

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
August 09, 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: June 30, 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).

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 June 30, 2010
Common Stock / \$1 par value	241,061,132

There are 41 pages in this report

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OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2010

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

	(Unaudited) June 30, 2010	December 31, 2009
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$7,585.9 and \$7,896.2)	\$ 8,152.2	\$ 8,326.8
Equity securities (at fair value) (adjusted cost: \$411.9 and \$357.5)	551.6	502.9
Short-term investments (at fair value which approximates cost)	852.0	826.7
Miscellaneous investments	23.5	24.0
Total	9,579.5	9,680.5
Other investments	7.1	7.8
Total investments	9,586.6	9,688.4
Other Assets:		
Cash	65.3	77.3
Securities and indebtedness of related parties	14.8	17.1
Accrued investment income	105.4	113.3
Accounts and notes receivable	801.2	788.6
Federal income tax recoverable: Current	11.9	7.3
Prepaid federal income taxes	105.3	221.4
Reinsurance balances and funds held	102.5	141.9
Reinsurance recoverable: Paid losses	87.1	66.7
Policy and claim reserves	2,506.4	2,491.2
Deferred policy acquisition costs	200.5	206.9
Sundry assets	382.1	369.3
	4,383.0	4,501.6
Total Assets	\$ 13,969.6	\$ 14,190.0
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 7,587.7	\$ 7,915.0
Unearned premiums	1,048.2	1,038.1
Other policyholders' benefits and funds	181.6	185.2
Total policy liabilities and accruals	8,817.7	9,138.4
Commissions, expenses, fees, and taxes	266.1	266.3
Reinsurance balances and funds	275.4	321.3
Federal income tax payable: Deferred	110.6	47.5
Debt	346.8	346.7
Sundry liabilities	169.0	178.0
Commitments and contingent liabilities		
Total Liabilities	9,985.8	10,298.6

Preferred Stock (1)	-	-
Common Shareholders' Equity:		
Common stock (1)	241.0	240.6
Additional paid-in capital	418.1	412.4
Retained earnings	2,928.5	2,927.3
Accumulated other comprehensive income (loss)	436.5	353.7
Unallocated ESSOP shares (at cost)	(40.3)	(42.7)
Treasury stock (at cost)(1)	-	-
Total Common Shareholders' Equity	3,983.8	3,891.4
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 13,969.6	\$ 14,190.0

(1) At June 30, 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 241,061,132 at June 30, 2010 and 240,685,448 at December 31, 2009 were issued. At June 30, 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 June 30, 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Net premiums earned	\$ 746.2	\$ 737.7	\$ 1,498.6	\$ 1,459.5
Title, escrow, and other fees	89.1	74.0	165.3	129.7
Total premiums and fees	835.4	811.8	1,663.9	1,589.3
Net investment income	95.0	93.7	191.3	187.1
Other income	4.8	6.6	9.6	14.2
Total operating revenues	935.3	912.2	1,864.9	1,790.7
<b>Realized investment gains (losses):</b>				
From sales	72.8	.3	75.8	.3
From impairments	-	-	-	-
Total realized investment gains (losses)	72.8	.3	75.8	.3
Total revenues	1,008.1	912.6	1,940.7	1,791.1
<b>Benefits, Claims and Expenses:</b>				
Benefits, claims and settlement expenses	502.5	637.6	994.2	1,286.8
Dividends to policyholders	1.7	1.9	4.2	4.8
Underwriting, acquisition, and other expenses	417.6	353.3	818.3	671.9
Interest and other charges	5.3	5.3	11.8	5.9
Total expenses	927.3	998.3	1,828.6	1,969.6
Income (loss) before income taxes (credits)	80.8	(85.6)	112.1	(178.4)
<b>Income Taxes (Credits):</b>				
Current	-	11.8	11.3	36.5
Deferred	23.4	(81.6)	18.2	(145.2)
Total	23.3	(69.8)	29.5	(108.6)
Net Income (Loss)	\$ 57.4	\$ (15.8)	\$ 82.5	\$ (69.8)
<b>Net Income (Loss) Per Share:</b>				
Basic:	\$ .24	\$ (.07)	\$ .35	\$ (.30)
Diluted:	\$ .23	\$ (.07)	\$ .35	\$ (.30)
<b>Average shares outstanding:</b>				
Basic	236,552,439	235,562,774	236,478,265	235,414,346
Diluted	264,227,861	235,562,774	264,081,560	235,414,346
<b>Dividends Per Common Share:</b>				
Cash:	\$ .1725	\$ .1700	\$ .3450	\$ .3400

Consolidated Statements of Comprehensive Income (Unaudited)

	Quarters Ended				Six Months Ended			
	June 30,		2009		June 30,		2009	
	2010		2009		2010		2009	
Net income (loss) as reported	\$	57.4	\$	(15.8)	\$	82.5	\$	(69.8)
Other comprehensive income (loss):								
Post-tax net unrealized gains (losses) on securities		(29.9)		154.7		81.5		144.8
Other adjustments		(1.8)		8.2		1.2		8.8
Net adjustments		(31.8)		163.0		82.8		153.7
Comprehensive income (loss)	\$	25.6	\$	147.1	\$	165.3	\$	83.9

See accompanying Notes to Consolidated Financial Statements.



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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 82.5	\$ (69.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred policy acquisition costs	6.6	7.7
Premiums and other receivables	(9.2)	(16.7)
Unpaid claims and related items	(313.6)	240.9
Other policyholders' benefits and funds	(23.2)	(27.9)
Income taxes	13.6	(121.1)
Prepaid federal income taxes	116.1	241.9
Reinsurance balances and funds	(26.8)	-
Realized investment (gains) losses	(75.8)	(.3)
Accounts payable, accrued expenses and other	18.5	25.9
Total	(211.3)	280.4
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	338.7	488.9
Sales	621.8	33.9
Sales of:		
Equity securities	106.6	-
Other - net	5.4	2.9
Purchases of:		
Fixed maturity securities	(626.2)	(746.7)
Equity securities	(129.4)	-
Other-net	(14.7)	(9.6)
Net decrease (increase) in short-term investments	(24.9)	(90.6)
Other-net	2.8	(7.0)
Total	280.2	(328.2)
Cash flows from financing activities:		
Issuance of debentures and notes	190.0	540.0
Issuance of common shares	2.7	.6
Redemption of debentures and notes	(192.9)	(411.1)
Dividends on common shares	(81.4)	(79.9)
Other-net	.6	(.1)
Total	(80.8)	49.3
Increase (decrease) in cash:	(11.9)	1.5
Cash, beginning of period	77.3	63.9
Cash, end of period	\$ 65.3	\$ 65.5

Supplemental cash flow information:

Cash paid during the	Interest	\$	15.0	\$	2.8
period for:	Income taxes	\$	16.3	\$	12.4

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, effective January 1, 2010. 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator:				
Net Income (loss)	\$ 57.4	\$ (15.8)	\$ 82.5	\$ (69.8)
Numerator for basic earnings per share				
-				
income (loss) available to common stockholders	57.4	(15.8)	82.5	(69.8)
Adjustment for interest expense incurred on assumed conversions of convertible senior notes				
	4.6	-	9.2	-
Numerator for diluted earnings per share -				
income (loss) available to common stockholders after assumed conversions	\$ 62.0	\$ (15.8)	\$ 91.7	\$ (69.8)
Denominator:				
Denominator for basic earnings per share -				
weighted-average shares (a)(b)	236,552,439	235,562,774	236,478,265	235,414,346
Effect of dilutive securities - stock options				
	218,186	-	145,537	-
Effect of dilutive securities - convertible senior notes				
	27,457,236	-	27,457,758	-
Denominator for diluted earnings per share -				
adjusted weighted-average shares and assumed conversions (a)(b)	264,227,861	235,562,774	264,081,560	235,414,346
Earnings per share:				
Basic	\$ .24	\$ (.07)	\$ .35	\$ (.30)
Diluted	\$ .23	\$ (.07)	\$ .35	\$ (.30)
Anti-dilutive common share equivalents excluded from earning per share computations:				
Stock options	12,873,567	16,030,461	14,924,067	16,030,461
Convertible senior notes	-	27,452,271	-	27,452,271

Total	12,873,567	43,482,732	14,924,067	43,482,732
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(a) All per share statistics have been restated to reflect all stock dividends and splits declared through June 30, 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 June 30, 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 and six month periods ended June 30, 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:				
June 30, 2010:				
U.S. & Canadian Governments	\$ 993.2	\$ 63.9	\$ -	1,057.1
Tax-exempt	1,632.7	97.9	-	1,730.7
Corporates	4,959.9	411.0	6.6	5,364.3
	\$ 7,585.9	\$ 573.0	\$ 6.6	8,152.2
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 June 30, 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	\$ 851.3	\$ 865.6
Due after one year through five years	3,936.6	4,190.5
Due after five years through ten years	2,749.3	3,046.3
Due after ten years	48.6	49.7
	\$ 7,585.9	\$ 8,152.2

A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$245.4 at June 30, 2010 and \$317.3 at December 31, 2009 follows:

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2010	\$ 411.9	\$ 172.3	\$ 32.7	551.6

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December 31, 2009	\$	357.5	\$	159.0	\$	13.7	\$	502.9
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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 June 30, 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
June 30, 2010:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		-	-	-	.9	-
Governments	\$ .9	\$	\$	\$	\$	\$
Tax-exempt	2.4	-	-	-	2.4	-
Corporates	49.5	4.2	34.3	2.3	83.8	6.6
Subtotal	52.8	4.2	34.3	2.3	87.2	6.6
Equity Securities	149.7	13.6	86.0	19.0	235.7	32.7
Total	\$ 202.6	\$ 17.9	\$ 120.3	\$ 21.4	\$ 322.9	\$ 39.3
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 June 30, 2010, the Company held 25 fixed maturity and 31 equity securities in an unrealized loss position, representing 1.4% as to fixed maturities and 73.8% as to equity securities of the total number of such issues held by the Company. Of the securities in an unrealized loss position, 9 fixed maturity securities and 2 equity securities 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, and with respect to equity securities, market volatility. 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 June 30, 2010:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities	\$ 356.5	\$ 7,766.4	\$ 29.2	\$ 8,152.2
Equity securities	549.7	.1	1.8	551.6
Short-term investments	\$ 846.1	\$ -	\$ 5.8	\$ 852.0

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 the 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 June 30, 2010, 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		Six Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Investment income from:				
Fixed maturity securities	\$ 92.6	\$ 90.4	\$ 187.0	\$ 179.1
Equity securities	1.8	1.1	2.7	2.7
Short-term investments	.3	1.5	.6	4.1
Other sources	1.0	1.2	2.3	2.6
Gross investment income	95.8	94.5	192.8	188.6
Investment expenses (a)	.7	.7	1.4	1.4
Net investment income	\$ 95.0	\$ 93.7	\$ 191.3	\$ 187.1
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$ 37.4	\$ 1.0	\$ 40.5	\$ 1.0
Losses	-	-	(.1)	-
Net	37.4	.9	40.3	.9
Equity securities & other long-term investments	35.4	(.6)	35.5	(.6)
Total	72.8	.3	75.8	.3
Income taxes (credits)(b)	25.4	(33.3)	26.5	(33.3)
Net realized gains (losses)	\$ 47.3	\$ 33.7	\$ 49.3	\$ 33.7
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$ 90.7	\$ 130.0	\$ 135.1	\$ 213.3
Less: Deferred income taxes (credits)	31.7	45.5	47.2	74.6
Net change	\$ 59.0	\$ 84.5	\$ 87.8	\$ 138.6

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Equity securities & other long-term investments	\$	(137.0)	\$	92.6	\$	(9.7)	\$	9.5
Less: Deferred income taxes (credits)		(47.9)		22.4		(3.4)		3.3
Net change	\$	(89.0)	\$	70.2	\$	(6.3)	\$	6.2

- (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. The Company's policy is to fund the plans' costs as they accrue. Plan assets are comprised principally of bonds, common stocks and short-term investments. No cash contributions were made to the pension plans in the second quarter of 2010, but cash contributions of \$4.1 are expected to be made 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>General Insurance Group:</b>				
Net premiums earned	\$ 401.0	\$ 440.7	\$ 812.8	\$ 898.1
Net investment income and other income	67.3	66.3	134.6	132.6
Total revenues before realized gains or losses	\$ 468.3	\$ 507.0	\$ 947.5	\$ 1,030.8
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 29.3	\$ 46.4	\$ 98.6	\$ 104.6
Income tax expense (credits) on above	\$ 6.5	\$ 11.7	\$ 27.6	\$ 27.3
<b>Mortgage Guaranty Group:</b>				
Net premiums earned	\$ 129.1	\$ 141.5	\$ 265.4	\$ 286.8
Net investment income and other income	23.0	24.9	47.2	50.9
Total revenues before realized gains or losses	\$ 152.1	\$ 166.5	\$ 312.6	\$ 337.8
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (22.1)	\$ (137.9)	\$ (56.3)	\$ (282.5)
Income tax expense (credits) on above	\$ (8.7)	\$ (49.6)	\$ (22.0)	\$ (101.6)
<b>Title Insurance Group:</b>				
Net premiums earned	\$ 197.4	\$ 138.9	\$ 376.5	\$ 237.5
Title, escrow and other fees	89.1	74.0	165.3	129.7
Sub-total	286.6	213.0	541.8	367.3
Net investment income and other income	6.9	6.0	13.7	12.0
Total revenues before realized gains or losses	\$ 293.5	\$ 219.0	\$ 555.6	\$ 379.3
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 4.0	\$ 5.6	\$ (4.6)	\$ (3.4)
Income tax expense (credits) on above	\$ 1.3	\$ 1.5	\$ (1.8)	\$ (2.0)

## Consolidated Revenues:

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Total revenues of above Company segments	\$	914.0	\$	892.7	\$	1,815.8	\$	1,748.0
Other sources (b)		34.6		32.9		76.6		68.1
Consolidated net realized investment gains (losses)		72.8		.3		75.8		.3
Consolidation elimination adjustments		(13.3)		(13.4)		(27.4)		(25.3)
Consolidated revenues	\$	1,008.1	\$	912.6	\$	1,940.7	\$	1,791.1

Consolidated Income (Loss) Before Taxes

(Credits):

Total income (loss) before income taxes (credits)

and realized investment gains or losses of

above Company segments

Other sources – net (b)

Consolidated net realized investment gains

(losses)

Consolidated income (loss)

before income taxes (credits)

\$	11.1	\$	(85.8)	\$	37.6	\$	(181.3)
	(3.2)		(.1)		(1.4)		2.4
	72.8		.3		75.8		.3
\$	80.8	\$	(85.6)	\$	112.1	\$	(178.4)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Consolidated Income Tax Expense (Credits):</b>				
Total income tax expense (credits)				
for above Company segments	\$ (0.8)	\$ (36.4)	\$ 3.7	\$ (76.2)
Other sources – net (b)	(1.2)	-	(.7)	.9
Income tax expense (credits) on consolidated net realized investment gains (losses)	25.4	(33.3)	26.5	(33.3)
Consolidated income tax expense (credits)	\$ 23.3	\$ (69.8)	\$ 29.5	\$ (108.6)
			June 30, 2010	December 31, 2009
<b>Consolidated Assets:</b>				
General			\$ 9,932.7	\$ 9,920.8
Mortgage			2,929.1	3,233.4
Title			857.3	852.8
Other assets (b)			554.0	503.5
Consolidation elimination adjustments			(303.5)	(320.5)
Consolidated			\$ 13,969.6	\$ 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 \$10.7 compared to \$4.4 and \$7.0 for the quarter and six months ended June 30, 2010 and 2009, respectively; Mortgage - \$1.7 and \$3.5 compared to \$1.8 and \$3.7 for the quarter and six months ended June 30, 2010 and 2009, respectively; and Title - \$1.2 and \$2.6 compared to \$1.3 and \$2.3 for the quarter and six months ended June 30, 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 or federal courts in three states – Ohio (Chura et al. v. ORNTIC, Court of Common Pleas of Cuyahoga County, Ohio, filed December 1, 2002), Pennsylvania (Markocki et al. v. ORNTIC, U.S. District Court, Eastern District, Pennsylvania, filed June 8, 2006), and Texas (Ahmad et al. v. ORNTIC, U.S. District Court, Northern District, Texas, Dallas Division, filed February 8, 2008). 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"). A class has been certified in the Pennsylvania actions.

Substantially similar lawsuits were pending against ORNTIC in Connecticut (Castro et al. v. ORNTIC, U.S. District Court of Connecticut, filed May 19, 2006) and New Jersey (Barandas et al. v. ORNTIC, U.S. District Court, District of New Jersey, filed April 13, 2006) and have subsequently been settled. The settlement agreements reached in the Connecticut and New Jersey actions are not expected to cost ORNTIC more than \$2.9 million and \$2.2 million, 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. Many of the suits have since been dismissed and others consolidated. ORNTIC is currently among the named defendants in 24 of these actions in 3 states (California, Ohio and Pennsylvania). The Company is a named defendant in the Ohio actions. No class has yet been certified in any of these suits, and none of the actions allege RESPA violations. The anti-trust allegations in the California action have been dismissed and only the allegations of improper business practices under state law remain. The Ohio actions were entirely dismissed at the trial court level, and the dismissal is up on appeal before the 6th Circuit U.S. Court of Appeals.

National class action suites 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 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 had relied upon to deny or rescind coverage for individual defaulted loans under those policies. As of June 15, 2010, Old Republic had rescinded or denied coverage on more than 15,500 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, but from Countrywide's prospective, 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. RMIC filed a motion to stay the arbitration, and Countrywide filed a motion to dismiss RMIC's lawsuit and to compel the arbitration. On July 26, 2010, the Court granted Countrywide's motion, ordering the matters be submitted to arbitration and dismissing the lawsuit. RMIC may elect to appeal the order.



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 actions 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:

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 86.8213 shares of common stock per one thousand dollar note.

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

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
8% Convertible Senior Notes due 2012	\$ 316.2	\$ 379.9	\$ 316.2	\$ 358.9
ESSOP debt with an average yield of 3.76% and 3.85%, respectively	25.8	25.8	27.9	27.9
Other miscellaneous debt	4.7	4.7	2.5	2.5
Total debt	\$ 346.8	\$ 410.5	\$ 346.7	\$ 389.4

The credit facility supporting the Company's \$150.0 commercial paper program expired on June 18, 2010.

## 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.

## 9. Merger:

On June 9, 2010, Old Republic and PMA Capital Corporation ("PMA") entered into a merger agreement pursuant to which Old Republic will acquire all of PMA's outstanding common stock. Under the terms of the agreement approved by the boards of directors of both companies, Old Republic will issue 0.55 shares of Old Republic common stock in exchange for each outstanding common share of PMA. Depending on the price of Old Republic's common stock preceding the closing of the merger, the exchange ratio may be adjusted upwards or downwards, but will not exceed 0.60 or be less than 0.50. The initial exchange ratio represents a premium of approximately 15% to the closing price of PMA's common stock on June 8, 2010, the last trading day before the signing of the merger agreement. As of the latter date, the transaction therefore attributes a total enterprise value for PMA of approximately \$365, consisting of \$228 for PMA common shares and \$137 for its debt. The transaction is expected to close during the fourth quarter of 2010, subject to approval by PMA's shareholders and other customary closing conditions.



OLD REPUBLIC INTERNATIONAL CORPORATION  
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS  
Six Months Ended June 30, 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 2.5% of consolidated operating revenues for the six months ended June 30, 2010 and 1.8% of consolidated assets as of June 30, 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 second quarter and first half operating results, which exclude net realized investment gains or losses, reflected significant improvement when compared to the same periods of 2009. As noted below, substantially all of

the improvement stemmed from more positive results in the Company's Mortgage Guaranty line. The latter benefited from a combination of lower provisions for outstanding claims, and from the positive effects of largely non-recurring captive reinsurance commutations and terminations of insured mortgage pools. Second quarter and first half 2010 General Insurance pretax operating earnings were reduced by relatively higher claim costs; earnings were consequently off by 5.8% for this year's first half. Old Republic Title Group results turned to the profit column in both 2010's and 2009's second quarterly periods, but remained in moderately negative territory for the first half of both years as claim and operating expenses outpaced revenue growth.

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

	Quarters Ended June 30,			Six Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
Operating revenues:						
General insurance	\$ 468.3	\$ 507.0	-7.6%	\$ 947.5	\$ 1,030.8	-8.1%
Mortgage guaranty	152.1	166.5	-8.7	312.6	337.8	-7.5
Title insurance	293.5	219.0	34.0	555.6	379.3	46.5
Corporate and other	21.3	19.5	9.1	49.1	42.7	14.9
Total	\$ 935.3	\$ 912.2	2.5%	\$ 1,864.9	\$ 1,790.7	4.1%
Pretax operating income (loss):						
General insurance	\$ 29.3	\$ 46.4	-36.8%	\$ 98.6	\$ 104.6	-5.8%
Mortgage guaranty	(22.1)	(137.9)	83.9	(56.3)	(282.5)	80.1
Title insurance	4.0	5.6	-28.2	(4.6)	(3.4)	-34.5
Corporate and other	(3.2)	(0.1)	N/M	(1.4)	2.4	-157.0
Sub-total	7.9	(86.0)	109.2	36.2	(178.8)	120.3
Realized investment gains (losses):						
From sales	72.8	0.3		75.8	0.3	
From impairments	-	-		-	-	
Net realized investment gains (losses)	72.8	0.3	N/M	75.8	0.3	N/M
Consolidated pretax income (loss)	80.8	(85.6)	194.3	112.1	(178.4)	162.8
Income taxes (credits)	23.3	(69.8)	133.5	29.5	(108.6)	127.2
Net income (loss)	\$ 57.4	\$ (15.8)	461.4%	\$ 82.5	\$ (69.8)	218.2%
Consolidated underwriting ratio:						
Benefits and claim ratio	60.4%	78.8%		60.0%	81.3%	
Expense ratio	48.8	42.3		48.1	41.0	
Composite ratio	109.2%	121.1%		108.1%	122.3%	
Components of diluted earnings per share:						
Net operating income (loss)	\$ 0.05	\$ (0.21)	123.8%	\$ 0.16	\$ (0.44)	136.4%
Net realized investment gains (losses)	0.18	0.14		0.19	0.14	
Net income (loss)	\$ 0.23	\$ (0.07)	428.6%	\$ 0.35	\$ (0.30)	216.7%
Cash dividends paid per share	\$ 0.1725	\$ 0.1700	1.5%	\$ 0.3450	\$ 0.3400	1.5%

N/M: Not meaningful

The recognition of realized investment gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of estimated losses from write-downs for impaired securities, tax-planning considerations, and changes in investment management judgments relative to the direction of securities markets or the future prospects of individual investees or industry sectors. Likewise, non-recurring items which may emerge from time to time can distort the comparability of the Company’s results from period to period. Accordingly, management uses net operating income, a non-GAAP financial measure, to evaluate and better explain operating performance, and believes its use enhances an understanding of Old Republic’s basic business results. Operating

income, however, does not replace net income determined in accordance with GAAP as a measure of total profitability.

The above table shows both operating and net income (loss) to highlight the effects of realized investment gain or loss recognition on period-to-period comparisons. Realized gains in this year's second quarter and first half resulted from sales of securities, some of which had been impaired in prior years. The following summary shows the composition of realized gains shown in the above table.

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Realized gains (losses) from sales applicable to previously impaired securities:				
Actual tax basis (loss) on sales	\$ (44.0)	\$ -	\$ (44.0)	\$ -
GAAP valuation impact of the original impairment charge on securities sold	71.9	-	71.9	-
Net total	27.9	-	27.9	-
Net realized gains from sales of all other securities	44.9	0.3	47.9	0.3
Net realized gains from all securities sales	\$ 72.8	\$ 0.3	\$ 75.8	\$ 0.3

General Insurance Results – Second quarter and first half general insurance earnings were marred by poorer underwriting performance when compared to the same periods of 2009. Key indicators of this segment’s operating performance are shown in the following table.

	General Insurance Group					
	Quarters Ended June 30,			Six Months Ended June 30,		
	2010	2009	Change	2010	2009	Change
Net premiums earned	\$ 401.0	\$ 440.7	-9.0%	\$ 812.8	\$ 898.1	-9.5%
Net investment income	64.7	63.5	1.8	129.3	127.0	1.8
Pretax operating income (loss)	\$ 29.3	\$ 46.4	-36.8%	\$ 98.6	\$ 104.6	-5.8%
Claim ratio	79.4%	75.9%		74.9%	75.3%	
Expense ratio	27.8	26.8				