

OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
for the quarterly period ended: March 31, 2010 or

Transition report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934

Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

No. 36-2678171
(IRS Employer Identification No.)

307 North Michigan Avenue, Chicago,
Illinois
(Address of principal executive office)

60601
(Zip Code)

Registrant's telephone number, including area code: 312-346-8100

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes: No:

Class	Shares Outstanding March 31, 2010
Common Stock / \$1 par value	241,029,255

There are 41 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / March 31, 2010

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Old Republic International Corporation and Subsidiaries
Consolidated Balance Sheets
(\$ in Millions, Except Share Data)

	(Unaudited) March 31, 2010	December 31, 2009
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$7,877.1 and \$7,896.2)	\$ 8,352.2	\$ 8,326.8
Equity securities (at fair value) (adjusted cost: \$358.6 and \$357.5)	631.4	502.9
Short-term investments (at fair value which approximates cost)	783.5	826.7
Miscellaneous investments	23.9	24.0
Total	9,791.2	9,680.5
Other investments	7.3	7.8
Total investments	9,798.5	9,688.4
Other Assets:		
Cash	74.9	77.3
Securities and indebtedness of related parties	11.2	17.1
Accrued investment income	112.5	113.3
Accounts and notes receivable	794.4	788.6
Federal income tax recoverable: Current	.4	7.3
Prepaid federal income taxes	136.0	221.4
Reinsurance balances and funds held	130.7	141.9
Reinsurance recoverable: Paid losses	75.9	66.7
Policy and claim reserves	2,519.9	2,491.2
Deferred policy acquisition costs	202.0	206.9
Sundry assets	384.0	369.3
	4,442.3	4,501.6
Total Assets	\$ 14,240.9	\$ 14,190.0
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 7,774.8	\$ 7,915.0
Unearned premiums	1,041.7	1,038.1
Other policyholders' benefits and funds	185.8	185.2
Total policy liabilities and accruals	9,002.3	9,138.4
Commissions, expenses, fees, and taxes	267.8	266.3
Reinsurance balances and funds	335.8	321.3
Federal income tax payable: Deferred	102.8	47.5
Debt	347.2	346.7
Sundry liabilities	188.8	178.0
Commitments and contingent liabilities		
Total Liabilities	10,245.0	10,298.6

Preferred Stock (1)	-	-
Common Shareholders' Equity:		
Common stock (1)	241.0	240.6
Additional paid-in capital	416.2	412.4
Retained earnings	2,911.8	2,927.3
Accumulated other comprehensive income (loss)	468.3	353.7
Unallocated ESSOP shares (at cost)	(41.5)	(42.7)
Treasury stock (at cost)(1)	-	-
Total Common Shareholders' Equity	3,995.8	3,891.4
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 14,240.9	\$ 14,190.0

(1) At March 31, 2010 and December 31, 2009, there were 75,000,000 shares of \$0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common stock, \$1.00 par value, authorized, of which 241,029,255 at March 31, 2010 and 240,685,448 at December 31, 2009 were issued. At March 31, 2010 and December 31, 2009, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued. There were no common shares classified as treasury stock as of March 31, 2010 and December 31, 2009.

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)
(\$ in Millions, Except Share Data)

		Quarters Ended March 31,		
		2010		2009
Revenues:				
Net premiums earned	\$	752.3	\$	721.8
Title, escrow, and other fees		76.1		55.6
Total premiums and fees		828.5		777.4
Net investment income		96.2		93.4
Other income		4.8		7.6
Total operating revenues		929.6		878.5
Realized investment gains (losses):				
From sales		2.9		-
From impairments		-		-
Total realized investment gains (losses)		2.9		-
Total revenues		932.6		878.5
Benefits, Claims and Expenses:				
Benefits, claims and settlement expenses		491.6		649.2
Dividends to policyholders		2.5		2.8
Underwriting, acquisition, and other expenses		400.6		318.6
Interest and other charges		6.5		.6
Total expenses		901.3		971.3
Income (loss) before income taxes (credits)		31.2		(92.7)
Income Taxes (Credits):				
Current		11.4		24.7
Deferred		(5.2)		(63.5)
Total		6.2		(38.8)
Net Income (Loss)	\$	25.0	\$	(53.9)
Net Income (Loss) Per Share:				
Basic:	\$.11	\$	(.23)
Diluted:	\$.11	\$	(.23)
Average shares outstanding:				
Basic		236,387,779		235,259,226
Diluted		236,462,231		235,259,226
Dividends Per Common Share:				
Cash:	\$.1725	\$.1700

Consolidated Statements of Comprehensive Income (Unaudited)

Quarters Ended

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		March 31,		
		2010		2009
Net income (loss) as reported	\$	25.0	\$	(53.9)
Other comprehensive income (loss):				
Post-tax net unrealized gains (losses) on securities		111.5		(9.8)
Other adjustments		3.1		.5
Net adjustments		114.6		(9.2)
Comprehensive income (loss)	\$	139.7	\$	(63.1)

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(\$ in Millions)

	Quarters Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 25.0	\$ (53.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred policy acquisition costs	5.3	6.1
Premiums and other receivables	(1.7)	(11.4)
Unpaid claims and related items	(144.5)	118.3
Other policyholders' benefits and funds	(21.3)	(22.0)
Income taxes	1.7	(40.8)
Prepaid federal income taxes	85.4	241.9
Reinsurance balances and funds	16.4	13.9
Realized investment (gains) losses	(2.9)	-
Accounts payable, accrued expenses and other	17.2	11.2
Total	(19.3)	263.3
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	169.1	208.8
Sales	68.9	6.9
Sales of:		
Other investments	1.0	.3
Purchases of:		
Fixed maturity securities	(221.3)	(232.6)
Equity securities	(1.0)	-
Other – net	(5.7)	(4.4)
Net decrease (increase) in short-term investments	43.5	(194.9)
Other-net	2.9	.2
Total	57.4	(215.6)
Cash flows from financing activities:		
Issuance of debentures and notes	70.0	60.0
Issuance of common shares	2.3	.3
Redemption of debentures and notes	(72.5)	(72.3)
Dividends on common shares	(40.6)	(39.9)
Other-net	.3	.1
Total	(40.5)	(51.8)
Increase (decrease) in cash:	(2.3)	(4.2)
Cash, beginning of period	77.3	63.9
Cash, end of period	\$ 74.9	\$ 59.7

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Supplemental cash flow information:

Cash paid during the period

Interest		\$	1.2	\$	1.2
for:		\$	4.4	\$	2.0
	Income taxes				

See accompanying Notes to Consolidated Financial Statements.

OLD REPUBLIC INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(\$ in Millions, Except Share Data)

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP").

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. The accompanying financial statements incorporate a new pronouncement which modifies current accounting guidance governing consolidation of variable interest entities. The Company's adoption of this pronouncement had no effect on the conduct of its business and did not materially affect its reported financial condition or net income (loss). As of the date of this report, the Company is not aware of any new accounting or disclosure requirements that would have a material effect on its consolidated financial statements or the conduct of its business.

The financial accounting and reporting process relies on estimates and on the exercise of judgment. In the opinion of management all adjustments, consisting only of normal recurring accruals necessary for a fair presentation of the results have been recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

2. Common Share Data:

Earnings Per Share - Consolidated basic earnings per share excludes the dilutive effect of common stock equivalents and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares actually outstanding for the period. Diluted earnings per share are similarly calculated with the inclusion of dilutive common stock equivalents. The following table provides a reconciliation of net income (loss) and number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended March 31,	
	2010	2009
Numerator:		
Net Income (loss)	\$ 25.0	\$ (53.9)
Numerator for basic earnings per share - income (loss) available to common stockholders	25.0	(53.9)
Numerator for diluted earnings per share - income (loss) available to common stockholders after assumed conversions	\$ 25.0	\$ (53.9)
Denominator:		
Denominator for basic earnings per share - weighted-average shares (a)(b)	236,387,779	235,259,226
Effect of dilutive securities - stock options	74,452	-
Effect of dilutive securities - convertible senior notes	-	-
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (a)(b)	236,462,231	235,259,226
Earnings per share:		
Basic	\$.11	\$ (.23)
Diluted	\$.11	\$ (.23)
Anti-dilutive common share equivalents excluded from earning per share computations:		
Stock options	14,432,230	16,030,334
Convertible senior notes	27,458,280	-
Total	41,890,510	16,030,334

(a) All per share statistics have been restated to reflect all stock dividends and splits declared through March 31, 2010.

(b) In calculating earnings per share, pertinent accounting rules require that common shares owned by the Company's Employee Savings and Stock Ownership Plan that are as yet unallocated to participants in the plan be excluded from the calculation. Such shares are issued and outstanding, have the same voting and other rights applicable to all other common shares, and may be sold at any time by the plan.

3. Investments:

The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of March 31, 2010 and December 31, 2009, substantially all the Company's invested assets were classified as "available for sale."

Fixed maturity securities classified as “available for sale” and other preferred and common stocks (equity securities) are included at fair value with changes in such values, net of deferred income taxes, reflected directly in shareholders’ equity. Fair values for fixed maturity securities and equity securities are based on quoted market prices or estimates using values obtained from independent pricing services as applicable.

The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments (“OTTI”) in the portfolio’s value are evaluated and established at each quarterly balance sheet date. In reviewing investments for OTTI, the Company, in addition to a security’s market price history, considers the totality of such factors as the issuer’s operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline for a six month period is considered OTTI. In the event the Company’s estimate of OTTI is insufficient at any point in time, future periods’ net income (loss) would be adversely affected by the recognition of additional realized

or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized no OTTI adjustments for the quarters ended March 31, 2010 and 2009.

The amortized cost and estimated fair values of fixed maturity securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities:				
March 31, 2010:				
U.S. & Canadian Governments	\$ 920.4	\$ 42.8	\$.6	\$ 962.6
Tax-exempt	2,171.8	122.0	-	2,293.7
Corporates	4,784.9	317.9	7.0	5,095.8
	\$ 7,877.1	\$ 482.8	\$ 7.7	\$ 8,352.2
December 31, 2009:				
U.S. & Canadian Governments	\$ 937.4	\$ 39.6	\$ 3.0	\$ 974.0
Tax-exempt	2,209.3	135.0	.3	2,344.0
Corporates	4,749.4	273.2	14.0	5,008.7
	\$ 7,896.2	\$ 448.0	\$ 17.4	\$ 8,326.8

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities:		
Due in one year or less	\$ 858.1	\$ 875.4
Due after one year through five years	4,189.6	4,433.8
Due after five years through ten years	2,761.5	2,975.9
Due after ten years	67.7	67.0
	\$ 7,877.1	\$ 8,352.2

A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$317.3 at March 31, 2010 and December 31, 2009 follows:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2010	\$ 358.6	\$ 281.0	\$ 8.2	\$ 631.4
December 31, 2009	\$ 357.5	\$ 159.0	\$ 13.7	\$ 502.9

The following table reflects the Company's gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in an unrealized loss position employing closing market price comparisons with an issuer's adjusted cost at March 31, 2010 and December 31, 2009:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2010:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		.6	-	-		.6
Governments	\$ 138.9	\$ -	\$ -	\$ -	\$ 138.9	\$ -
Tax-exempt	7.6	-	-	-	7.6	-
Corporates	296.1	4.0	42.0	2.9	338.1	7.0
Subtotal	442.7	4.8	42.0	2.9	484.7	7.7
Equity Securities	23.1	.3	97.0	7.9	120.2	8.2
Total	\$ 465.9	\$ 5.1	\$ 139.0	\$ 10.8	\$ 605.0	\$ 16.0
December 31, 2009:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		3.0	-	-		3.0
Governments	\$ 307.1	\$ -	\$ -	\$ -	\$ 307.1	\$ -
Tax-exempt	13.9	.2	3.1	-	17.1	.3
Corporates	302.5	5.1	139.3	8.9	441.8	14.0
Subtotal	623.6	8.4	142.5	8.9	766.1	17.4
Equity Securities	1.2	.2	99.5	13.4	100.8	13.7
Total	\$ 624.9	\$ 8.6	\$ 242.1	\$ 22.4	\$ 867.0	\$ 31.1

At March 31, 2010, the Company held 108 fixed maturity and 5 equity securities in an unrealized loss position, representing 5.3% as to fixed maturities and 31.3% as to equity securities of the total number of such issues held by the Company. Of the 108 fixed maturity securities, 12 had been in a continuous unrealized loss position for more than 12 months. The unrealized losses on these securities are primarily attributable to a post-purchase rising interest rate environment and/or a decline in the credit quality of some issuers. As part of its assessment of other-than-temporary impairment, the Company considers its intent to continue to hold and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures. The Company has not sold nor does it expect to sell investments for purposes of generating cash to pay claim or expense obligations.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. A fair value hierarchy is established that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1); observable inputs based on corroboration with available market data (Level 2); and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3). Following is a description of the valuation methodologies and general classification used for securities measured at fair value.

The Company uses quoted values and other data provided by a nationally recognized independent pricing source as inputs into its quarterly process for determining fair values of its fixed maturity and equity securities. To validate the techniques or models used by pricing sources, the Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and (ii) comparing the fair value estimates to its knowledge of the current market and to independent fair value estimates provided by the

investment custodian. The independent pricing source obtains market quotations and actual transaction prices for securities that have quoted prices in active markets using its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of “matrix pricing” in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value.

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, the quoted net asset value (“NAV”) mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds and certain U.S. and Canadian government agency securities. Securities classified within Level 3 include non-publicly traded bonds, short-term investments and common stocks.

The following table shows a summary of assets measured at fair value segregated among the various input levels described above:

	Fair value measurements as of March 31, 2010:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities	\$ 345.4	\$ 7,986.3	\$ 20.5	\$ 8,352.2
Equity securities	631.0	.1	.2	631.4
Short-term investments	\$ 777.6	\$ -	\$ 5.8	\$ 783.5

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which result from sales or write-downs of securities, are reflected as revenues in the income statement and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At March 31, 2009, the Company and its subsidiaries had no non-income producing fixed maturity securities.

The following table reflects the composition of net investment income, net realized gains or losses, and the net change in unrealized investment gains or losses for each of the years shown.

	Quarters Ended March 31,	
	2010	2009
Investment income from:		
Fixed maturity securities	\$ 94.3	\$ 88.6
Equity securities	.9	1.5
Short-term investments	.3	2.5
Other sources	1.3	1.3
Gross investment income	96.9	94.1
Investment expenses (a)	.7	.7
Net investment income	\$ 96.2	\$ 93.4
Realized gains (losses) on:		
Fixed maturity securities:		
Gains	\$ 3.0	\$ -
Losses	(.1)	-
Net	2.9	-
Equity securities & other long-term investments	-	-
Total	2.9	-
Income taxes (credits)(b)	1.0	-
Net realized gains (losses)	\$ 1.9	\$ -
Changes in unrealized investment gains (losses) on:		
Fixed maturity securities	\$ 44.3	\$ 83.2
Less: Deferred income taxes (credits)	15.5	29.1
Net change	\$ 28.7	\$ 54.1

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Equity securities & other long-term investments	\$	127.2	\$	(83.1)
Less: Deferred income taxes (credits)		44.5		(19.1)
Net change	\$	82.7	\$	(63.9)

- (a) Investment expenses consist of personnel costs and investment management and custody service fees, as well as a negligible amount of interest incurred on funds held.
- (b) Reflects primarily the combination of fully taxable realized investment gains or losses and judgments about the recoverability of deferred tax assets.

4. Pension Plans:

The Company has three pension plans covering a portion of its work force. All three plans have been closed to new participants since December 31, 2004. It is the Company's policy to fund the plans' costs as they accrue. Plan assets are comprised principally of bonds, common stocks and short-term investments. The Companies made no cash contributions to their pension plans in the first quarter of 2010, and expect to make cash contributions of \$2.5 to their pension plans in the remaining portion of calendar year 2010.

5. Information About Segments of Business:

The Company is engaged in the single business of insurance underwriting. It conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely its General Insurance (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The results of a small life & health insurance business are included with those of its corporate and minor service operations. Each of the Company's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. Segment results exclude net realized investment gains or losses and other-than-temporary impairments as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

	Quarters Ended March 31,	
	2010	2009
General Insurance Group:		
Net premiums earned	\$ 411.8	\$ 457.3
Net investment income and other income	67.3	66.3
Total revenues before realized gains or losses	\$ 479.1	\$ 523.7
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 69.2	\$ 58.2
Income tax expense (credits) on above	\$ 21.1	\$ 15.6
Mortgage Guaranty Group:		
Net premiums earned	\$ 136.2	\$ 145.3
Net investment income and other income	24.2	25.9
Total revenues before realized gains or losses	\$ 160.5	\$ 171.2
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (34.1)	\$ (144.6)
Income tax expense (credits) on above	\$ (13.2)	\$ (51.9)
Title Insurance Group:		
Net premiums earned	\$ 179.0	\$ 98.6
Title, escrow and other fees	76.1	55.6
Sub-total	255.2	154.3
Net investment income and other income	6.8	5.9
Total revenues before realized gains or losses	\$ 262.0	\$ 160.2
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (8.6)	\$ (9.0)
Income tax expense (credits) on above	\$ (3.2)	\$ (3.5)

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Consolidated Revenues:

Total revenues of above Company segments	\$	901.7	\$	855.3
Other sources (b)		41.9		35.1
Consolidated net realized investment gains (losses)		2.9		-
Consolidation elimination adjustments		(14.0)		(11.9)
Consolidated revenues	\$	932.6	\$	878.5

Consolidated Income (Loss) Before Taxes (Credits):

Total income (loss) before income taxes (credits) and realized investment gains or losses of above Company segments	\$	26.5	\$	(95.4)
Other sources – net (b)		1.8		2.6
Consolidated net realized investment gains (losses)		2.9		-
Consolidated income (loss) before income taxes (credits)	\$	31.2	\$	(92.7)

	Quarters Ended March 31,	
	2010	2009
Consolidated Income Tax Expense (Credits):		
Total income tax expense (credits)		
for above Company segments	\$ 4.6	\$ (39.8)
Other sources – net (b)	.5	.9
Income tax expense (credits) on consolidated net realized investment gains (losses)	1.0	-
Consolidated income tax expense (credits)	\$ 6.2	\$ (38.8)
	March 31, 2010	December 31, 2009
Consolidated Assets:		
General	\$ 10,017.7	\$ 9,920.8
Mortgage	3,083.1	3,233.4
Title	857.3	852.8
Other assets (b)	553.5	503.5
Consolidation elimination adjustments	(270.8)	(320.5)
Consolidated	\$ 14,240.9	\$ 14,190.0

(a) Income (loss) before taxes (credits) is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$5.3 and \$2.6 for the quarters ended March 31, 2010 and 2009, respectively; Mortgage - \$1.7 and \$1.8 for the quarters ended March 31, 2010 and 2009, respectively; and Title - \$1.3 and \$0.9 for the quarters ended March 31, 2010 and 2009, respectively.

(b) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, and a small life and health insurance operation.

6. Commitments and Contingent Liabilities:

Legal proceedings against the Company and its subsidiaries routinely arise in the normal course of business and usually pertain to claim matters related to insurance policies and contracts issued by its insurance subsidiaries. Other, non-routine legal proceedings which may prove to be material to the Company or a subsidiary are discussed below.

Purported class action lawsuits are pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC") in state and federal courts in Connecticut, New Jersey, Ohio, Pennsylvania and Texas. The plaintiffs allege that ORNTIC failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions, as required by rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulatory authorities. The suits in Pennsylvania and Texas also allege violations of the federal Real Estate Settlement Procedures Act ("RESPA"). Substantially similar lawsuits are also pending against other unaffiliated title insurance companies in these and other states as well, and additional lawsuits based upon similar allegations could be filed against ORNTIC in the future. Classes have been certified in the New Jersey and Pennsylvania actions. Settlement agreements have been reached in the Connecticut and New Jersey actions and are not expected to cost ORNTIC more than \$2.9 and \$2.2, respectively, including attorneys' fees and administrative costs.

Since early February 2008, some 80 purported consumer class action lawsuits have been filed against the title industry's principal title insurance companies, their subsidiaries and affiliates, and title insurance rating bureaus or associations in at least 10 states. The suits are substantially identical in alleging that the defendant title insurers engaged in illegal price-fixing agreements to set artificially high premium rates and conspired to create premium rates which the state insurance regulatory authorities could not evaluate and therefore, could not adequately regulate. A number of them have been dismissed and others consolidated. Approximately 49 remain nationwide. ORNTIC is currently among the named defendants in 27 of these actions in 4 states; its affiliate, American Guaranty Title Insurance Company, is a named defendant in 10 of the consolidated actions in 1 state. The Company is not a named defendant in any of the actions. No class has yet been certified in any of these suits against ORNTIC, and none of the actions against it allege RESPA violations.

National class action suits have been filed against the Company's subsidiary, Old Republic Home Protection Company ("ORHP") in the California Superior Court, San Diego, and the U.S. District Court in Birmingham, Alabama. The California suit has been filed on behalf of all persons who made a claim under an ORHP home warranty contract from March 6, 2003 to the present. The suit alleges breach of contract, breach of the implicit covenant of good faith and fair dealing, violations of certain California consumer protection laws and

misrepresentation arising out of ORHP's alleged failure to adopt and implement reasonable standards for the prompt investigation and processing of claims under its home warranty contracts. The suit seeks unspecified damages consisting of the rescission of the class members' contracts, restitution of all sums paid by the class members, punitive damages, and declaratory and injunctive relief. No class has been certified in either action. ORHP has removed the action to the U.S. District Court for the Southern District of California. The Alabama suit alleges that ORHP pays fees to the real estate brokers who market its home warranty contracts and that the payment of such fees is in violation of Section 8(a) of RESPA. The suit seeks unspecified damages, including treble damages under RESPA.

On December 19, 2008, Old Republic Insurance Company and Old Republic Insured Credit Services, Inc. ("Old Republic") filed suit against Countrywide Bank FSB, Countrywide Home Loans, Inc. ("Countrywide") and Bank of New York Mellon, BNY Mellon Trust of Delaware in the Circuit Court, Cook County, Illinois seeking a declaratory judgment to rescind or terminate various credit indemnity policies issued to insure home equity loans and home equity lines of credit which Countrywide had securitized or held for its own account. In February of 2009, Countrywide filed a counterclaim alleging a breach of contract, bad faith and seeking a declaratory judgment challenging the factual and procedural bases that Old Republic has relied upon to deny or rescind coverage for individual defaulted loans under those policies. As of March 31, 2010, Old Republic had rescinded or denied coverage on more than 14,000 defaulted loans, based upon material misrepresentations either by Countrywide as to the credit characteristics of the loans or by the borrowers in their loan applications.

On December 31, 2009, two of the Company's mortgage insurance subsidiaries, Republic Mortgage Insurance Company and Republic Mortgage Insurance Company of North Carolina (together "RMIC") filed a Complaint for Declaratory Judgment in the Supreme Court of the State of New York, County of New York, against Countrywide Financial Corporation, Countrywide Home Loans, Inc., The Bank of New York Mellon Trust Company, N.A., BAC Home Loans Servicing, LP, and Bank of America, N.A. as successor in interest to Countrywide Bank, N.A. (together, "Countrywide"). The suit relates to five mortgage insurance master policies (the "Policies") issued by RMIC to Countrywide or to The Bank of New York Mellon Trust Company as co-trustee for trusts containing securitized mortgage loans that were originated or purchased by Countrywide. RMIC has rescinded its mortgage insurance coverage on over 1,500 of the loans originally covered under the Policies based upon material misrepresentations of the borrowers in their loan applications or the negligence of Countrywide in its loan underwriting practices or procedures. Each of the coverage rescissions occurred after a borrower had defaulted and RMIC reviewed the claim and loan file submitted by Countrywide. The suit seeks the Court's review and interpretation of the Policies' incontestability provisions and its validation of RMIC's investigation procedures with respect to the claims and underlying loan files.

On January 29, 2010, in response to RMIC's suit, Countrywide served RMIC with a demand for arbitration under the arbitration clauses of the same Policies. The demand raises largely the same issues as those raised in RMIC's suit against Countrywide, as well as Countrywide's and RMIC's compliance with the terms, provisions and conditions of the Policies. The demand includes a prayer for punitive, compensatory and consequential damages.

Except in the Connecticut and New Jersey actions against the title companies, where settlement agreements have been approved, the ultimate impact of these lawsuits and the arbitration, all of which seek unquantified damages, attorneys' fees and expenses, is uncertain and not reasonably estimable. The Company and its subsidiaries intend to defend vigorously against each of the aforementioned actions. Although the Company does not believe that these lawsuits will have a material adverse effect on its consolidated financial condition, results of operations or cash flows, there can be no assurance in those regards.

7.

Debt:

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On April 29, 2009, the Company completed a public offering of \$316.25 aggregate principal amount of Convertible Senior Notes. The notes bear interest at a rate of 8.0% per year, mature on May 15, 2012, and are convertible at any time prior to maturity by the holder into 86.8246 shares of common stock per one thousand dollar note.

Consolidated debt of Old Republic and its subsidiaries is summarized below:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
8% Convertible Senior Notes due 2012	\$ 316.2	\$ 390.5	\$ 316.2	\$ 358.9
ESSOP debt with an average yield of 3.73% and 3.85%, respectively	25.8	25.8	27.9	27.9
Other miscellaneous debt	5.1	5.1	2.5	2.5
Total debt	\$ 347.2	\$ 421.5	\$ 346.7	\$ 389.4

The Company currently has access to the commercial paper market for up to \$150.0.

8. Income Taxes:

Tax positions taken or expected to be taken in a tax return by the Company are recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. There are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period. The Company views its income tax exposures as primarily consisting of timing differences whereby the ultimate deductibility of a taxable amount is highly certain but the timing of its deductibility is uncertain. Such differences relate principally to the timing of deductions for loss and premium reserves. As in prior examinations, the Internal Revenue Service (IRS) could assert that claim reserve deductions were overstated thereby reducing the Company's statutory taxable income in any particular year. The Company believes that it establishes its reserves fairly and consistently at each balance sheet date, and that it would succeed in defending its tax position in these regards. Because of the impact of deferred tax accounting, the possible accelerated payment of tax to the IRS would not necessarily affect the annual effective tax rate. The Company classifies interest and penalties as income tax expense in the consolidated statement of income. Examinations of the Company's consolidated Federal income tax returns through year-end 2006 have been completed and no significant adjustments have resulted.

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Quarters Ended March 31, 2010 and 2009
(\$ in Millions, Except Share Data)

OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation (“Old Republic” or “the Company”). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Mortgage Guaranty, and Title insurance segments. A small life and health insurance business, accounting for 2.9% of consolidated operating revenues for the quarter ended March 31, 2010 and 1.8% of consolidated assets as of March 31, 2010, is included within the corporate and other caption of this report.

The consolidated accounts are presented in conformity with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) of accounting principles generally accepted in the United States of America (“GAAP”).

This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and on the maintenance of financial soundness in support of the insurance subsidiaries’ long-term obligations to insurance beneficiaries. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized. In addition to income arising from Old Republic’s basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders’ capital. Investment management aims for stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company’s ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities.

In light of the above factors, the Company’s affairs are managed without regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic’s view, such short reporting time frames do not comport well with the long-term nature of much of its business. Management believes that the Company’s operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five to ten year intervals. Such extended periods can encompass one or two economic and/or underwriting cycles, and thereby provide appropriate time frames for such cycles to run their course and for reserved claim costs to be quantified with greater finality and effect.

EXECUTIVE SUMMARY

Old Republic’s first quarter 2010 consolidated operating results, which exclude net realized investment gains or losses, reflected a substantial turn for the better when compared to the same quarter of 2009. As noted below, most of the

gain stemmed from improved underwriting results in the Company's mortgage guaranty line. The latter arose from the combination of lower claim provisions and the positive effects of largely non-recurring captive reinsurance commutations and terminations of certain pool insurance contracts. General insurance earnings were higher mostly as a result of lower claim costs. Title insurance operating earnings were basically flat quarter-over-quarter.

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Consolidated Results – The major components of Old Republic’s consolidated results and other data for the periods reported upon are shown below:

	Quarters Ended March 31,		
	2010	2009	Change
Operating revenues:			
General insurance	\$ 479.1	\$ 523.7	-8.5%
Mortgage guaranty	160.5	171.2	-6.3
Title insurance	262.0	160.2	63.5
Corporate and other	27.8	23.2	19.8
Total	\$ 929.6	\$ 878.5	5.8%
Pretax operating income (loss):			
General insurance	\$ 69.2	\$ 58.2	19.0%
Mortgage guaranty	(34.1)	(144.6)	76.4
Title insurance	(8.6)	(9.0)	4.3
Corporate and other	1.8	2.6	-31.4
Sub-total	28.3	(92.8)	130.5
Realized investment gains (losses):			
From sales	2.9	-	
From impairments	-	-	
Net realized investment gains (losses)	2.9	-	N/M
Consolidated pretax income (loss)	31.2	(92.7)	133.7
Income taxes (credits)	6.2	(38.8)	116.0
Net income (loss)	\$ 25.0	\$ (53.9)	146.5%
Consolidated underwriting ratio:			
Benefits and claim ratio		59.6%	83.9%
Expense ratio		47.4	39.6
Composite ratio		107.0%	123.5%
Components of diluted earnings per share:			
Net operating income (loss)	\$ 0.10	\$ (0.23)	143.5%
Net realized investment gains (losses)	0.01		