June 30, 1994 10-Q.

(24) Exhibit 10.17 to the 1999 10-K.

(25) Exhibit 10.3 to the February 2005 8-K.

(26) Exhibit 21 to the 2003 10-K.

## RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT is made and entered into as of the date indicated on the signature page under "Date of Agreement" by and between MGIC Investment Corporation, a Wisconsin corporation (the "Company"), and the employee of Mortgage Guaranty Insurance Corporation whose signature is set forth on the signature page hereto (the "Employee").

## INTRODUCTION

The Company is awarding shares of the Company's Common Stock, \$1.00 par value per share (the "Stock"), and to the extent, if any, indicated in this instrument, Restricted Stock Units ("RSUs"), to the Employee under the MGIC Investment Corporation 2002 Stock Incentive Plan (the "Plan") and this Agreement.

This Agreement consists of this instrument and the Incorporated Terms Dated As of \_\_\_\_\_ to Restricted Stock Agreement (the "Incorporated Terms"), which although not attached to this instrument, are part of this Agreement and were provided to the Employee as indicated in Paragraph 1(b) below.

The parties mutually agree as follows:

1. Award of Restricted Stock or RSUs; Incorporated Terms.

(a) Subject to the terms and conditions set forth herein, the Company awards the Employee the number of shares of Stock as follows: the number of shares set forth after "Shares of Base Restricted Stock" on the signature page shall be the "Base Restricted Stock"; the number of shares set forth after "Shares of Matching Restricted Stock" on the signature page shall be the "Matching Restricted Stock"; the number of shares set forth after "Shares of Time Vested Restricted Stock" shall be the "Time Vested Restricted Stock"; and the number of shares set forth after "Shares of Performance Restricted Stock" shall be the "Performance Restricted Stock," except that if after "Restricted Stock Units" on the signature page "Yes" appears, then all shares of Stock indicated after "Time Vested Restricted Stock" shall be awarded in the form of RSUs. The term "Restricted Stock" as used in the remainder of this Agreement shall be applied separately to the Base Restricted Stock, the Matching Restricted Stock, the Time Vested Restricted Stock and the Performance Restricted Stock as if the term "Restricted Stock" were the term "Base Restricted Stock," "Matching Restricted Stock," "Time Vested Restricted Stock," or "Performance Restricted Stock," as the case may be.

(b) The Incorporated Terms are incorporated in this instrument with the same effect as if they were physically set forth in this instrument. The Incorporated Terms and this instrument constitute a single agreement which is referred to as "this Agreement." The terms "herein," "hereof," "above" and similar terms used in this Agreement refer to this Agreement as a whole. The Incorporated Terms were attached to an e-mail sent in \_\_\_\_\_ to the Employee from the Company's Secretary which included other documents relating

to the Restricted Stock. The Company is hereby advising the Employee to print and retain a copy of the Incorporated Terms. The Employee agrees if there is any difference between the text of the Incorporated Terms obtained as indicated above and the text of the Incorporated Terms retained by the Company's Secretary, the text of the copy retained by the Secretary will control.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Employee has hereunto affixed his hand and seal, all as of the day and year set forth below.

Date of Agreement: As of \_\_\_\_\_

MGIC INVESTMENT CORPORATION

By: \_\_\_\_\_

Title:

Sign Here:

\_\_\_\_\_ (SEAL)

Name:

Shares of Base Restricted Stock:

Shares of Matching Restricted Stock:

Shares of Time Vested Restricted Stock:

Shares of Performance Restricted Stock:

Restricted Stock Units:

Base Restricted Stock

Release Date:

Matching Restricted Stock

Release Date:

Time Vested Restricted Stock

Release Date:

Restricted Stock Units

Settlement Date:

Performance Restricted Stock

Release Date:

Target: \$

\* \* \* \*

Beneficiary: \_\_\_\_\_

Address of Beneficiary:

\_\_\_\_\_

\_\_\_\_\_

Beneficiary Tax Identification  
No: \_\_\_\_\_



Restricted Stock" on the signature page by the quotient of dividing the EPS for the fiscal year of the Company ended on the December 31 immediately preceding such date by the amount set forth after "Target" on the signature page. The resulting product, rounded down to the nearest whole share, is the number of shares of Restricted Stock that shall be released from such restrictions on the corresponding date set forth after "Performance Restricted Stock Release Date" and such date shall be the Release Date for such shares (and only for such shares). "EPS" means the Company's diluted earnings per share, determined in accordance with generally accepted accounting principles and adjusted to exclude the after-tax effect of (i) realized gains and losses, and (ii) extraordinary items, except that there shall not be excluded such gains, losses and items attributable to joint ventures. If by any date set forth after "Performance Restricted Stock Release Date" the Company has not publicly announced its diluted earnings per share, such date shall be two business days after such earnings are publicly announced.

3. Escrow. Shares of Restricted Stock shall be issued (in certificate or electronic form, at the discretion of the Company) as soon as practicable in the name of the Employee but shall be held in an escrow arrangement by the transfer agent for the Stock, as escrow agent. The Employee shall give the Company a stock power for such Stock duly endorsed in blank which will be held in escrow for use in the event such Stock is forfeited in whole or in part. Unless forfeited as provided herein, Restricted Stock shall cease to be held in escrow and certificates for such Stock shall be delivered to the Employee, or in the case of his death, to his Beneficiary (as hereinafter defined) on the Release Date or upon any other termination of the restrictions imposed by Paragraph 2 hereof.

4. Transfer After Release Date; Securities Law Restrictions. Except as otherwise provided herein, Restricted Stock shall become free of the restrictions of Paragraph 2 and be freely transferable by the Employee on the Release Date. Notwithstanding the foregoing or anything to the contrary herein, the Employee agrees and acknowledges with respect to any Restricted Stock and any Stock delivered in settlement of RSUs that has not been registered under the Securities Act of 1933, as amended (the "Act") (i) he will not sell or otherwise dispose of such Stock except pursuant to an effective registration statement under the Act and any applicable state securities laws, or in a transaction which, in the opinion of counsel for the Company, is exempt from such registration, and (ii) a legend will be placed on the certificates or other evidence for the Restricted Stock (or in the case of RSUs, any such Stock delivered in settlement) to such effect.

5. Termination of Employment Due to Death. If the Employee's employment with the Company or any of its subsidiaries is terminated because of death prior to the Release Date, (i) the restrictions of Paragraph 2 applicable to the Restricted Stock shall terminate on the date of death and such Restricted Stock shall be free of such restrictions and, except as otherwise provided in Paragraph 4 hereof, freely transferable, and (ii) a Release Date shall be deemed to have occurred for all RSUs.

6. Forfeiture of Restricted Stock. (a) If the Employee's employment with the Company and all of its subsidiaries is terminated prior to the Release Date for any reason (including without limitation, disability or termination by the Company and all subsidiaries thereof, with or without cause) other than death, all Restricted Stock and all RSUs shall be

forfeited to the Company on the date of such termination unless otherwise provided in subparagraph (b) below, or unless the Management Development, Nominating and Governance Committee of the Company's Board of Directors (the "Management Development Committee") or other Committee of such Board administering the Plan (the Management Development Committee or such other Committee is herein referred to as the "Committee") determines, on such terms and conditions, if any, as the Committee may impose, that all or a portion of the Restricted Stock and/or Stock deliverable on settlement of RSUs shall be released to the Employee and the restrictions of Paragraph 2 applicable thereto shall terminate. Absence of the Employee on leave approved by a duly elected officer of the Company, other than the Employee, shall not be considered a termination of employment during the period of such leave.

The Release Date for the Time Vested Restricted Stock (and any Time Vested Restricted Stock awarded as RSUs) and the Performance Restricted Stock may occur on multiple dates, each of which is a Release Date for the number of shares determined as provided in Paragraphs 2(a) and (c). Hence, any forfeiture of Time Vested Restricted Stock, Time Vested Restricted Stock awarded as RSUs or Performance Restricted Stock applies only to the shares for which a Release Date had not yet occurred on the date of forfeiture. The preceding sentence has been included in this Agreement for the purpose of avoiding any doubt that the result described in the preceding sentence would occur; therefore, such result will occur under prior agreements awarding Performance Restricted Stock to the Employee even though a comparable provision is not included in such agreements.

(b) If the Employee's employment with the Company and all of its subsidiaries terminates by reason of retirement after reaching age 62 and after having been employed by the Company or any subsidiary thereof for an aggregate period of at least seven years, such retirement shall not result in forfeiture of the Performance Restricted Stock or of any RSUs (this provision does not apply to the Base or Matching Restricted Stock nor does it apply to Time Vested Restricted Stock not awarded as RSUs) if no later than the date on which employment terminates, the Employee enters into an agreement with the Company (which agreement shall be drafted by and acceptable to the Company) under which the Employee agrees not to compete with the Company and its subsidiaries during a period ending one year after the latest of the dates set forth after (i) "Time Vested Restricted Stock Release Date" on the signature page, and (ii) "Performance Restricted Stock Release Date" on the signature page, and the Employee complies with such agreement. If the Employee enters into such a non-competition agreement and thereafter breaches the terms thereof, the Restricted Stock and RSUs shall be forfeited and the Employee shall return to the Company any Stock that was awarded under this Agreement and that was delivered to the Employee after the date on which such non-competition agreement was entered into. If the conditions in the second preceding sentence are satisfied and the Employee complies with the terms of such agreement, upon the Employee's death, the provisions of Paragraph 5 shall apply as if the Employee's employment with the Company and its subsidiaries terminated because of such death.

(c) Any shares of the Performance Restricted Stock for which a Release Date has not occurred by the latest date set forth after "Performance Restricted Stock Release Date" on the signature page (such date being subject to extension as contemplated in the last sentence of Paragraph 2(c)) shall be forfeited to the Company, unless the Committee determines otherwise as

contemplated in subparagraph (a) above.

(d) If Restricted Stock is forfeited, the Employee hereby appoints the Company, acting through any Vice President or more senior officer, as the Employee's attorney-in-fact to transfer such forfeited Restricted Stock to the Company.

7. Beneficiary. (a) The person whose name appears on the signature page hereof after the caption "Beneficiary" or any successor designated by the Employee in accordance herewith (the person who is the Employee's Beneficiary at the time of his death herein referred to as the "Beneficiary") shall be entitled to receive the Restricted Stock to be released to the Beneficiary under Paragraphs 3 and 5 as a result of the death of the Employee and the Stock to be delivered in settlement of RSUs. The Employee may from time to time revoke or change his Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Employee's death, and in no event shall any designation be effective as of a date prior to such receipt.

(b) If no such Beneficiary designation is in effect at the time of an Employee's death, or if no designated Beneficiary survives the Employee or if such designation conflicts with law, upon the death of the Employee, the Employee's estate shall be entitled to receive the Restricted Stock and the Stock to be delivered in settlement of RSUs. If the Committee is in doubt as to the right of any person to receive such Restricted Stock or Stock to be delivered in settlement of RSUs, the Company may retain the same and any distributions thereon, without liability for any interest thereon, until the Committee determines the person entitled thereto, or the Company may deliver such all of such property and any distributions thereon to any court of appropriate jurisdiction and such delivery shall be a complete discharge of the liability of the Company therefor.

8. Restricted Stock Legend. In addition to any legends placed on certificates for Restricted Stock, each certificate or other evidence for shares of Restricted Stock shall bear the following legend:

"The sale or other transfer of these shares of stock, whether voluntary, or by operation of law, is subject to certain restrictions set forth in the MGIC Investment Corporation 2002 Stock Incentive Plan and a Restricted Stock Agreement between MGIC Investment Corporation and the registered owner hereof. A copy of such Plan and such Agreement may be obtained from the Secretary of MGIC Investment Corporation."

When the restrictions imposed by Paragraph 2 hereof terminate, the Employee shall be entitled to have the foregoing legend removed from such Stock.

9. Voting Rights; Dividends and Other Distributions; Rights of RSUs. (a) While the Restricted Stock is subject to restrictions under Paragraph 2 and prior to any forfeiture thereof, the Employee may exercise full voting rights for the Restricted Stock.

(b) While the Restricted Stock is subject to the restrictions under Paragraph 2 and prior to any forfeiture thereof, the Employee shall be entitled to receive all dividends and other distributions paid with respect to the Restricted Stock. If any such dividends or distributions are paid in Stock, such shares shall be subject to the same restrictions as the shares of Restricted Stock with respect to which they were paid, including the requirement that Restricted Stock be held in escrow pursuant to Paragraph 3 hereof.

(c) Subject to the provisions of this Agreement, the Employee shall have, with respect to the Restricted Stock, all other rights of holders of Stock.

(d) RSUs represent only the right to receive as Stock, on the terms provided herein, the number of shares indicated after "Shares of Time Vested Restricted Stock" on the signature page. Except to the extent forfeited as provided herein, on the Restricted Stock Units Settlement Date set forth on the signature page or determined as provided thereon, RSUs shall be settled by the issuance of shares of Stock and certificates for such Stock shall be delivered to the Employee, or in the case of his death, to his Beneficiary. The Employee with respect to RSUs shall have no rights as a holder of Stock, including the right to vote or to receive dividends, until certificates for such Stock are actually delivered in settlement of the RSUs. Notwithstanding the preceding sentence, on each date on which the Company pays a dividend in cash on the Stock, the Company shall make a payment in cash on the RSUs that are outstanding on the record date for such dividend equal to the dividend that would have been paid on the number of shares indicated after "Shares of Time Vested Restricted Stock" on the signature page had such shares been outstanding.

10. Tax Withholding. (a) It shall be a condition of the obligation of the Company to release from escrow Restricted Stock to the Employee or the Beneficiary or to deliver Stock in settlement of RSUs, and the Employee agrees, that the Employee shall pay to the Company upon its demand, such amount as may be requested by the Company for the purpose of satisfying its liability to withhold federal, state, or local income or other taxes incurred by reason of the award of the Restricted Stock or RSUs, as a result of the termination of the restrictions on Restricted Stock hereunder or the delivery of Stock in settlement of RSUs.

(b) If the Employee does not make an election under Section 83(b) of the Internal Revenue Code of 1986, as amended, with respect to the Restricted Stock awarded hereunder, and does not satisfy the withholding obligations prior to the Tax Date (as defined below) by paying sufficient cash to the Company or transferring ownership of a sufficient number of other shares of Stock to the Company as provided in Paragraph 10(c), then the withholding tax requirements arising from the termination of restrictions on the Restricted Stock or the settlement of RSUs in Stock shall be satisfied through a withholding by the Company of shares of Stock that would otherwise be delivered to the Employee. In such event, the Company shall withhold that number of shares of Restricted Stock otherwise deliverable to the Employee from escrow hereunder or that number of shares of Stock that would otherwise be delivered in settlement of RSUs, in each case, having a Fair Market Value (as such term is defined in the Plan) on the day prior to the Tax Date equal to the amount required to be withheld as a result of the termination of the restrictions on such Restricted Stock or as a result of the settlement of

RSUs in Stock. As used herein, "Tax Date" means the date on which the Employee must include in his gross income for federal income tax purposes the fair market value of the Restricted Stock, or Stock delivered in settlement of the RSUs, over the purchase price therefor.

(c) If the Employee desires to use cash or other shares of Stock to satisfy the withholding obligations set forth above, the Employee must: (i) make an election to do so in writing on a form provided by the Company, (ii) deliver such election form to the Company by the deadline specified by the Company, and (iii) deliver to the company the required cash or other shares of Stock having a Fair Market Value on the Tax Date (as defined above) equal to the amount required to be withheld.

11. Adjustments in Event of Change in Stock or Fiscal Year. In the event of any change in the outstanding shares of Stock ("capital adjustment") for any reason, including but not limited to, any stock splits, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event which, in the judgment of the Committee, could distort the implementation of the award of Restricted Stock or the award of RSUs or the realization of the objectives of such award, the Committee may make such adjustments in the shares of Restricted Stock subject to this Agreement or in the shares deliverable on settlement of RSUs, or in the terms, conditions or restrictions of this Agreement, including the Target set forth on the signature page, as the Committee deems equitable. In addition, if the Company changes its fiscal year from a year ending December 31, the Committee may make such adjustments in the Performance Restricted Stock Release Date and the Target as the Committee deems equitable.

12. Change in Control. If a "Change in Control of the Company" (as defined in the Annex attached hereto) occurs, notwithstanding anything herein, the restrictions of Paragraph 2 applicable to the Restricted Stock shall terminate on the date of the Change in Control of the Company and a Release Date shall be deemed to have occurred for all RSUs. The Employee agrees that such Annex may be amended by the Company on one or more occasions without the consent or approval of the Employee if in the determination of the Committee such amendment is necessary or appropriate to conform the provisions of such Annex to the IRS Notice (as defined in such Annex), any regulations issued by the IRS under Section 409A of the Internal Revenue Code of 1986 (which was added by the American Jobs Creation Act of 2004) or any position published by the IRS with respect to such Section. The right of the Company to make such an amendment does not depend on whether the Restricted Stock or RSUs are subject to such Section but will enable the Company to have uniform provisions governing a change of control among all agreements having such change of control provisions, including those under which compensation is subject to such Section. Any such amendment will become effective upon notice to the Employee. The Company will seek to give the Employee notice of an amendment with reasonable promptness after the Committee has approved the amendment.

13. Powers of Company Not Affected; No Right to Continued Employment.

(a) The existence of the Restricted Stock or RSUs shall not affect in any way the right or power of the Company or its stockholders to make or authorize any combination, subdivision or reclassification of the Stock or any reorganization, merger, consolidation, business

combination, exchange of shares, or other change in the Company's capital structure or its business, or any issue of bonds, debentures or stock having rights or preferences equal, superior or affecting the Restricted Stock or any Stock to be issued in settlement of RSUs or, in both cases, the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. The determination of the Committee as to any such adjustment shall be conclusive and binding for all purposes of this Agreement.

(b) Nothing herein contained shall confer upon the Employee any right to continue in the employment of the Company or any subsidiary or interfere with or limit in any way the right of the Company or any subsidiary to terminate the Employee's employment at any time, subject, however, to the provisions of any agreement of employment between the Company or any subsidiary and the Employee. The Employee acknowledges that a termination of his or her employment could occur at a time before which the restrictions referred to in Paragraph 2 above have lapsed, resulting in the forfeiture of the Restricted Stock and RSUs by the Employee, unless otherwise provided herein. In such event, the Employee will not be able to realize the value of the Restricted Stock or of the Stock that underlies the RSUs nor will the Employee be entitled to any compensation on account of such value.

14. Interpretation by Committee. The Employee agrees that any dispute or disagreement which may arise in connection with this Agreement shall be resolved by the Committee, in its sole discretion, and that any interpretation by the Committee of the terms of this Agreement or the Plan and any determination made by the Committee under this Agreement or the Plan may be made in the sole discretion of the Committee and shall be final, binding, and conclusive. Any such determination need not be uniform and may be made differently among Employees awarded Restricted Stock and RSUs.

15. Miscellaneous. (a) This Agreement shall be governed and construed in accordance with the laws of the State of Wisconsin applicable to contracts made and to be performed therein between residents thereof.

(b) The waiver by the Company of any provision of this Agreement shall not operate or be construed to be a subsequent waiver of the same provision or waiver of any other provision hereof.

(c) The Restricted Stock and RSUs shall be deemed to have been awarded pursuant to the Plan and is subject to the terms and conditions thereof. In the event of any conflict between the terms hereof and the provisions of the Plan, the terms and conditions of the Plan shall prevail. Any and all terms used herein, unless specifically defined herein shall have the meaning ascribed to them in the Plan. A copy of the Plan is available on request of the Employee made in writing or by e-mail to the Company's Secretary.

(d) Any notice, filing or delivery hereunder or with respect to Restricted Stock or RSUs shall be given to the Employee at either his usual work location or his home address as indicated in the records of the Company, and shall be given to the Committee or the Company at

250 East Kilbourn Avenue, Milwaukee 53202, Attention: Secretary. All such notices shall be given by first class mail, postage pre-paid, or by personal delivery.

(e) This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns and shall be binding upon and inure to the benefit of the Employee, the Beneficiary and the personal representative(s) and heirs of the Employee, except that the Employee may not transfer any interest in any Restricted Stock prior to the release of the restrictions imposed by Paragraph 2 nor may the Employee transfer any interest in any RSUs.

(f) As a condition to the grant of the Restricted Stock and RSUs, the Employee must execute an agreement not to compete in the form provided to the Employee by the Company.

The end of Paragraph 15 is the end of the Incorporated Terms. The remainder of the Agreement is contained in the Base Instrument.

ANNEX

DEFINITION OF "CHANGE IN CONTROL OF THE COMPANY" AND RELATED TERMS

1 Change in Control of the Company. A "Change in Control of the Company" shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(i) any Person (other than (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of the Company or any of its subsidiaries, (C) an underwriter temporarily holding securities pursuant to an offering of such securities or (D) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company ("Excluded Persons")) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after July 22, 1999, pursuant to express authorization by the Board of Directors of the Company (the "Board") that refers to this exception) representing more than 50% of the total fair market value of the stock of the Company or representing 50% or more of the total voting power of the stock of the Company; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors of the Company then serving: (A) individuals who, on July 22, 1999, constituted the Board and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors on July 22, 1999, or whose initial appointment, election or nomination for election as a director which occurred after July 22, 1999 was approved by such vote of the directors then still in office at the time of such initial appointment, election or nomination who were themselves either directors on July 22, 1999 or initially appointed, elected or nominated by such majority vote as described above ad infinitum (collectively the "Continuing Directors"); provided, however, that individuals who are appointed to the Board pursuant to or in accordance with the terms of an agreement relating to a merger, consolidation, or share exchange involving the Company (or any direct or indirect subsidiary of the Company) shall not be Continuing Directors for purposes of this Agreement until after such individuals are first nominated for election by a vote of at least a majority of the then Continuing Directors and are thereafter elected as directors by the

shareholders of the Company at a meeting of shareholders held following consummation of such merger, consolidation, or share exchange; and, provided further, that in the event the failure of any such persons appointed to the Board to be Continuing Directors results in a Change in Control of the Company, the subsequent qualification of such persons as Continuing Directors shall not alter the fact that a Change in Control of the Company occurred; or

(iii) a merger, consolidation or share exchange of the Company with any other corporation is consummated or voting securities of the Company are issued in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company entitled to vote generally in the election of directors outstanding immediately prior to such merger, consolidation or share exchange continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof entitled to vote generally in the election of directors of such entity or parent outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than an Excluded Person) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after July 22, 1999, pursuant to express authorization by the Board that refers to this exception) representing at least 50% of the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(iv) the sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity of which at least 75% of the combined voting power of the voting securities entitled to vote generally in the election of directors (or such lower percentage as is determined under the IRS Notice) immediately after such sale are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale. It is understood that in no event shall a sale or disposition of assets be considered to be a sale of substantially all of the assets unless the assets sold or disposed of have a total gross fair market value of at least 40% of the total gross fair market value of all of the Company's assets immediately prior to such sale or disposition.

2 Related Definitions. For purposes of this Annex, the following terms, when capitalized, shall have the following meanings:

(i) Act. The term "Act" means the Securities Exchange Act of 1934, as amended.

(ii) Affiliate and Associate. The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Act.

(iii) Beneficial Owner. A Person shall be deemed to be the "Beneficial Owner" of any securities:

(a) which such Person or any of such Person's Affiliates or Associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, (A) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase, or (B) securities issuable upon exercise of Rights issued pursuant to the terms of the Company's Rights Agreement, dated as of July 22, 1999, between the Company and Wells Fargo Bank Minnesota, National Association (as successor Rights Agent), as amended from time to time (or any successor to such Rights Agreement), at any time before the issuance of such securities;

(b) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Act), including pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this Subsection 1 (c) as a result of an agreement, arrangement or understanding to vote such security if the agreement, arrangement or understanding: (A) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Act and (B) is not also then reportable on a Schedule 13D under the Act (or any comparable or successor report); or

(c) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or

Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in Subsection 1(c) (ii) above) or disposing of any voting securities of the Company.

(iv) IRS Notice. The term "IRS Notice" shall mean the IRS Notice 2005-1, which was issued with respect to the American Jobs Creation Act of 2004.

(v) Person. The term "Person" shall mean any individual, firm, partnership, corporation or other entity, including any successor (by merger or otherwise) of such entity, or a group of any of the foregoing acting in concert.

(vi) Stock. The term "stock" shall have the meaning contemplated by the IRS Notice.

## RESTRICTED STOCK AND RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK AND RESTRICTED STOCK UNIT AGREEMENT is made and entered into as of the date indicated on the signature page under "Date of Agreement" by and between MGIC Investment Corporation, a Wisconsin corporation (the "Company"), and the director of MGIC Investment Corporation whose signature is set forth on the signature page hereto (the "Director").

## INTRODUCTION

The Company is awarding shares of the Company's Common Stock, \$1.00 par value per share (the "Stock"), and to the extent indicated in this instrument, Restricted Stock Units ("RSUs"), to the Director under the MGIC Investment 2002 Stock Incentive Plan (the "Plan") and this Agreement.

This Agreement consists of this instrument and the Incorporated Terms Dated As of \_\_\_\_\_ to Restricted Stock and Restricted Stock Unit Agreement (the "Incorporated Terms"), which although not attached to this instrument, are part of this Agreement and were sent to the Director as indicated in Paragraph 1(b) below.

The parties mutually agree as follows:

1. Award of Restricted Stock or RSUs; Incorporated Terms.

(a) Subject to the terms and conditions set forth herein, the Company awards the Director the (i) number of shares of Stock set forth after "Shares of Restricted Stock" on the signature page (the "Restricted Stock"), except that if after "Restricted Stock Units" on the signature page "Yes" appears, then all shares of Stock indicated after "Shares of Restricted Stock" shall be awarded in the form of RSUs and such RSUs shall be the "Deposit Share RSUs," and (ii) the number of RSUs set forth after "Annual RSU Award" on the signature page, which shall be the "Annual RSUs." The term "RSUs" as used in the remainder of this Agreement shall be applied separately to the Deposit Share RSUs and the Annual RSUs as if the term "RSUs" were the term "Deposit Share RSUs" or "Annual RSUs," as the case may be.

(b) The Incorporated Terms are incorporated in this instrument with the same effect as if they were physically set forth in this instrument. The Incorporated Terms and this instrument constitute a single agreement which is referred to as "this Agreement." The terms "herein," "hereof," "above" and similar terms used in this Agreement refer to this Agreement as a whole. The Incorporated Terms are attached to an e-mail dated on or about \_\_\_\_\_ to the Director from the Company's Secretary (the "E-Mail"). The Company is hereby advising the Director to print and retain a copy of the Incorporated Terms. The Director agrees if there is any difference between the text of the Incorporated Terms obtained as indicated above and the text of the Incorporated Terms retained by the Company's Secretary, the text of the copy retained by the Secretary will control.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Director has hereunto affixed his or her hand and seal, all as of the day and year set forth below.

Date of Agreement:

MGIC INVESTMENT CORPORATION

By: \_\_\_\_\_  
t

Shares of Restricted Stock:

Restricted Stock Release Date:

Restricted Stock Units:

Annual RSU Award:

Annual RSU Release Date:  
\* \* \*

Beneficiary: \_\_\_\_\_

Address of Beneficiary:

\_\_\_\_\_  
\_\_\_\_\_

Beneficiary's Tax Identification  
Number: \_\_\_\_\_

INCORPORATED TERMS  
DATED AS OF \_\_\_\_\_

TO

## RESTRICTED STOCK AND RESTRICTED STOCK UNIT AGREEMENT

The following are the "Incorporated Terms" referred to in the instrument entitled "Restricted Stock and Restricted Stock Unit Agreement" which refers to these Incorporated Terms and which has been signed by the Company and the Director (the "Base Instrument"). The Incorporated Terms and the Base Instrument constitute a single agreement and that agreement consists of the Base Instrument and the Incorporated Terms. The Incorporated Terms dovetail with the Base Instrument; because the last paragraph of the Base Instrument is Paragraph 1, the Incorporated Terms begin with Paragraph 2.

2. Restrictions. (a) Except as otherwise provided herein, the Restricted Stock may not be sold, transferred or otherwise alienated or hypothecated until the Restricted Stock Release Date set forth on the signature page (such date as used herein with respect to the Restricted Stock is referred to as the "Release Date.") Shares of Restricted Stock may be transferred by gift pursuant to the "Rules for Transfer of Awards Under Deposit Share Program for Directors," which were attached to the E-Mail. Any person to whom shares of Restricted Stock are transferred pursuant to the Rules is herein referred to as a "Permitted Transferee."

(b) The Release Date for Deposit Share RSUs shall be the same as the Release Date for the Restricted Stock, and the Release Date for Annual RSUs shall be the date set forth after "Annual RSU Release Date" on the signature page. The term "Release Date" as used in the remainder of this Agreement shall be applied separately to the Deposit Share RSUs and the Annual RSUs as if the term "RSUs" were the term "Deposit Share RSUs" or "Annual RSUs," as the case may be. Except as otherwise provided herein, RSUs may not be sold, transferred or otherwise alienated or hypothecated regardless of the occurrence of the Release Date.

3. Escrow. (a) Certificates for shares of Restricted Stock shall be issued as soon as practicable in the name of the Director but shall be held in escrow by the Company, as escrow agent. Upon issuance of such certificates, (i) if certificates are issued in non-electronic registration, the Company shall give the Director a receipt for the Restricted Stock held in escrow which will state that the Company holds such Stock in escrow for the account of the Director, subject to the terms of this Agreement, and (ii) the Director shall give the Company a stock power for such Stock duly endorsed in blank which will be held in escrow for use in the event such Stock is forfeited in whole or in part. Unless forfeited as provided herein, Restricted Stock shall cease to be held in escrow and certificates for such Stock which have not been transferred to a Permitted Transferee shall be delivered to the Director, or in the case of his death, to his Beneficiary (as hereinafter defined) on the Release Date or upon any other termination of the restrictions imposed by Paragraph 2 hereof.

(b) Certificates for shares of Stock, if any, that were purchased to obtain an award of Restricted Stock ("Purchased Shares") shall also be held in escrow by the Company, as escrow agent. Upon issuance of such certificates, if certificates are issued in non-electronic registration, the Company shall give the Director a receipt for the Purchased Stock held in

escrow which will state that the Company holds such Stock in escrow for the account of the Director.

4. Transfer After Release Date; Securities Law Restrictions. Except as otherwise provided herein, Restricted Stock shall become free of the restrictions of Paragraph 2 and be freely transferable by the Director on the Release Date (such freeing of such restrictions is herein referred to as "vesting"). Notwithstanding the foregoing or anything to the contrary herein, the Director agrees and acknowledges with respect to any Restricted Stock and any Stock delivered in settlement of RSUs that has not been registered under the Securities Act of 1933, as amended (the "Act"), that (i) the Director will not sell or otherwise dispose of such Stock except pursuant to an effective registration statement under the Act and any applicable state securities laws, or in a transaction which, in the opinion of counsel for the Company, is exempt from such registration, and (ii) a legend will be placed on the certificates for the Restricted Stock to such effect.

5. Termination of Directorship Due to Death or a Permissible Event. If the Director ceases to be a director of the Company by reason of the Director's death or a "Permissible Event" prior to the Release Date, (i) the restrictions of Paragraph 2 applicable to the Restricted Stock shall terminate, (ii) a Release Date shall be deemed to have occurred for all RSUs and (iii) the vesting requirements for the Restricted Stock and RSUs shall be deemed to be fulfilled on the date of the Director's death or the Permissible Event. A Permissible Event is termination of service as a director of the Company by reason of (i) the Director being ineligible for continued service as a director of the Company because of the Director's age under the Company's Corporate Governance Guidelines, or (ii) the Director's taking a position with or providing services to a governmental, charitable or educational institution whose policies prohibit the Director's continued service on the Company's Board or under circumstances in which such continued service would be a violation of law.

6. Termination of Directorship for Other Reasons. If, prior to the Release Date, the Director ceases to be a director of the Company for any reason other than the Director's death or a Permissible Event, the Restricted Stock and RSUs awarded hereunder shall be forfeited by the Director and shall revert to the Company, unless otherwise provided by the Committee. In addition, Restricted Stock may be forfeited as provided in Paragraph 14(g).

7. Beneficiary. (a) The person whose name appears on the signature page hereof after the caption "Beneficiary" or any successor designated by the Director in accordance herewith (the person who is the Director's Beneficiary at the time of his death herein referred to as the "Beneficiary") shall be entitled to receive the [vested] Restricted Stock to be released to the Beneficiary under Paragraphs 3 and 5 as a result of the death of the Director and the Stock to be delivered in settlement of RSUs. The Director may from time to time revoke or change the Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Director's death, and in no event shall any designation be effective as of a date prior to such receipt. If no such Beneficiary designation is in effect at the time of the Director's death, or if no designated Beneficiary survives the Director or if such designation conflicts with law, the Director's estate shall be entitled to receive the Restricted Stock upon the death of the Director and the Stock to be delivered in settlement of RSUs.

(b) A Permitted Transferee shall be entitled to designate a Beneficiary with respect to the shares of Restricted Stock transferred to the Permitted Transferee by completing the appropriate portion of the election form contemplated by Paragraph 5 of the Rules (the "Election Form"). Such Beneficiary shall be entitled to receive the vested Restricted Stock to be released under Paragraphs 3 and 5 as a result of the death of the Director or otherwise to be released hereunder if, in either case, the Permitted Transferee dies, prior to such release. The Permitted Transferee may from time to time revoke or change such Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling, provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Director's death, and in no event shall any designation be effective as of a date prior to such receipt. If no such designated Beneficiary survives the Permitted Transferee, such Beneficiary's estate, or if such designation conflicts with law, the Permitted Transferee's estate, shall be entitled to receive the Restricted Stock released hereunder.

(c) If the Committee is in doubt as to the right of any person to receive Restricted Stock or Stock delivered in settlement of RSUs, the Company may retain such Stock, without liability for any interest thereon, until the Committee determines the person entitled thereto, or the Company may deliver such Restricted Stock or Stock to be delivered in settlement of RSUs to any court of appropriate jurisdiction and such delivery shall be a complete discharge of the liability of the Company therefor.

8. Certificate Legend. In addition to any legends placed on certificates for Restricted Stock under Paragraph 4 hereof, each certificate for shares of Restricted Stock shall bear the following legend:

"The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, or by operation of law, is subject to certain restrictions set forth in the MGIC Investment Company 2002 Stock Incentive Plan, as amended, and a Restricted Stock Agreement between MGIC Investment Company and the registered owner hereof. A copy of such Plan and such Agreement may be obtained from the Secretary of MGIC Investment Company."

When the restrictions imposed by Paragraph 2 hereof terminate, the foregoing legend shall be removed from the certificates representing such Stock upon request of the Director or a Permitted Transferee for whom the shares have been transferred.

9. Voting Rights; Dividends and Other Distributions; Rights of RSUs.

(a) While the Restricted Stock is subject to restrictions under Paragraph 2 and prior to any forfeiture thereof, the Director may exercise full voting rights for the Restricted Stock registered in his or her name and held in escrow hereunder.

(b) While the Restricted Stock is subject to the restrictions under Paragraph 2 and prior to any forfeiture thereof, the Director shall be entitled to receive all dividends and other distributions paid with respect to the Restricted Stock. If any such dividends or distributions are paid in Stock, such shares shall be subject to the same restrictions as the shares of Restricted

Stock with respect to which they were paid, including the requirement that Restricted Stock be held in escrow pursuant to Paragraph 3 hereof.

(c) Subject to the provisions of this Agreement, the Director shall have, with respect to the Restricted Stock, all other rights of holders of Stock.

(d) RSUs represent only the right to receive as Stock, on the terms provided herein, (i) in the case of Deposit Share RSUs, equal to the number of shares indicated after "Shares of Restricted Stock" on the signature page, and (ii) in the case of the Annual RSUs, equal to one share of Stock for each such RSU. RSUs that have vested shall be settled by the delivery of one share of Stock for each RSU as promptly as practicable after the Director ceases to be a Director of the Company. The Director shall have no rights as a holder of Stock on account of RSUs, including the right to vote or to receive dividends, until certificates for such Stock are actually delivered in settlement of the RSU. Notwithstanding the preceding sentence, on each date on which the Company pays a dividend in cash on the Stock, the Company shall make a payment in cash on the RSUs that are outstanding on the record date for such dividend equal to, in the case of Deposit Share RSUs, the dividend that would have been paid on the number of shares indicated after "Shares of Restricted Stock" on the signature page had such shares then been outstanding, and on the Annual RSUs, equal to the number of shares that are to be issued in settlement of the Annual RSUs had such shares then been outstanding.

10. Adjustments in Event of Change in Stock. In the event of any change in the outstanding shares of Stock ("capital adjustment") for any reason, including but not limited to, any stock splits, stock dividend, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event which, in the judgment of the Committee, could distort the implementation of the award of Restricted Stock or the award of RSUs, the Committee may make such adjustments in the shares of Restricted Stock subject to this Agreement or in the property deliverable in settlement of RSUs, or in the terms, conditions or restrictions of this Agreement as the Committee deems equitable.

11. Change in Control. If a "Change in Control of the Company" (as defined in the Annex attached hereto) occurs, notwithstanding anything herein, the restrictions of Paragraph 2 applicable to the Restricted Stock not previously forfeited shall terminate on the date of the Change in Control of the Company and a Release Date shall be deemed to have occurred for all RSUs. The Director agrees that such Annex may be amended by the Company on one or more occasions without the consent or approval of the Director if in the determination of the Committee such amendment is necessary or appropriate to conform the provisions of such Annex to the IRS Notice (as defined in such Annex), any regulations issued by the IRS under Section 409A of the Internal Revenue Code of 1986 (which was added by the American Jobs Creation Act of 2004) or any position published by the IRS with respect to such Section. The right of the Company to make such an amendment does not depend on whether the Restricted Stock or RSUs are subject to such Section but will enable the Company to have uniform provisions governing a change in control among all agreements having such change of control provisions, including those under which compensation is subject to such Section. Any such amendment will become effective upon notice to the Director. The Company will seek to give the Director notice of an amendment with reasonable promptness after the Committee has approved the amendment.

12. Powers of Company Not Affected. The existence of the Restricted Stock or RSUs shall not affect in any way the right or power of the Company or its stockholders to make or authorize any combination, subdivision or reclassification of the Stock or any reorganization, merger, consolidation, business combination, exchange of shares, or other change in the Company's capital structure or its business, or any issue of bonds, debentures or stock having rights or preferences equal, superior or affecting the Restricted Stock or any Stock to be issued in settlement of RSUs or, in both cases, the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. The determination of the Committee as to any such adjustment shall be conclusive and binding for all purposes of this Agreement. Nothing herein shall confer upon the Director the right to continue as a member of the Company's Board of Directors.

13. Interpretation by Committee. The Director agrees that any dispute or disagreement which may arise in connection with this Agreement shall be resolved by the Committee, in its sole discretion, and that any interpretation by the Committee of the terms of this Agreement or the Plan and any determination made by the Committee under this Agreement or the Plan may be made in the sole discretion of the Committee and shall be final, binding, and conclusive. Any such determination need not be uniform and may be made differently among directors awarded Restricted Stock and RSUs.

14. Miscellaneous.

(a) This Agreement shall be governed and construed in accordance with the laws of the State of Wisconsin applicable to contracts made and to be performed therein between residents thereof.

(b) The waiver by the Company of any provision of this Agreement shall not operate or be construed to be a subsequent waiver of the same provision or waiver of any other provision hereof.

(c) The Restricted Stock and RSUs shall be deemed to have been awarded pursuant to the Plan and are subject to the terms and conditions thereof. In the event of any conflict between the terms hereof and the provisions of the Plan, the terms and conditions of the Plan shall prevail. Any and all terms used herein, unless specifically defined herein shall have the meaning ascribed to them in the Plan.

(d) Any notice, filing or delivery hereunder or with respect to Restricted Stock or RSUs shall be given to the Director at either his or her address as indicated in the records of the Company to which communications are generally sent to him or her; shall be given to a Permitted Transferee at his address as indicated in the Election Form; and shall be given to the Committee or the Company at 250 East Kilbourn Avenue, Milwaukee 53202, Attention: Secretary. All such notices shall be given by first class mail, postage pre-paid, or by personal delivery.

(e) This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns and shall be binding upon and inure to the benefit of the Director, any Permitted Transferee, the Beneficiary and the personal representative(s) and heirs

of the Director, except that the Director may not transfer any interest in any Restricted Stock prior to the release of the restrictions imposed by Paragraph 2 other than as provided in Paragraph 2 nor may the Director transfer any interest in any RSUs.

(f) The term "certificate" as used herein with regard to shares of Restricted Stock, includes electronic registration in the system of the Company's transfer agent for the Stock. The term "Committee" means any Committee of the Company's Board of Directors which is then administering the Plan if other than the Management Development, Nominating and Governance Committee.

(g) If Purchased Shares are pledged in accordance with the "Rules Relating to Pledges Under Non-Employee Directors Deposit Share Program" that accompanied the E-Mail, and are subsequently transferred (other than to a subsequent pledgee) prior to the Release Date, one and one-half shares of Restricted Stock shall be forfeited for each Purchased Share so transferred.

15. Permitted Transferee. In the event shares of Restricted Stock are transferred to a Permitted Transferee, (i) the provisions of Paragraphs 3, 4, 9, and 13 shall apply mutatis muntandis to the shares so transferred and to the Permitted Transferee; (ii) the provisions of Paragraphs 5, 8, 10, 11, 12 and 14 shall continue to apply without any change with respect to the shares so transferred; and (iii) the provisions of Paragraph 6 shall continue to apply without any change with respect to the shares so transferred, except that the shares to be forfeited shall be those shares of Restricted Stock that have not vested and which are held by the Permitted Transferee.

The end of Paragraph 15 is the end of the Incorporated Terms. The remainder of the Agreement is contained in the Base Instrument.

ANNEX

DEFINITION OF "CHANGE IN CONTROL OF THE COMPANY" AND RELATED TERMS

1 Change in Control of the Company. A "Change in Control of the Company" shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(i) any Person (other than (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of the Company or any of its subsidiaries, (C) an underwriter temporarily holding securities pursuant to an offering of such securities or (D) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company ("Excluded Persons")) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after July 22, 1999, pursuant to express authorization by the Board of Directors of the Company (the "Board") that refers to this exception) representing more than 50% of the total fair market value of the stock of the Company or representing 50% or more of the total voting power of the stock of the Company; or

(ii) the following individuals cease for any reason to constitute a majority of the number of directors of the Company then serving: (A) individuals who, on July 22, 1999, constituted the Board and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors on July 22, 1999, or whose initial appointment, election or nomination for election as a director which occurred after July 22, 1999 was approved by such vote of the directors then still in office at the time of such initial appointment, election or nomination who were themselves either directors on July 22, 1999 or initially appointed, elected or nominated by such majority vote as described above ad infinitum (collectively the "Continuing Directors"); provided, however, that individuals who are appointed to the Board pursuant to or in accordance with the terms of an agreement relating to a merger, consolidation, or share exchange involving the Company (or any direct or indirect subsidiary of the Company) shall not be Continuing Directors for purposes of this Agreement until after such individuals are first nominated for election by a vote of at least a majority of the then Continuing Directors and are thereafter elected as directors by the shareholders of the Company at a meeting of shareholders held following consummation of such merger, consolidation, or share exchange; and, provided further, that in the event the failure of any such persons appointed to the Board to

be Continuing Directors results in a Change in Control of the Company, the subsequent qualification of such persons as Continuing Directors shall not alter the fact that a Change in Control of the Company occurred; or

(iii) a merger, consolidation or share exchange of the Company with any other corporation is consummated or voting securities of the Company are issued in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company entitled to vote generally in the election of directors outstanding immediately prior to such merger, consolidation or share exchange continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof entitled to vote generally in the election of directors of such entity or parent outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than an Excluded Person) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after July 22, 1999, pursuant to express authorization by the Board that refers to this exception) representing at least 50% of the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(iv) the sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity of which at least 75% of the combined voting power of the voting securities entitled to vote generally in the election of directors (or such lower percentage as is determined under the IRS Notice) immediately after such sale are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale. It is understood that in no event shall a sale or disposition of assets be considered to be a sale of substantially all of the assets unless the assets sold or disposed of have a total gross fair market value of at least 40% of the total gross fair market value of all of the Company's assets immediately prior to such sale or disposition.

2 Related Definitions. For purposes of this Annex, the following terms, when capitalized, shall have the following meanings:

(i) Act. The term "Act" means the Securities Exchange Act of 1934, as amended.

(ii) Affiliate and Associate. The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Act.

(iii) Beneficial Owner. A Person shall be deemed to be the "Beneficial Owner" of any securities:

(a) which such Person or any of such Person's Affiliates or Associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, (A) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase, or (B) securities issuable upon exercise of Rights issued pursuant to the terms of the Company's Rights Agreement, dated as of July 22, 1999, between the Company and Wells Fargo Bank Minnesota, National Association (as successor Rights Agent), as amended from time to time (or any successor to such Rights Agreement), at any time before the issuance of such securities;

(b) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Act), including pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this Subsection 1 (c) as a result of an agreement, arrangement or understanding to vote such security if the agreement, arrangement or understanding: (A) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Act and (B) is not also then reportable on a Schedule 13D under the Act (or any comparable or successor report); or

(c) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in Subsection 1(c) (ii) above) or disposing of any voting securities of the Company.

(iv) IRS Notice. The term "IRS Notice" shall mean the IRS Notice 2005-1, which was issued with respect to the American Jobs Creation Act of 2004.

(v) Person. The term "Person" shall mean any individual, firm, partnership, corporation or other entity, including any successor (by merger or otherwise) of such entity, or a group of any of the foregoing acting in concert.

(vi) Stock. The term "stock" shall have the meaning contemplated by the IRS Notice.

EXECUTIVE BONUS PLAN OF  
MGIC INVESTMENT CORPORATION  
(the "Company")

The Executive Bonus Plan of the Company in effect for 2004 (which is not contained in a formal plan document), applied to certain officers of the Company, including the executive officers of the Company identified in the Form 10-K for the year ended December 31, 2004. Under the Executive Bonus Plan, bonuses were awarded based on corporate performance and the individual performance of the executive officer during the year. The maximum bonus that an executive officer could receive ranged from 120% to 200% of the officer's base salary as of the end of 2004. The officer could elect to receive up to one-third of the bonus in restricted stock of the Company that vested in one year. For each share of restricted stock so elected, the Company awarded one and one-half shares of restricted stock that vested in three years.

**MGIC Investment Corporation**  
**Other Compensation Agreements with Executive Officers and Directors**

The following agreements, which are not evidenced by any formal instruments, have been entered into with the Company by the persons referred to below.

Agreements Relating to Compensation of Senior Management

As previously reported in the Company's Current Report on Form 8-K filed on February 1, 2004 (the "8-K"), on January 26, 2005, the Management Development, Nominating and Governance Committee (the "Committee") of the Company's Board of Directors approved the following new base salaries, effective March 21, 2005, for the following executive officers: Curt S. Culver, Chief Executive Officer — \$750,000; J. Michael Lauer, Chief Financial Officer — \$378,000; Lawrence J. Pierzchalski, Executive Vice President — Risk Management — \$371,000; Patrick Sinks, Executive Vice President-Field Operations — \$365,000; and Jeffrey H. Lane, General Counsel — \$303,000. The Committee also approved cash bonuses for these officers based on performance for the year ended December 31, 2004 as follows: Mr. Culver — \$780,392; Mr. Lauer — \$299,888; Mr. Pierzchalski - \$292,687; Mr. Sinks — \$279,184; and Mr. Lane — \$243,177.

Agreements Relating to Compensation of Directors

As previously reported in the 8-K, on January 27, 2005, the Company's Board of Directors established new annual compensation for serving as a Chair of a Committee of the Board as follows: Audit Committee — \$10,000; and Management Development, Nominating and Governance Committee, Risk Management Committee and Securities Investment Committee — \$5,000.

MGIC INVESTMENT CORPORATION AND SUBSIDIARIES  
 STATEMENT RE COMPUTATION OF PER SHARE EARNINGS (1)  
 FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<b>BASIC EARNINGS PER SHARE</b>			
Average common shares outstanding	97,549	98,776	103,725
	-----	-----	-----
Net income	\$ 553,186	\$ 493,879	\$ 629,191
	-----	-----	-----
Basic earning per share	\$ 5.67	\$ 5.00	\$ 6.07
	-----	-----	-----
<b>DILUTED EARNINGS PER SHARE</b>			
Adjusted weighted average shares outstanding:			
Average common shares outstanding	97,549	98,776	103,725
Common stock equivalents	696	246	489
	-----	-----	-----
Adjusted weighted average diluted shares outstanding	98,245	99,022	104,214
	-----	-----	-----
Net income	\$ 553,186	\$ 493,879	\$ 629,191
	-----	-----	-----
Diluted earnings per share	\$ 5.63	\$ 4.99	\$ 6.04
	-----	-----	-----

(1) Per Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements listed below of MGIC Investment Corporation of our reports dated March 11, 2005, relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting and financial statement schedules, which appear in this Annual Report on Form 10-K for the year ended December 31, 2004.

1. Registration Statement on Form S-8 (Registration No. 33-79338)
2. Registration Statement on Form S-8 (Registration No. 33-79340)
3. Registration Statement on Form S-8 (Registration No. 33-92128)
4. Registration Statement on Form S-8 (Registration No. 333-56350)
5. Registration Statement on Form S-8 (Registration No. 333-56346)
6. Registration Statement on Form S-8 (Registration No. 333-101621)

PricewaterhouseCoopers LLP  
Chicago, Illinois  
March 15, 2005

## CERTIFICATIONS

I, Curt S. Culver, certify that:

1. I have reviewed this annual report on Form 10-K of MGIC Investment Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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: March 14, 2005

/s/ Curt S. Culver

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Curt S. Culver  
Chief Executive Officer

I, J. Michael Lauer, certify that:

1. I have reviewed this annual report on Form 10-K of MGIC Investment Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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: March 14, 2005

/s/ J. Michael Lauer

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J. Michael Lauer  
Chief Financial Officer

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (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: March 14, 2005

/s/ Curt S. Culver

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Curt S. Culver  
Chief Executive Officer

/s/ J. Michael Lauer

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J. Michael Lauer  
Chief Financial Officer