

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
November 06, 2009

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: September 30, 2009 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 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
Common Stock / \$1 par value	September 30, 2009 240,654,615

There are 39 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / September 30, 2009

INDEX

	PAGE NO.
PART I	
FINANCIAL INFORMATION:	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF INCOME	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	5
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6 – 13
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS	14 – 35
QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	36
CONTROLS AND PROCEDURES	36
PART II	
OTHER INFORMATION:	
ITEM 1 – LEGAL PROCEEDINGS	37
ITEM 1A – RISK FACTORS	37
ITEM 6 – EXHIBITS	37
SIGNATURE	38
EXHIBIT INDEX	39

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

	(Unaudited) September 30, 2009	December 31, 2008
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$7,706.2 and \$7,385.2)	\$ 8,177.5	\$ 7,406.9
Equity securities (at fair value) (adjusted cost: \$373.3 and \$373.3)	473.5	350.3
Short-term investments (at fair value which approximates cost)	994.1	888.0
Miscellaneous investments	23.8	29.7
Total	9,669.0	8,675.0
Other investments	7.5	7.8
Total investments	9,676.5	8,682.9
Other Assets:		
Cash	54.5	63.9
Securities and indebtedness of related parties	23.8	17.4
Accrued investment income	113.2	108.2
Accounts and notes receivable	962.9	806.7
Federal income tax recoverable: Current	9.7	41.0
Prepaid federal income taxes	221.4	463.4
Reinsurance balances and funds held	99.5	67.6
Reinsurance recoverable: Paid losses	62.1	52.2
Policy and claim reserves	2,518.9	2,395.7
Deferred policy acquisition costs	214.0	222.8
Sundry assets	351.9	343.8
	4,632.5	4,583.1
Total Assets	\$ 14,309.1	\$ 13,266.0
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 7,806.5	\$ 7,241.3
Unearned premiums	1,191.3	1,112.3
Other policyholders' benefits and funds	180.3	180.7
Total policy liabilities and accruals	9,178.2	8,534.3
Commissions, expenses, fees, and taxes	261.2	264.5
Reinsurance balances and funds	363.7	264.8
Federal income tax payable: Deferred	54.9	77.3
Debt	372.2	233.0
Sundry liabilities	177.3	151.5
Commitments and contingent liabilities		
Total Liabilities	10,407.7	9,525.7

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Preferred Stock (1)	-	-
Common Shareholders' Equity:		
Common stock (1)	240.6	240.5
Additional paid-in capital	410.7	405.0
Retained earnings	2,950.5	3,186.5
Accumulated other comprehensive income (loss)	343.3	(41.7)
Unallocated ESSOP shares (at cost)	(43.8)	(50.0)
Treasury stock (at cost)(1)	-	-
Total Common Shareholders' Equity	3,901.3	3,740.3
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 14,309.1	\$ 13,266.0

(1) At September 30, 2009 and December 31, 2008, 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 240,654,615 at September 30, 2009 and 240,520,251 at December 31, 2008 were issued. At September 30, 2009 and December 31, 2008, 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 September 30, 2009 and December 31, 2008.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Net premiums earned	\$ 784.2	\$ 784.7	\$ 2,243.7	\$ 2,372.5
Title, escrow, and other fees	71.8	50.4	201.6	144.9
Total premiums and fees	856.1	835.2	2,445.4	2,517.5
Net investment income	96.7	93.8	283.9	282.3
Other income	5.7	7.2	20.0	24.6
Total operating revenues	958.6	936.3	2,749.4	2,824.5
<b>Realized investment gains (losses):</b>				
From sales	.6	18.3	1.0	26.0
From impairments	(1.5)	(11.5)	(1.5)	(448.9)
Total realized investment gains (losses)	(.9)	6.7	(.5)	(422.8)
Total revenues	957.6	943.1	2,748.8	2,401.6
<b>Benefits, Claims and Expenses:</b>				
Benefits, claims, and settlement expenses	669.9	679.1	1,956.7	2,005.2
Dividends to policyholders	1.2	4.0	6.0	11.9
Underwriting, acquisition, and other expenses	388.3	333.2	1,060.3	1,014.1
Interest and other charges	9.8	-	15.8	1.4
Total expenses	1,069.4	1,016.5	3,039.0	3,032.8
Income (loss) before income taxes (credits)	(111.7)	(73.4)	(290.2)	(631.1)
<b>Income Taxes (Credits):</b>				
Current	10.9	13.5	47.5	51.8
Deferred	(76.4)	(38.9)	(221.6)	(251.2)
Total	(65.4)	(25.3)	(174.1)	(199.3)
Net Income (Loss)	\$ (46.2)	\$ (48.0)	\$ (116.0)	\$ (431.8)
<b>Net Income (Loss) Per Share:</b>				
Basic:	\$ (.20)	\$ (.21)	\$ (.49)	\$ (1.87)
Diluted:	\$ (.20)	\$ (.21)	\$ (.49)	\$ (1.87)
<b>Average shares</b>				
outstanding: Basic	235,761,056	230,735,600	235,563,448	230,716,219
Diluted	235,761,056	230,735,600	235,563,448	230,716,219
<b>Dividends Per Common Share:</b>				
Cash	\$ .17	\$ .17	\$ .51	\$ .50

Consolidated Statements of Comprehensive Income (Unaudited)

Net income (loss) as reported	\$	(46.2)	\$	(48.0)	\$	(116.0)	\$	(431.8)
Other comprehensive income (loss):								
Post-tax net unrealized gains (losses) on securities		222.9		(56.8)		367.8		(85.2)
Other adjustments		8.3		(2.7)		17.2		(7.2)
Net adjustments		231.3		(59.6)		385.1		(92.5)
Comprehensive income (loss)	\$	185.0	\$	(107.6)	\$	269.0	\$	(524.3)

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (116.0)	\$ (431.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred policy acquisition costs	10.5	11.3
Premiums and other receivables	(155.0)	41.5
Unpaid claims and related items	478.7	612.1
Other policyholders' benefits and funds	39.7	(8.3)
Income taxes	(190.2)	(254.6)
Prepaid federal income taxes	241.9	35.2
Reinsurance balances and funds	56.7	7.9
Realized investment (gains) losses	.5	422.8
Accounts payable, accrued expenses and other	71.1	31.3
Total	438.0	467.6
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	825.1	631.0
Sales	81.5	72.4
Sales of:		
Equity securities	-	79.2
Other – net	3.5	42.7
Purchases of:		
Fixed maturity securities	(1,239.2)	(814.7)
Equity securities	-	(96.9)
Other – net	(12.9)	(26.4)
Purchase of a business	(5.0)	(4.3)
Net decrease (increase) in short-term investments	(105.1)	(267.0)
Other-net	(5.4)	(.4)
Total	(457.5)	(384.5)
Cash flows from financing activities:		
Issuance of debentures and notes	576.2	93.0
Issuance of common shares	1.1	3.0
Redemption of debentures and notes	(447.2)	(33.1)
Dividends on common shares	(119.9)	(115.2)
Other-net	-	1.9
Total	10.0	(50.5)
Increase (decrease) in cash:	(9.4)	32.5
Cash, beginning of period	63.9	54.0
Cash, end of period	\$ 54.5	\$ 86.5



Supplemental cash flow information:

Cash paid during the	Interest	\$	4.0	\$	2.0
period for:	Income taxes	\$	16.0	\$	54.9

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 Accounting Standards Codification (“ASC”) promulgated by the Financial Accounting Standards Board (“FASB”) effective July 1, 2009. The ASC does not change accounting principles generally accepted in the United States of America (US GAAP), and basically reorganizes such principles into a compendium of rules grouped by topic.

Rule 10-01(d) of Regulation S-X requires that interim financial statements included in quarterly reports on Form 10-Q be reviewed by an independent registered public accountant using professional standards and procedures for conducting such reviews, as established by the Public Company Accounting Oversight Board (United States), as may be modified or supplemented by the SEC. As previously announced by the Company, its registered public accounting firm, PricewaterhouseCoopers LLP (“PwC”) was unable to complete its review of the Company’s interim consolidated financial statements for the three and nine month periods ended September 30, 2009, in accordance with Statement of Auditing Standards No. 100, Interim Financial Information (“SAS 100”), as required by Rule 10-01(d) of Regulation S-X, due to the status of a disagreement with the Company’s accounting treatment of certain third quarter 2009 reinsurance transactions consummated by the Company’s Mortgage Guaranty Group. The nature of the disagreement and the potential impact to the Company’s consolidated financial statements is disclosed in its Form 8-K filing of November 5, 2009. The Company intends to petition the SEC for a resolution of the accounting matter. There is a risk that the Company may not prevail in its position. If unsuccessful in this regard, the Company will be required to restate its interim consolidated financial statements for the periods ended September 30, 2009 once the matter is resolved, the Company will file an amended Form 10-Q.

Because the required review has not been completed, the Company’s Form 10-Q for the quarterly periods ended September 30, 2009 is considered deficient. As a result, the Company is considered not to be timely or current in its filings under the Securities Exchange Act of 1934. Filing an amendment to the Company’s Form 10-Q for the periods ended September 30, 2009 when PwC’s review has been completed will eliminate certain consequences of a deficient filing, but the Company would remain ineligible to use Form S-3 to register securities unless the SEC waives the noncompliance issue or until all required reports under the Securities Exchange Act of 1934 have been timely filed for the 12 months prior to the filing of the registration statements for those securities. The Company believes that the delay in obtaining a completed SAS 100 review of its financial statements and the fact that this Form 10-Q is considered deficient and untimely is not likely to have a material adverse effect on its bank credit agreements or the indentures governing its debt obligations.

Additionally, Section 906 of the Sarbanes-Oxley Act of 2002 requires the Company’s chief executive officer and chief financial officer to certify that this Quarterly Report on Form 10-Q fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the Company’s financial condition and results of operations. Before the Company’s officers can make such certifications, PwC is required to complete its review of the Company’s consolidated financial statements under SAS 100. Once the accounting issue has been resolved and PwC has completed its review under SAS 100, the Company expects to file an amendment to this Report pursuant to which the Company’s chief executive officer and chief financial officer will make the certifications required under Section 906 of the Sarbanes-Oxley Act.

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 new pronouncements which

establish a framework for measuring the fair value of financial assets and provide guidance covering fair value measurements in the current economic environment, recognition of other-than-temporary impairments of debt securities, required disclosure of fair values of financial instruments in interim periods, and evaluation of subsequent events. The Company's adoption of these pronouncements, which is reflected in the notes to financial statements, results primarily in additional disclosures and has no effect on the conduct of the business and 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. Subsequent events have been evaluated through the issuance date (November 6, 2009) of the accompanying financial statements.

## 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 net 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 the net income (loss) and number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net Income (loss)	\$ (46.2)	\$ (48.0)	\$ (116.0)	\$ (431.8)
Numerator for basic earnings per share - income (loss) available to common stockholders	(46.2)	(48.0)	(116.0)	(431.8)
Numerator for diluted earnings per share - income (loss) available to common stockholders after assumed conversions	\$ (46.2)	\$ (48.0)	\$ (116.0)	\$ (431.8)
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)(b)	235,761,056	230,735,600	235,563,448	230,716,219
Effect of dilutive securities - stock options	-	-	-	-
Effect of dilutive securities - convertible senior notes	-	-	-	-
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (a)(b)	235,761,056	230,735,600	235,563,448	230,716,219
Earnings per share: Basic	\$ (.20)	\$ (.21)	\$ (.49)	\$ (1.87)
Diluted	\$ (.20)	\$ (.21)	\$ (.49)	\$ (1.87)
Anti-dilutive common share equivalents excluded from earning per share computations:				
Stock options	15,843,895	15,284,846	15,843,895	15,284,846
Convertible senior notes	27,452,271	-	27,452,271	-
Total	43,296,166	15,284,846	43,296,166	15,284,846

(a) All per share statistics have been restated to reflect all stock dividends and splits declared through September 30, 2009.

(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 September 30, 2009 and December 31, 2008, 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 OTTI adjustments of \$1.5 for the quarter and nine months ended September 30, 2009 while recognizing \$11.5 and \$448.9 of such adjustments for the quarter and nine months ended September 30, 2008.

During the second quarter of 2009, the Company adopted new accounting pronouncements that provide additional technical guidance to the application of fair value measurements in the current economic environment, modifies the requirements for recognizing OTTI adjustments relating to debt securities, changes the existing impairment model for such securities, modifies the presentation of OTTI adjustments, increases the frequency of and expands already required disclosures relating to OTTI matters, and increases the frequency of fair value disclosures from annual to quarterly reports.

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:				
September 30, 2009:				
U.S. & Canadian Governments	\$ 691.5	\$ 48.3	\$ -	739.8
Tax-exempt	2,225.8	150.6	-	2,376.4
Corporates	4,788.8	284.8	12.4	5,061.2
	\$ 7,706.2	\$ 483.8	\$ 12.5	8,177.5
December 31, 2008:				
U.S. & Canadian Governments	\$ 631.6	\$ 62.8	\$ -	694.4
Tax-exempt	2,290.0	77.2	1.5	2,365.7
Corporates	4,463.5	56.6	173.3	4,346.7
	\$ 7,385.2	\$ 196.8	\$ 175.0	7,406.9

The amortized cost and estimated fair value of fixed maturity securities at September 30, 2009, 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	\$ 737.3	\$ 747.8
Due after one year through five years	4,194.7	4,419.8
Due after five years through ten years	2,741.4	2,975.9
Due after ten years	32.7	33.8
	\$ 7,706.2	\$ 8,177.5

A summary of the Company's equity securities reflecting reported adjusted cost, net of OTTI adjustments totaling \$355.8 at September 30, 2009 and December 31, 2008 follows:

Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
------------------	------------------------------	-------------------------------	----------------------------

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

September 30, 2009	\$	373.3	\$	120.3	\$	20.2	\$	473.5
December 31, 2008	\$	373.3	\$	49.6	\$	72.7	\$	350.3

8

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 September 30, 2009 and December 31, 2008:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		-	-	-		-
Governments	\$ 26.3	\$ -	\$ -	\$ -	\$ 26.3	\$ -
Tax-exempt	6.8	-	-	-	6.8	-
Corporates	102.7	.8	230.4	11.6	333.1	12.4
Subtotal	135.8	.8	230.4	11.6	366.3	12.5
Equity Securities	87.0	3.1	96.0	17.0	183.0	20.2
Total	\$ 222.9	\$ 4.0	\$ 326.5	\$ 28.6	\$ 549.4	\$ 32.7
December 31, 2008:						
Fixed Maturity Securities:						
U . S . & C a n a d i a n		-	-	-		-
Governments	\$ 1.0	\$ -	\$ -	\$ -	\$ 1.0	\$ -
Tax-exempt	60.8	1.4	7.7	-	68.5	1.5
Corporates	1,981.4	112.4	504.3	61.0	2,485.8	173.4
Subtotal	2,043.2	113.9	512.1	61.1	2,555.4	175.0
Equity Securities	247.8	72.7	-	-	247.9	72.7
Total	\$ 2,291.1	\$ 186.5	\$ 512.1	\$ 61.2	\$ 2,803.3	\$ 247.7

At September 30, 2009, the Company held 81 fixed maturity and 7 equity securities in an unrealized loss position, representing 4.0% as to fixed maturities and 43.8% as to equity securities of the total number of such issues held by the Company. Of the 81 fixed maturity securities, 52 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 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.

Beginning in 2008, the Company adopted an accounting pronouncement which establishes a framework for measuring fair value. The pronouncement defines fair value 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). In 2009, the Company also adopted a related accounting pronouncement which provides guidance on fair value measurements in the current economic environment and results in more detailed disclosures relative to the Company's fair value measurements. 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. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs during the quarter ended September 30, 2009.

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 September 30, 2009:			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$ 294.9	\$ 444.8	\$ -	\$ 739.8
Tax-exempt	-	2,376.4	-	2,376.4
Corporates	-	5,040.7	20.5	5,061.2
Equity securities	430.4	-	43.0	473.5
Short-term investments	987.7	-	6.3	994.1

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 September 30, 2009, the Company and its subsidiaries had no significant amount of 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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Investment income from:				
Fixed maturity securities	\$ 94.8	\$ 86.6	\$ 273.9	\$ 257.7
Equity securities	1.2	2.9	4.0	10.1
Short-term investments	.8	4.0	4.9	13.1
Other sources	.6	1.1	3.2	3.9
Gross investment income	97.5	94.7	286.2	284.9
Investment expenses (a)	.7	.8	2.2	2.6
Net investment income	\$ 96.7	\$ 93.8	\$ 283.9	\$ 282.3
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$ .7	\$ 1.3	\$ 1.7	\$ 4.0
Losses	(1.7)	-	(1.7)	-
Net	(1.0)	1.3	-	4.0
Equity securities & other long-term investments	-	5.4	(.5)	(426.8)
Total	(.9)	6.7	(.5)	(422.8)
Income taxes (credits)(b)	(20.8)	9.4	(54.1)	(105.9)
Net realized gains (losses)	\$ 19.8	\$ (2.6)	\$ 53.6	\$ (316.8)
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$ 235.2	\$ (101.6)	\$ 448.5	\$ (166.6)

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Less: Deferred income taxes (credits)		82.3		(35.5)		156.9		(58.3)
Net change	\$	152.9	\$	(66.0)	\$	291.6	\$	(108.2)
Equity securities & other long-term investments	\$	107.6	\$	14.1	\$	117.2	\$	35.3
Less: Deferred income taxes (credits)		37.6		4.9		41.0		12.3
Net change	\$	69.9	\$	9.2	\$	76.2	\$	22.9

(a) Investment expenses consist of personnel costs and investment management and custody service fees, as well as interest incurred on funds held of \$ - and \$.1 compared to \$.3 and \$.7 for the quarter and nine months ended September 30, 2009 and 2008, respectively.

(b) Reflects primarily the varying proportions of pretax income derived from partially tax sheltered investment income (principally state and municipal tax-exempt interest), the combination of fully taxable investment income, 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 cash contributions of approximately \$1.5 to their pension plans in the third quarter of 2009, and do not expect to make any additional cash contributions to their pension plans in the remaining portion of calendar year 2009.

## 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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>General Insurance Group:</b>				
Net premiums earned	\$ 446.7	\$ 500.3	\$ 1,344.9	\$ 1,507.4
Net investment income and other income	67.6	65.3	200.3	201.2
Total revenues before realized gains or losses	\$ 514.4	\$ 565.7	\$ 1,545.2	\$ 1,708.7
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 43.7	\$ 77.0	\$ 148.4	\$ 223.2
Income tax expense (credits) on above	\$ 10.9	\$ 22.0	\$ 38.3	\$ 63.3
<b>Mortgage Guaranty Group:</b>				
Net premiums earned	\$ 138.9	\$ 148.4	\$ 425.8	\$ 445.2
Net investment income and other income	25.6	24.4	76.6	73.7
Total revenues before realized gains or losses	\$ 164.6	\$ 172.8	\$ 502.4	\$ 518.9
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ (160.4)	\$ (152.8)	\$ (443.0)	\$ (415.9)
Income tax expense (credits) on above	\$ (57.4)	\$ (54.8)	\$ (159.1)	\$ (149.7)
<b>Title Insurance Group:</b>				
Net premiums earned	\$ 181.4	\$ 117.9	\$ 418.9	\$ 357.1
Title, escrow and other fees	71.8	50.4	201.6	144.9
Sub-total	253.3	168.4	620.6	502.1
Net investment income and other income	6.4	6.3	18.4	19.1
Total revenues before realized gains or losses	\$ 259.7	\$ 174.7	\$ 639.0	\$ 521.2
Income (loss) before income taxes (credits) and realized investment gains or losses (a)	\$ 4.0	\$ (9.7)	\$ .6	\$ (27.0)
Income tax expense (credits) on above	\$ 1.0	\$ (3.8)	\$ (.9)	\$ (10.6)

## Consolidated Revenues:

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Total revenues of above Company segments	\$	938.7	\$	913.3	\$	2,686.8	\$	2,748.8
Other sources (b)		34.0		30.6		102.1		99.7
Consolidated net realized investment gains (losses)		(.9)		6.7		(.5)		(422.8)
Consolidation elimination adjustments		(14.1)		(7.6)		(39.5)		(24.1)
Consolidated revenues	\$	957.6	\$	943.1	\$	2,748.8	\$	2,401.6

Consolidated Income (Loss) Before Taxes (Credits):

Total income (loss) before income taxes (credits) and realized investment gains or losses of above Company segments	\$	(112.6)	\$	(85.5)	\$	(293.9)	\$	(219.7)
Other sources – net (b)		1.8		5.3		4.3		11.4
Consolidated net realized investment gains (losses)		(.9)		6.7		(.5)		(422.8)
Consolidated income (loss) before income taxes (credits)	\$	(111.7)	\$	(73.4)	\$	(290.2)	\$	(631.1)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Consolidated Income Tax Expense (Credits):				
Total income tax expense (credits)				
for above Company segments	\$ (45.4)	\$ (36.6)	\$ (121.7)	\$ (97.0)
Other sources – net (b)	.8	1.8	1.7	3.6
Income tax expense (credits) on				
consolidated net realized investment gains (losses)	(20.8)	9.4	(54.1)	(105.9)
Consolidated income tax expense (credits)	\$ (65.4)	\$ (25.3)	\$ (174.1)	\$ (199.3)

	September 30, 2009	December 31, 2008
Consolidated Assets:		
General	\$ 10,042.0	\$ 9,482.9
Mortgage	3,235.5	2,973.1
Title	851.1	762.4
Other assets (b)	589.5	509.5
Consolidation elimination adjustments	(409.1)	(462.0)
Consolidated	\$ 14,309.1	\$ 13,266.0

(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 - \$5.4 and \$12.5 compared to \$3.5 and \$10.3 for the quarter and nine months ended September 30, 2009 and 2008, respectively; Mortgage - \$1.7 and \$5.5 for the quarter and nine months ended September 30, 2009, respectively; and Title - \$1.6 and \$3.9 compared to \$.5 and \$1.8 for the quarter and nine months ended September 30, 2009 and 2008, 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 suit in Texas also alleges violation 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, and a settlement agreement, which is not expected to cost ORNTIC more than \$2.2, has been approved in the New Jersey action.

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 57 remain nationwide. ORNTIC is currently among the named defendants in 25 of these actions in 4 states and the Company is a named defendant in 9 of the actions in 2 states. No class has yet been certified in any of these suits against the Company and ORNTIC, and none of the actions against them 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, 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.

Except in New Jersey where a settlement agreement has been approved, the ultimate impact of these lawsuits, 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:**

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 86.8056 shares of common stock per one thousand dollar note.

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

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
8% Convertible Senior Notes due 2012	\$ 316.2	\$ 392.4	\$ -	\$ -
Commercial paper due within 180 days with an average yield of 1.96% and 2.65%, respectively	25.1	25.1	199.5	199.5
ESSOP debt with an average yield of 3.88% and 5.41%, respectively	27.9	27.9	29.5	29.5
Other miscellaneous debt	2.8	2.8	3.8	3.8
Total debt	\$ 372.2	\$ 448.5	\$ 233.0	\$ 233.0

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. 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  
Nine Months Ended September 30, 2009 and 2008  
(\$ 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 2.1% of consolidated operating revenues for the nine months ended September 30, 2009 and 1.8% of consolidated assets as of September 30, 2009, is included within the corporate and other caption of this report. The consolidated accounts are presented in conformity with the Accounting Standards Codification (“ASC”). 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 year-over-year operating results, which exclude net realized investment gains or losses, worsened in this year’s third quarter and first nine months. Results for 2009 reflected slightly higher loss costs in Old Republic’s mortgage guaranty line but benefited from much greater market share-driven revenues and a lower expense ratio in the title insurance segment. General insurance operating results throughout 2009 were dampened by the combination of lower earned premiums and higher loss costs for certain insurance coverages.

The net loss for the latest quarter and this year's first nine months was reduced by deferred income tax credits of \$20.5 (\$0.08 per share) and \$54.0 (\$0.23 per share), respectively. The tax credits, which could not be recognized previously due to the requirements of accounting rules, stem from estimates of losses from other-than-temporary impairments of investments, most of which were originally recorded in the second quarter of 2008.

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

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

	Quarters Ended September 30,			Nine Months Ended September 30,			
	2009	2008	Change	2009	2008	Change	
Operating revenues:							
General insurance	\$ 514.4	\$ 565.7	-9.1%	\$ 1,545.2	\$ 1,708.7	-9.6%	
Mortgage guaranty	164.6	172.8	-4.7	502.4	518.9	-3.2	
Title insurance	259.7	174.7	48.7	639.0	521.2	22.6	
Corporate and other	19.8	23.0	-13.9	62.6	75.6	-17.2	
Total	\$ 958.6	\$ 936.3	2.4%	\$ 2,749.4	\$ 2,824.5	-2.7%	
Pretax operating income (loss):							
General insurance	\$ 43.7	\$ 77.0	-43.3%	\$ 148.4	\$ 223.2	-33.5%	
Mortgage guaranty	(160.4)	(152.8)	-4.9	(443.0)	(415.9)	-6.5	
Title insurance	4.0	(9.7)	142.0	0.6	(27.0)	102.4	
Corporate and other	1.8	5.3	-65.7	4.3	11.4	-62.2	
Sub-total	(110.7)	(80.1)	-38.2	(289.6)	(208.3)	-39.0	
Realized investment gains (losses):							
From sales	0.6	18.3		1.0	26.0		
From impairments	(1.5)	(11.5)		(1.5)	(448.9)		
Net realized investment gains (losses)	(0.9)	6.7	N/M	(0.5)	(422.8)	N/M	
Consolidated pretax income (loss)	(111.7)	(73.4)	-52.2	(290.2)	(631.1)	54.0	
Income taxes (credits)	(65.4)	(25.3)	-158.0	(174.1)	(199.3)	12.6	
Net income (loss)	\$ (46.2)	\$ (48.0)	3.7%	\$ (116.0)	\$ (431.8)	73.1%	
Consolidated underwriting ratio:							
Benefits and claims ratio	78.4%	81.8%		80.3%	80.1%		
Expense ratio	44.4	38.8		42.2	39.0		
Composite ratio	122.8%	120.6%		122.5%	119.1%		
Components of diluted earnings per share:							
Net operating income (loss)		\$ (0.28)	\$ (0.20)	-40.0%	\$ (0.72)	\$ (0.50)	-44.0%
Net realized investment gains (losses)		0.08	(0.01)	N/M	0.23	(1.37)	N/M
Net income (loss)		\$ (0.20)	\$ (0.21)	4.8%	\$ (0.49)	\$ (1.87)	73.8%
Cash dividends paid per share		\$ 0.17	\$ 0.17	-%	\$ 0.51	\$ 0.50	2.0%

N/M: Not meaningful

The above table shows both operating and net income (loss) to highlight the effects of realized investment gain or loss recognition and any non-recurring items on period-to-period comparisons. Operating income, however, does not replace net income computed in accordance with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) as a measure of total profitability.

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-ASC financial measure, to evaluate and better explain operating performance, and believes its use enhances an understanding of Old Republic's basic business results.

General Insurance Results – Pretax operating earnings for this year’s quarterly and year-to-date periods were affected mostly by reduced premium volume and moderately higher claim and expense ratios. The following table shows these effects:

	General Insurance Group					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Change	2009	2008	Change
Net premiums earned	\$ 446.7	\$ 500.3	-10.7%	\$ 1,344.9	\$ 1,507.4	-10.8%
Net investment income	64.7	61.9	4.5	191.8	189.1	1.4
Pretax operating income (loss)	\$ 43.7	\$ 77.0	-43.3%	\$ 148.4	\$ 223.2	-33.5%
Claims ratio	77.5%	72.5%		76.1%	72.8%	
Expense ratio	25.8	23.8		26.0	24.2	
Composite ratio	103.3%	96.3%		102.1%	97.0%	

Earned premiums for the large majority of insurance coverages continued to trend lower throughout 2009. As in the recent past, premium growth has been constrained by the combination of a moderately declining rate environment during the past three years or so, and by recessionary economic conditions. These conditions affect such factors as sales and employment levels, both of which are important bases upon which premium rates are applied.

General insurance investment income trends benefited from a greater invested asset base.

Overall claim ratios continued to trend moderately higher in this year’s third quarter and first nine months. 2009 claim experience for the consumer credit indemnity (“CCI”) coverage, however, remained at high levels, adding approximately 7.2 percentage points to the above claim ratios. By contrast CCI claim experience in the third quarter and first nine months of 2008 was additive to general insurance claim ratios by 5.1 and 6.8 percentage points, respectively. Aggregate claim experience for other coverages did not show significantly adverse trends. Production and general operating expenses edged down slightly in 2009 but nonetheless resulted in a higher ratio as the expense reduction lagged a larger drop in earned premiums.

Mortgage Guaranty Results – Year-to-date mortgage guaranty operating results benefited from lower production and operating expenses, but were hindered by moderately higher claim costs during 2009. Key indicators of this segment’s evolving performance are shown in the following table:

	Mortgage Guaranty Group					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Change	2009	2008	Change
Net premiums earned	\$ 138.9	\$ 148.4	-6.4%	\$ 425.8	\$ 445.2	-4.3%
Net investment income	23.8	22.0	8.4	68.4	65.0	5.4
Pretax operating income (loss)	\$ (160.4)	\$ (152.8)	-4.9%	\$ (443.0)	\$ (415.9)	-6.5%
Claims ratio	214.0%	203.1%		203.8%	192.3%	
Expense ratio	17.3	14.8		15.1	15.8	
Composite ratio	231.3%	217.9%		218.9%	208.1%	

Mortgage guaranty earned premiums declined in each of this year’s quarterly periods. The lower premium levels resulted mostly from the more selective underwriting criteria applied since late 2007, from an overall decline in the industry’s business penetration, and from higher premium refunds related to claim rescissions. These factors were attenuated somewhat by rising persistency of business produced in prior years, and by a continuing decline in

premiums ceded to lender-owned (captive) reinsurance companies. During this year's third quarter, the Mortgage Guaranty Group recaptured business previously ceded to several captives. In substance, the transactions are cut-off reinsurance arrangements whereby the captives have remitted to the Company the reserves on existing claim obligations and a risk premium for claims that will occur after the recapture date. Accordingly, the Company recorded proceeds of \$148.9 and established a combination of claims reserves (\$68.4) and premium reserves (\$82.5) all of which resulted in little consequential effect on the pretax loss for the quarter or first nine months of 2009.

Mortgage guaranty investment income trends benefited from a greater invested asset base.

Claim ratios were up slightly year-over-year in both the third quarter and first nine months of 2009. Greater claim rescissions and a moderate decline in claim severity offset to some degree the impact on claim reserve provisions of a continuing uptrend in delinquent loans. The components of incurred mortgage guaranty claim ratios are shown in the following table. The recording of the above noted reinsurance recaptures had the effect of decreasing the paid claims ratios by 49.3 and 16.1 percentage points in this year's third quarter and first nine months, respectively, and increasing the claim reserve provisions ratios by identical amounts.

	Mortgage Guaranty Group			
	Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Incurring loss ratio from:				
Paid losses	57.8%	84.7%	92.5%	66.6%
Reserve provisions	156.2	118.4	111.3	125.7
Total	214.0%	203.1%	203.8%	192.3%

Title Insurance Results – Old Republic’s title insurance business registered slightly better than break even results for the first nine months of 2009. Key operating performance indicators are shown in the following table:

	Title Insurance Group					
	Quarters Ended September 30,			Nine Months Ended September 30,		
	2009	2008	Change	2009	2008	Change
Net premiums and fees earned	\$ 253.3	\$ 168.4	50.4%	\$ 620.6	\$ 502.1	23.6%
Net investment income	6.3	6.2	1.4	18.2	19.1	-4.3
Pretax operating income (loss)	\$ 4.0	\$ (9.7)	142.0%	\$ .6	\$ (27.0)	102.4%
Claims ratio	8.3%	7.0%		7.6%	7.0%	
Expense ratio	91.1	102.2		94.4	102.0	
Composite ratio	99.4%	109.2%		102.0%	109.0%	

Growth in title premiums and fees for 2009 periods resulted from greater refinance transactions earlier this year and from the benefit of market share gains emerging from title industry dislocations and consolidations. Claim costs rose at a quicker pace, however, as the Company added moderately to reserve provisions to address recent claim emergence trends. Production and general operating expenses, while relatively lower as a percentage of premium and fees revenues, rose dollar-wise in reflection of greater personnel and other production costs related to the higher revenues attained and anticipated.

Corporate and Other Operations – The Company’s small life and health insurance business and the net costs associated with the parent holding company and internal services subsidiaries produced a much lower gain in this year’s first nine months. Period-to-period variations in the results of these relatively minor elements of Old Republic’s operations usually stem from the volatility inherent to the small scale of its life and health business, fluctuations in the costs of external debt, and net interest on intra-system financing arrangements. A portion of the year-over-year decline in earnings was also due to foreign exchange adjustments for U.S. dollar conversions from the Canadian currency held by a life and health insurance subsidiary.

Cash, Invested Assets, and Shareholders’ Equity – The following table reflects Old Republic’s consolidated cash and invested assets as well as shareholders’ equity at the dates shown:

		% Change				
		September 2009	December 2008	September 2008	Sept '09/ Dec '08	Sept '09/ Sept '08
Cash and invested assets:	fair value basis	\$ 9,844.3	\$ 8,855.1	\$ 8,733.7	11.2 %	12.7 %
	original cost basis	\$ 9,635.0	\$ 9,210.0	\$ 9,143.3	4.6 %	5.4 %
Shareholders Total equity:		\$ 3,901.3	\$ 3,740.3	\$ 3,914.3	4.3 %	-0.3 %



Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Per common share	\$	16.54	\$	15.91	\$	16.96	4.0	%	-2.5	%
Composition of shareholders' equity per share:										
Equity before items below	\$	15.09	\$	16.10	\$	16.96	-6.3	%	-11.0	%
Unrealized investment gains (losses) and other accumulated comprehensive income (loss)		1.45		(0.19)		-				
Total	\$	16.54	\$	15.91	\$	16.96	4.0	%	-2.5	%

Consolidated cash flow from operating activities amounted to \$438.0 for the first nine months of 2009 versus \$467.6 for the same period in 2008.

The investment portfolio reflects a current allocation of approximately 85% to fixed-maturity securities and 5% to equities. As has been the case for many years, Old Republic's invested assets are managed in consideration of enterprise-wide risk management objectives intended to assure solid funding of its subsidiaries' long-term obligations to insurance policyholders and other beneficiaries, and evaluations of their long-term effect on the stability of capital accounts. The portfolio contains little or no direct insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, hybrid securities, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging or securities lending transactions, nor

does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes.

Substantially all changes in the shareholders' equity account reflect the Company's net income or loss, dividend payments to shareholders, and impairments or changes in market valuations of invested assets during the periods shown below:

	Shareholders' Equity Per Share		
	Quarter Ended September 30, 2009	2009	Nine Months Ended September 30, 2008
Beginning balance	\$ 15.93	\$ 15.91	\$ 19.71
Changes in shareholders' equity for the periods:			
Net operating income (loss)	(0.28)	(0.72)	(0.50)
Net realized investment gains (losses):			
From sales	-	-	0.07
From impairments	0.08	0.23	(1.44)
Subtotal	0.08	0.23	(1.37)
Net unrealized investment gains (losses)	0.95	1.56	(0.37)
Total realized and unrealized investment gains (losses)	1.03	1.79	(1.74)
Cash dividends	(0.17)	(0.51)	(0.50)
Stock issuance, foreign exchange, and other transactions	0.03	0.07	(0.01)
Net change	0.61	0.63	(2.75)
Ending balance	\$ 16.54	\$ 16.54	\$ 16.96

Old Republic's significant investments in the stocks of two leading publicly held mortgage guaranty ("MI") businesses (MGIC Investment Corp. and The PMI Group) account for a substantial portion of the 2008 realized and unrealized investment losses shown in the above and following tables. Unrealized losses, including losses on securities categorized as other-than-temporarily impaired ("OTTI"), represent the net difference between the most recently established cost and the fair values of the investments at each point in time. The aggregate original and impaired costs, fair value, and latest reported underlying equity values of the aforementioned two mortgage guaranty investments are shown below.

	September 30, 2009	2008	December 31, 2007
Total value of the two MIO	\$ 416.4	\$ 416.4	\$ 429.7
investments:			
Original cost			
Impaired cost	106.8	106.8	N/A
Fair value	177.0	82.7	375.1
Underlying equity(*)	\$ 354.7	\$ 515.9	\$ 679.7

(\*) Underlying equity based on latest reports (which may lag by one quarter) issued by investees.

When making investment decisions, management considers the Company's ability to retain its holdings for a period sufficient to recover their cost and to obtain a competitive long-term total return. It also considers such factors as balance sheet effects of potential changes in market valuations, asset-liability matching objectives, long term ability to hold securities, tax planning considerations, and the investees' reported book values and ability to continue as going concerns. The above-noted mortgage guaranty holdings were acquired as passive long-term investment additions for a

core segment of Old Republic's business in anticipation of a recovery for the MI industry in 2010. In management's judgment, the currently depressed market valuations of companies operating in the housing and mortgage-lending sectors of the American economy have been impacted significantly by the cyclical and macroeconomic conditions affecting these sectors, and by the recent dysfunctionality of the banking and mortgage lending industries.

For external financial reporting purposes, however, Old Republic uses relatively short time frames in recognizing OTTI adjustments in its income statement. In this context, absent issuer-specific circumstances that would result in a contrary conclusion, all unrealized investment losses pertaining to any equity security reflecting a 20 percent or greater decline for a six month period is considered OTTI. Unrealized losses that are deemed temporary and all unrealized gains are recorded directly as a separate component of the shareholders' equity account and in the consolidated statement of comprehensive income. As a result of accounting idiosyncrasies, however, OTTI losses recorded in the income statement of one period can not be offset in the income statement of a subsequent period by fair value gains on the previously impaired securities unless the gains are realized through actual sales. Such unrealized fair value gains can only be recognized through direct credits in the shareholders' equity account and in the consolidated statement of comprehensive income.

Recent Capital Raise – Early in this year's second quarter the Company obtained gross proceeds of \$316.25 through a public offering of 8% Convertible Senior Notes due in 2012. The funds were used mostly to enhance the capital base of the general and title insurance segments, and to repay a portion of commercial paper debt previously incurred to strengthen the capital of the mortgage guaranty segment as of year end 2008. Along with the growth oriented capital additions to businesses with good prospects for the long term, the new funds enhance the stability and resiliency of Old Republic's consolidated capitalization.

## DETAILED MANAGEMENT ANALYSIS

### FINANCIAL ACCOUNTING AND REPORTING POLICIES

The Company's annual and interim financial statements incorporate a large number and types of estimates relative to matters which are highly uncertain at the time the estimates are made. The estimation process required of an insurance enterprise is by its very nature highly dynamic inasmuch as it necessitates a continuous evaluation, analysis, and quantification of factual data as it becomes known to the Company. As a result, actual experienced outcomes can differ from the estimates made at any point in time, and thus affect future periods' reported revenues, expenses, net income (loss), and financial condition.

Old Republic believes that its most critical accounting estimates relate to: a) the determination of other-than-temporary impairments in the value of fixed maturity and equity investments; b) the establishment of deferred acquisition costs which vary directly with the production of insurance premiums; c) the recoverability of reinsured paid and/or outstanding losses; and d) the establishment of reserves for losses and loss adjustment expenses. The major assumptions and methods used in setting these estimates are discussed in the Company's 2008 Annual Report on Form 10K.

In recent years, the Financial Accounting Standards Board ("FASB") has issued various releases requiring additional financial statement disclosures, and to provide guidance relative to the application of such releases. Of particular pertinence to the Company's financial statements are certain disclosures relating to uncertainties affecting income tax provisions, and methodologies for establishing the fair value and recording of other-than-temporary impairments of securities. The requisite disclosures and explanations of those matters have been included in the footnotes to the Company's financial statements.

### FINANCIAL POSITION

The Company's financial position at September 30, 2009 reflected increases in assets, liabilities, and common shareholders' equity of 7.9%, 9.3% and 4.3%, respectively, when compared to the immediately preceding year-end. Cash and invested assets represented 68.8% and 66.8% of consolidated assets as of September 30, 2009 and December 31, 2008, respectively. As of September 30, 2009, cash and invested assets increased 11.2% to \$9,844.3 as a result of positive operating cash flows, new funds from an April 2009 securities offering, and an increase in the fair value of fixed maturity investments.

Investments - During the first nine months of 2009 and 2008, the Company committed substantially all investable funds to short to intermediate-term fixed maturity securities. At both September 30, 2009 and 2008, approximately 99% of the Company's investments consisted of marketable securities. Old Republic continues to adhere to its long-term policy of investing primarily in investment grade, marketable securities. The portfolio contains little or no insurance risk-correlated asset exposures to real estate, mortgage-backed securities, collateralized debt obligations ("CDO's"), derivatives, junk bonds, hybrid securities, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging or securities lending transactions, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous or unfunded counter-party risk attributes. At September 30, 2009, the Company had no fixed maturity investments in default as to principal and/or interest.

Relatively high short-term maturity investment positions continued to be maintained as of September 30, 2009. Such positions reflect a large variety of seasonal and intermediate-term factors including current operating needs, expected operating cash flows, quarter-end cash flow seasonality, and investment strategy considerations. Accordingly, the future level of short-term investments will vary and respond to the interplay of these factors and may, as a result,

increase or decrease from current levels.

The Company does not own or utilize derivative financial instruments for the purpose of hedging, enhancing the overall return of its investment portfolio, or reducing the cost of its debt obligations. With regard to its equity portfolio, the Company does not own any options nor does it engage in any type of option writing. Traditional investment management tools and techniques are employed to address the yield and valuation exposures of the invested assets base. The long-term fixed maturity investment portfolio is managed so as to limit various risks inherent in the bond market. Credit risk is addressed through asset diversification and the purchase of investment grade securities. Reinvestment rate risk is reduced by concentrating on non-callable issues, and by taking asset-liability matching considerations into account. Purchases of mortgage and asset backed securities, which have variable principal prepayment options, are generally avoided. Market value risk is limited through the purchase of bonds of intermediate maturity. The combination of these investment management practices is expected to produce a more stable long-term fixed maturity investment portfolio that is not subject to extreme interest rate sensitivity and principal deterioration.

The fair value of the Company's long-term fixed maturity investment portfolio is sensitive, however, to fluctuations in the level of interest rates, but not materially affected by changes in anticipated cash flows caused by any prepayments. The impact of interest rate movements on the long-term fixed maturity investment portfolio generally affects net unrealized gains or losses. As a general rule, rising interest rates enhance currently available yields but typically lead to a reduction in the fair value of existing fixed maturity investments. By contrast, a decline in such rates reduces currently

available yields but usually serves to increase the fair value of the existing fixed maturity investment portfolio. All such changes in fair value are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.

Possible future declines in fair values for Old Republic's bond and stock portfolios would negatively affect the common shareholders' equity account at any point in time, but would not necessarily result in the recognition of realized investment losses. 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 in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for other-than-temporary impairment, 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 other-than-temporarily-impaired. In the event the Company's estimate of other-than-temporary impairments is insufficient at any point in time, future periods' net income (loss) would be affected adversely by the recognition of additional realized or impairment losses, but its financial condition would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses.

The following tables show certain information relating to the Company's fixed maturity and equity portfolios as of the dates shown:

Credit Quality Ratings of Fixed Maturity Securities (a)

	September 30, 2009	December 31, 2008
Aaa	19.3%	20.4%
Aa	21.3	24.5
A	31.4	31.4
Baa	26.1	22.0
Total investment grade	98.1	98.3
All other (b)	1.9	1.7
Total	100.0%	100.0%

(a) Credit quality ratings used are those assigned primarily by Moody's for U.S. Governments, Agencies and Corporate issuers and by Standard & Poor's ("S&P") for U.S. and Canadian Municipal issuers, which are converted to equivalent Moody's ratings classifications. In the second quarter of 2009, the Company changed its source of credit quality ratings from Moody's to S&P for U.S. Municipal issuers due to their wider credit coverage. The December 31, 2008 disclosures have been restated to be comparable to the current period classifications. The effect of such change moderately improved the previously reported credit quality ratings.

(b) "All other" includes non-investment grade or non-rated issuers.

Gross Unrealized Losses Stratified by Industry Concentration for Non-Investment Grade Fixed Maturity Securities

	September 30, 2009	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Banking	\$ 23.0	\$ 3.8
Retail	21.4	1.1
Industrial	25.8	1.0
Consumer Non-durables	10.6	.3
Other (includes 4 industry groups)	31.6	.7
Total	\$ 112.6(c)	\$ 7.2

(c) Represents 1.5% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Investment Grade Fixed Maturity Securities

	September 30, 2009	
	Amortized Cost	Gross Unrealized Losses
Fixed Maturity Securities by Industry Concentration:		
Banking	\$ 48.3	\$ 1.9
REIT	34.9	1.6
Basic Industry	31.6	.3
Service	6.0	.2
Other (includes 13 industry groups)	145.2	1.1
Total	\$ 266.2(d)	\$ 5.3

(d) Represents 3.5% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	September 30, 2009	
	Adjusted Cost (g)	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Index Funds	\$ 173.9	\$ 18.6
Health Care	15.1	.7
Utilities	13.9	.6
Insurance	.2	-
Total	\$ 203.2(e)	\$ 20.2(f)

(e) Represents 54.4% of the total equity securities portfolio.

(f) Represents 5.4% of the adjusted cost of the total equity securities portfolio, while gross unrealized gains represent 32.2% of the portfolio.

(g) Reported net of other-than-temporary impairment adjustments.

Gross Unrealized Losses Stratified by Maturity Ranges for All Fixed Maturity Securities

	September 30, 2009			
	Amortized Cost of Fixed Maturity Securities		Gross Unrealized Losses	
	All	Non-Investment Grade Only	All	Non-Investment Grade Only
Maturity Ranges:				
Due in one year or less	\$ 40.3	\$ 15.6	\$ .3	\$ .3
Due after one year through five years	200.6	60.4	5.8	3.7



Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Due after five years through ten years	133.9	36.4	6.0	3.1
Due after ten years	3.9	-	.2	-
Total	\$ 378.8	\$ 112.6	\$ 12.5	\$ 7.2

## Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

	September 30, 2009			Total Gross Unrealized Loss
	Amount of Gross Unrealized Losses			
	Less than 20% of Cost	20% to 50% of Cost	More than 50% of Cost	
Number of Months in Loss Position:				
Fixed Maturity Securities:				
One to six months	\$ .5	\$ -	\$ -	\$ .5
Seven to twelve months	.2	-	-	.2
More than twelve months	7.5	4.0	-	11.6
Total	\$ 8.4	\$ 4.0	\$ -	\$ 12.5
Equity Securities:				
One to six months	\$ -	\$ -	\$ -	\$ -
Seven to twelve months	3.1	-	-	3.1
More than twelve months	16.9	-	-	17.0
Total	\$ 20.1	\$ -	\$ -	\$ 20.2
Number of Issues in Loss Position:				
Fixed Maturity Securities:				
One to six months	21	-	-	21
Seven to twelve months	8	-	-	8
More than twelve months	49	3	-	52
Total	78	3	-	81(h)
Equity Securities:				
One to six months	-	-	-	-
Seven to twelve months	4	-	-	4
More than twelve months	2	1	-	3
Total	6	1	-	7(h)

(h) At September 30, 2009 the number of issues in an unrealized loss position represent 4.0% as to fixed maturities, and 43.8% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses employs closing market price comparisons with an issue's original cost net of other-than-temporary impairment adjustments. The percentage reduction from such adjusted cost reflects the decline as of a specific point in time (September 30, 2009 in the above table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages and throughout the periods shown.

## Age Distribution of Fixed Maturity Securities

	September 30, 2009	December 31, 2008
Maturity Ranges:		
Due in one year or less	9.6%	14.0%
Due after one year through five years	54.4	51.0
Due after five years through ten years	35.6	34.7

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Due after ten years through fifteen years	.4	.3
Due after fifteen years	-	-
Total	100.0%	100.0%
Average Maturity in Years	4.4	4.4
Duration (i)	3.7	3.7

(i) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.7 as of September 30, 2009 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the fair value of the long-term fixed maturity investment portfolio of approximately 3.7%.

## Composition of Unrealized Gains (Losses)

	September 30, 2009	December 31, 2008
Fixed Maturity Securities:		
Amortized cost	\$ 7,706.2	\$ 7,385.2
Estimated fair value	8,177.5	7,406.9
Gross unrealized gains	483.8	196.8
Gross unrealized losses	(12.5)	(175.0)
Net unrealized gains (losses)	\$ 471.2	\$ 21.7
Equity Securities:		
Original cost	\$ 729.2	\$ 729.2
Adjusted cost	373.3	373.3
Estimated fair value	473.5	350.3
Gross unrealized gains	120.3	49.6
Gross unrealized losses	(20.2)	(72.7)
Net unrealized gains (losses)	\$ 100.1	\$ (23.0)

Other Assets - Among other major assets, substantially all of the Company's receivables are not past due. Reinsurance recoverable balances on paid or estimated unpaid losses are deemed recoverable from solvent reinsurers or have otherwise been reduced by allowances for estimated amounts unrecoverable. Deferred policy acquisition costs are estimated by taking into account the variable costs of producing specific types of insurance policies, and evaluating their recoverability on the basis of recent trends in claims costs. The Company's deferred policy acquisition cost balances have not fluctuated substantially from period-to-period and do not represent significant percentages of assets or shareholders' equity.

Liquidity - The parent holding company meets its liquidity and capital needs principally through dividends paid by its subsidiaries. From time to time additional cash needs are also met by accessing Old Republic's commercial paper program and/or the debt and equity capital markets. The insurance subsidiaries' ability to pay cash dividends to the parent company is generally restricted by law or subject to approval of the insurance regulatory authorities of the states in which they are domiciled. The Company can receive up to \$245.7 in dividends from its subsidiaries in 2009 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is considered adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest and scheduled repayments on outstanding debt, quarterly cash dividend payments to shareholders, modest operating expenses, and the near-term capital needs of its operating company subsidiaries. Old Republic can currently access the commercial paper market for up to \$150.0, of which \$25.2 was outstanding at September 30, 2009, to meet unanticipated liquidity needs.

Capitalization - Old Republic's total capitalization of \$4,273.6 at September 30, 2009 consisted of debt of \$372.2 and common shareholders' equity of \$3,901.3. Changes in the common shareholders' equity account reflect primarily operating results for the period then ended, dividend payments, and changes in market valuations of invested assets. Old Republic has paid cash dividends to its shareholders without interruption since 1942, and has increased the annual rate in each of the past 27 calendar years. The dividend rate is reviewed and approved by the Board of Directors on a quarterly basis during each year. In establishing each year's cash dividend rate the Company does not follow a strict formulaic approach. Rather, it favors a gradual rise in the annual dividend rate that is largely reflective of long-term consolidated operating earnings trends. Accordingly, each year's dividend rate is set judgmentally in consideration of such key factors as the dividend paying capacity of the Company's insurance subsidiaries, the trends in average annual

statutory and GAAP earnings for the five most recent calendar years, and management's long-term expectations for the Company's consolidated business.

Under certain state insurance regulations, the Company's three mortgage guaranty insurance subsidiaries are required to operate at a maximum risk to capital ratio of 25:1. If a company's risk to capital ratio exceeds the limit, absent expressed regulatory approval, it may be prohibited from writing new business until its risk to capital ratio falls below the limit. At September 30, 2009, the statutory risk to capital ratio was 20.9:1 for the combined subsidiaries. All of the segment's mortgage guaranty insurance companies were within the 25:1 requirement. A continuation of operating losses could further reduce statutory surplus thus increasing the risk to capital ratio which the Company evaluates on a quarterly basis. Old Republic invested \$150.0 of capital in its mortgage guaranty segment during the fourth quarter of 2008.

During the second quarter of 2009, additional capital funds of \$30.0 and \$132.0 were directed to the title and general insurance segments, respectively, to support the expected growth of the business.

The Company has access to various capital resources including dividends from its subsidiaries, holding company investments, undrawn capacity under its commercial paper program, and access to debt and equity capital markets. At September 30, 2009, the Company's consolidated debt to equity ratio was 9.5%. This relatively low level of financial leverage should provide the Company with additional borrowing capacity to meet its capital commitments.

## RESULTS OF OPERATIONS

## Revenues: Premiums &amp; Fees

Pursuant to ASC applicable to the insurance industry, revenues are associated with the related benefits, claims, and expenses.

Substantially all general insurance premiums are reflected in income on a pro-rata basis. Earned but unbilled premiums are generally taken into income on the billing date, while adjustments for retrospective premiums, commissions and similar charges or credits are accrued on the basis of periodic evaluations of current underwriting experience and contractual obligations.

The Company's mortgage guaranty premiums primarily stem from monthly installment policies. Accordingly, substantially all such premiums are generally written and earned in the month coverage is effective. With respect to annual or single premium policies, earned premiums are largely recognized on a pro-rata basis over the terms of the policies.

Title premium and fee revenues stemming from the Company's direct operations (which include branch offices of its title insurers and wholly owned agency subsidiaries) represent 40.0% of 2009 consolidated title business revenues. Such premiums are generally recognized as income at the escrow closing date which approximates the policy effective date. Fee income related to escrow and other closing services is recognized when the related services have been performed and completed. The remaining 60.0% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt. Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

The major sources of Old Republic's earned premiums and fees for the periods shown were as follows:

	Earned Premiums and Fees					% Change from prior period
	General	Mortgage	Title	Other	Total	
Years Ended December 31:						
2006	\$ 1,902.1	\$ 444.3	\$ 980.0	\$ 74.1	\$ 3,400.5	.4%
2007	2,155.1	518.2	850.7	77.0	3,601.2	5.9
2008	1,989.3	592.5	656.1	80.1	3,318.1	-7.9
Nine Months Ended September 30:						
2008	1,507.4	445.2	502.1	62.7	2,517.5	-6.9
2009	1,344.9	425.8	620.6	54.0	2,445.4	-2.9
Quarters Ended September 30:						
2008	500.3	148.4	168.4	18.0	835.2	-9.3
2009	\$ 446.7	\$ 138.9	\$ 253.3	\$ 17.0	\$ 856.1	2.5%

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

The percentage allocation of net premiums earned for major insurance coverages in the General Insurance Group was as follows:

	General Insurance Earned Premiums by Type of Coverage					
	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended December 31:						
2006	39.6%	21.7%	11.0%	10.7%	5.1%	11.9%
2007	35.0	23.5	13.8	9.3	7.8	10.6
2008	34.9	21.0	16.1	9.7	7.5	10.8
Nine Months Ended September 30:						
2008	34.5	21.1	16.0	9.6	7.7	11.1
2009	35.9	22.0	13.4	9.5	8.2	11.0
Q u a r t e r s E n d e d September 30:						
2008	34.8	20.8	15.7	9.3	7.4	12.0
2009	36.3%	22.0%	12.6%	9.3%	8.1%	11.7%

The following tables provide information on production and related risk exposure trends for Old Republic's Mortgage Guaranty Group:

	Mortgage Guaranty Production by Type			
	Traditional Primary	Bulk	Other	Total
New Insurance Written:				
Years Ended December 31:				
2006	\$ 17,187.0	\$ 13,716.7	\$ 583.7	\$ 31,487.5
2007	31,841.7	10,800.3	901.6	43,543.7
2008	20,861.9	3.5	1,123.5	21,989.0
Nine Months Ended September 30:				
2008	18,171.6	3.5	1,096.2	19,271.4
2009	6,778.9	-	.5	6,779.4
Quarters Ended September 30:				
2008	4,318.6	-	383.6	4,702.2
2009	\$ 1,993.6	\$ -	\$ -	\$ 1,993.6

	Traditional			Total
	Primary	Bulk	Other	
New Risk Written by Type:				
Years Ended December 31:				
2006	\$ 4,246.8	\$ 1,146.6	\$ 12.2	\$ 5,405.7
2007	7,844.5	724.5	15.2	8,584.4
2008	4,815.0	.6	11.8	4,827.5
Nine Months Ended September 30:				
2008	4,213.2	.6	11.2	4,225.2
2009	1,439.4	-	-	1,439.4
Quarters Ended September 30:				
2008	999.7	-	4.0	1,003.8
2009	\$ 428.1	\$ -	\$ -	\$ 428.1

	Earned Premiums		Persistency	
	Direct	Net	Traditional Primary	Bulk
Premium and Persistency Trends by Type:				
Years Ended December 31:				
2006	\$ 524.7	\$ 444.3	73.1%	70.5%
2007	612.7	518.2	77.6	73.7
2008	698.4	592.5	83.9	88.4
Nine Months Ended September 30:				
2008	526.0	445.2	81.4	86.3
2009	413.5	425.8	83.4%	89.3%
Quarters Ended September 30:				
2008	175.3	148.4		
2009	\$ 77.7	\$ 138.9		

While there is no consensus in the marketplace as to the precise definition of "sub-prime", Old Republic generally views loans with credit (FICO) scores less than 620, loans underwritten with reduced levels of documentation and loans with loan to value ratios in excess of 95% as having a higher risk of default. Risk in force concentrations by these attributes are disclosed in the following tables for both traditional primary and bulk production. Premium rates for loans exhibiting greater risk attributes are typically higher in anticipation of potentially greater defaults and claim costs. Additionally, bulk insurance policies, which represent 8.6% of total net risk in force, are frequently subject to



Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

deductibles and aggregate stop losses which serve to limit the overall risk on a pool of insured loans. As the decline in the housing markets has accelerated and mortgage lending standards have tightened, rising defaults and the attendant increases in reserves and paid claims on higher risk loans have become more significant drivers of increased claim costs.

Net Risk in Force By Type:	Net Risk in Force			Total
	Traditional Primary	Bulk	Other	
Years Ended December 31:				
2006	\$ 14,582.1	\$ 2,471.1	\$ 578.9	\$ 17,632.2
2007	18,808.5	2,539.9	511.1	21,859.5
2008	20,463.0	2,055.0	457.0	22,975.1
Quarters Ended September 30:				
2008	20,489.5	2,116.8	458.8	23,065.2
2009	\$ 19,279.6	\$ 1,849.1	\$ 297.5	\$ 21,426.4

## Analysis of Risk in Force

Risk in Force Distribution By FICO Scores:	FICO less than 620	FICO 620 to 680	FICO Greater than 680	Unscored/Unavailable
<b>Traditional Primary:</b>				
As of December 31:				
2006	8.5%	32.6%	54.6%	4.3 %
2007	8.5	33.6	55.1	2.8
2008	7.0	30.5	60.5	2.0
As of September 30:				
2008	7.2	31.2	59.5	2.1
2009	6.6%	29.1%	62.7%	1.6 %
<b>Bulk(a):</b>				
As of December 31:				
2006	24.1%	35.7%	39.8%	.4 %
2007	19.4	34.9	45.4	.3
2008	18.2	33.7	47.9	.2
As of September 30:				
2008	18.6	33.8	47.4	.2
2009	17.7%	33.2%	48.9%	.2 %

Risk in Force Distribution By Loan to Value ("LTV") Ratio:	LTV less than 85	LTV 85 to 90	LTV 90 to 95	LTV Greater than 95
<b>Traditional Primary:</b>				
As of December 31:				
2006	5.0%	37.4%	36.0%	21.6%
2007	4.7	34.4	32.0	28.9
2008	5.1	35.5	31.6	27.8
As of September 30:				
2008	5.2	35.1	31.5	28.2
2009	5.3%	36.4%	31.5%	26.8%
<b>Bulk(a):</b>				
As of December 31:				
2006	63.4%	23.1%	9.0%	4.5%
2007	62.0	20.9	9.3	7.8
2008	63.5	20.1	8.6	7.8
As of September 30:				
2008	63.2	20.3	8.7	7.8
2009	65.5%	18.6%	7.9%	8.0%

Risk in Force Distribution By Top Ten States:

	FL	TX	GA	IL	Traditional Primary		NJ	VA	NC	PA
					OH	CA				
As of December 31:										
2006	9.0%	7.5%	5.8%	5.4%	3.7%	3.1%	3.1%	2.8%	4.8%	4.0%
2007	8.9	7.7	5.3	5.2	3.4	4.5	3.1	2.8	4.5	3.8
2008	8.3	8.1	5.2	5.2	3.2	5.5	3.1	2.9	4.4	3.8
As of September 30:										
2008	8.4	8.0	5.2	5.2	3.2	5.4	3.1	2.9	4.4	3.8
2009	8.1%	8.4%	5.2%	5.1%	3.1%	5.6%	3.1%	2.9%	4.5%	3.9%

(a) Bulk pool risk in-force, which represented 46.5% of total bulk risk in-force at September 30, 2009, has been allocated pro-rata based on insurance in-force.

	FL	TX	GA	IL	Bulk (a)		NJ	AZ	CO	NY
					OH	CA				
As of December 31:										
2006	9.4%	4.8%	3.6%	4.5%	3.4%	17.7%	3.2%	4.4%	2.8%	4.6%
2007	9.3	4.8	4.2	4.1	3.1	17.5	3.4	4.2	3.0	5.5
2008	10.0	4.6	4.0	3.9	3.1	18.2	3.4	4.3	2.9	5.4
As of September 30:										
2008	9.9	4.6	4.0	4.0	3.1	18.2	3.4	4.3	3.0	5.3
2009	10.3%	4.7%	4.0%	4.0%	3.2%	17.8%	3.4%	4.2%	3.0%	5.3%

Risk in Force Distribution By Level of Documentation:	Full Docu-- mentation	Reduced Docu-- Mentation
Traditional Primary:		
As of December 31:		
2006	89.4%	10.6%
2007	88.0	12.0
2008	90.0	10.0
As of September 30:		
2008	89.6	10.4
2009	90.8%	9.2%

Bulk (a):	Full Docu-- mentation	Reduced Docu-- Mentation
As of December 31:		
2006	51.9%	48.1%
2007	49.6	50.4
2008	49.1	50.9
As of September 30:		
2008	49.3	50.7
2009	49.5%	50.5%

Risk in Force Distribution By Loan Type:	Fixed Rate	Adjustable Rate
Traditional Primary:		
As of December 31:		
2006	92.3%	7.7%
2007	94.4	5.6
2008	95.8	4.2
As of September 30:		
2008	95.6	4.4
2009	96.1%	3.9%

Bulk (a):	Fixed Rate	Adjustable Rate
As of December 31:		
2006	65.7%	34.3%
2007	70.9	29.1
2008	74.4	25.6

As of September 30:

2008	73.6	26.4
2009	75.4%	24.6%

(a) Bulk pool risk in-force, which represented 46.5% of total bulk risk in-force at September 30, 2009, has been allocated pro-rata based on insurance in-force.

The following table shows the percentage distribution of Title Group premium and fee revenues by production sources:

## Title Premium and Fee Production by Source

	Direct Operations	Independent Title Agents & Other
Years Ended December 31:		
2006	32.3%	67.7%
2007	32.1	67.9
2008	36.8	63.2
Nine Months Ended September 30:		
2008	36.4	63.6
2009	40.0	60.0
Quarters Ended September 30:		
2008	37.1	62.9
2009	35.7%	64.3%

## Revenues: Net Investment Income

Net investment income is affected by trends in interest and dividend yields for the types of securities in which the Company's funds are invested during each reporting period. The following tables reflect the segmented and consolidated invested asset bases as of the indicated dates, and the investment income earned and resulting yields on such assets. Since the Company can exercise little control over fair values, yields are evaluated on the basis of investment income earned in relation to the cost of the underlying invested assets, though yields based on the fair values of such assets are also shown in the statistics below.

	Invested Assets at Adjusted Cost					Fair Value Adjust- ment	Invested Assets at Fair Value
	General	Mortgage	Title	Corporate and Other	Total		
As of December 31:							
2007	\$ 5,984.9	\$ 1,795.8	\$ 606.0	\$ 252.9	\$ 8,639.7	\$ 121.4	\$ 8,761.2
2008	5,618.7	2,099.7	545.8	417.5	8,681.8	1.0	8,682.9
As of September 30:							
2008	5,645.5	1,983.7	576.9	343.5	8,549.4	(9.7)	8,539.6
2009	\$ 5,706.0	\$ 2,378.0	\$ 596.7	\$ 427.7	\$ 9,108.6	\$ 567.9	\$ 9,676.5

	Net Investment Income					Yield at	
	General	Mortgage	Title	Corporate and Other	Total	Original Cost	Fair Value
Years Ended December 31:							
2006	\$ 221.5	\$ 74.3	\$ 26.9	\$ 18.7	\$ 341.6	4.52%	4.47%
2007	260.8	79.0	27.3	12.7	379.9	4.58	4.52
2008	253.6	86.8	25.1	11.6	377.3	4.27	4.33

Nine Months  
Ended

September 30:

2008	189.1	65.0	19.1	9.0	282.3	4.28	4.35
2009	191.8	68.4	18.2	5.3	283.9	4.09	4.12
Quarters Ended							
September 30:							
2008	61.9	22.0	6.2	3.6	93.8	4.21	4.40
2009	\$ 64.7	\$ 23.8	\$ 6.3	\$ 1.7	\$ 96.7	4.11%	4.10%

Revenues: Net Realized Gains (Losses)

The Company's investment policies have not been designed to maximize or emphasize the realization of investment gains. Rather, these policies aim for a stable source of income from interest and dividends, protection of capital, and the providing of sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Dispositions of fixed maturity securities arise mostly from scheduled maturities and early calls; for the first nine months of 2009 and 2008, 91.0% and 89.7%, respectively, of all such dispositions resulted from these occurrences. Dispositions of securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, changes in credit quality, and tax planning considerations. Additionally, the amount of net realized gains and losses registered in any one accounting period are affected by the aforementioned

assessments of securities' values for other-than-temporary impairment. As a result of the interaction of all these factors and considerations, net realized investment gains or losses can vary significantly from period-to-period, and in the Company's view are not indicative of any particular trend or result in the basics of its insurance business.

The following table reflects the composition of net realized gains or losses for the periods shown. A significant portion of Old Republic's indexed stock portfolio was sold at a gain during 2007, with proceeds redirected to a more concentrated, select list of common stocks expected to provide greater long-term total returns.

	Realized Gains (Losses) on Disposition of Securities			Impairment Losses on Securities			Net realized gains (losses)
	Fixed maturity securities	Equity securities and miscell- aneous investments	Total	Fixed maturity securities	Equity securities and miscell- aneous investments	Total	
Years Ended							
December 31:							
2006	\$ 2.0	\$ 16.9	\$ 19.0	\$ -	\$ -	\$ -	\$ 19.0
2007	2.2	68.1	70.3	-	-	-	70.3
2008	(25.0)	20.9	(4.1)	(11.5)	(470.7)	(482.3)	(486.4)
Nine Months Ended							
September 30:							
2008	4.0	22.0	26.0	(11.5)	(437.3)	(448.9)	(422.8)
2009	1.5	(.5)	1.0	(1.5)	-	(1.5)	(.5)
Quarters Ended							
September 30:							
2008	1.3	17.0	18.3	(11.5)	-	(11.5)	6.7
2009	\$ .5	\$ -	\$ .6	\$ (1.5)	\$ -	\$ (1.5)	\$ (.9)

#### Expenses: Benefits and Claims

In order to achieve a necessary matching of premium and fee revenues and expenses, the Company records the benefits, claims and related settlement costs that have been incurred during each accounting period. Total claim costs are affected by the amount of paid claims and the adequacy of reserve estimates established for current and prior years' claim occurrences at each balance sheet date.

The following table shows a breakdown of gross and net of reinsurance claim reserve estimates for major types of insurance coverages as of September 30, 2009 and December 31, 2008:

	Claim and Loss Adjustment Expense Reserves			
	September 30, 2009		December 31, 2008	
	Gross	Net	Gross	Net
Commercial automobile (mostly trucking)	\$ 1,058.0	\$ 863.6	\$ 1,035.7	\$ 849.8
Workers' compensation	2,238.8	1,275.1	2,241.6	1,271.8
General liability	1,276.5	640.9	1,209.2	612.3
Other coverages	668.9	450.0	709.7	487.9
Unallocated loss adjustment expense reserves	141.9	105.6	150.6	104.9



Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Total general insurance reserves	5,384.3	3,335.4	5,346.9	3,326.9
Mortgage guaranty	2,111.4	1,854.0	1,581.7	1,380.6
Title	259.7	259.7	261.2	261.2
Life and health	27.0	20.9	28.1	22.2
Unallocated loss adjustment expense reserves - other coverages	23.9	23.9	23.2	23.2
Total claim and loss adjustment expense reserves	\$ 7,806.5	\$ 5,494.0	\$ 7,241.3	\$ 5,014.2
Asbestosis and environmental claim reserves included in the above general insurance reserves:				
Amount	\$ 176.4	\$ 138.7	\$ 172.4	\$ 145.0
% of total general insurance reserves	3.3%	4.2%	3.2%	4.4%

The Company's reserve for loss and loss adjustment expenses represents the accumulation of estimates of ultimate losses, including incurred but not reported losses and loss adjustment expenses. The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors as further discussed below. Consequently, reserves established are a reflection of the opinions of a large number of persons, of the application and interpretation of historical precedent and trends, of expectations as to future

developments, and of management's judgment in interpreting all such factors. At any point in time the Company is exposed to possibly higher or lower than anticipated claim costs and the resulting changes in estimates are recorded in operations of the periods during which they are made. Increases to prior reserve estimates are often referred to as unfavorable development whereas any changes that decrease previous estimates of the Company's ultimate liability are referred to as favorable development.

#### Overview of Loss Reserving Process

The Company's reserve setting process reflects the nature of its insurance business and the decentralized basis upon which it is conducted. Old Republic's general insurance operations encompass a large variety of lines or classes of commercial insurance; it has negligible exposure to personal lines such as homeowners or private passenger automobile insurance that exhibit wide diversification of risks, significant frequency of claim occurrences, and high degrees of statistical credibility. Additionally, the Company's insurance subsidiaries do not provide significant amounts of insurance protection for premises; most of its property insurance exposures relate to cargo, incidental property, and insureds' inland marine assets. Consequently, the wide variety of policies issued and commercial insurance customers served require that loss reserves be analyzed and established in the context of the unique or different attributes of each block or class of business produced by the Company. For example, accident liability claims emanating from insured trucking companies or from general aviation customers become known relatively quickly, whereas claims of a general liability nature arising from the building activities of a construction company may emerge over extended periods of time. Similarly, claims filed pursuant to errors and omissions or directors and officers' ("E&O/D&O") liability coverages are usually not prone to immediate evaluation or quantification inasmuch as many such claims may be litigated over several years and their ultimate costs may be affected by the vagaries of judged or jury verdicts. Approximately 84% of the general insurance group's claim reserves stem from liability insurance coverages for commercial customers which typically require more extended periods of investigation and at times protracted litigation before they are finally settled. As a consequence of these and other factors, Old Republic does not utilize a single, overarching loss reserving approach.

The Company prepares periodic analyses of its loss reserve estimates for its significant insurance coverages. It establishes point estimates for most losses on an insurance coverage line-by-line basis for individual subsidiaries, sub-classes, individual accounts, blocks of business or other unique concentrations of insurance risks such as directors and officers' liability, that have similar attributes. Actuarially or otherwise derived ranges of reserve levels are not utilized as such in setting these reserves. Instead the reported reserves encompass the Company's best point estimates at each reporting date and the overall reserve level at any point in time therefore represents the compilation of a very large number of reported reserve estimates and the results of a variety of formula calculations largely driven by statistical analysis of historical data. Reserve releases or additions are implicitly covered by the point estimates incorporated in total reserves at each balance sheet date. The Company does not project future variability or make an explicit provision for uncertainty when determining its best estimate of loss reserves, although, as discussed below, over the most recent ten-year period management's estimates have developed slightly favorably on an overall basis.

Aggregate loss reserves consist of liability estimates for claims that have been reported ("case") to the Company's insurance subsidiaries and reserves for claims that have been incurred but not yet reported ("IBNR") or whose ultimate costs may not become fully apparent until a future time. Additionally, the Company establishes unallocated loss adjustment expense reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of case and IBNR claims over time. Long-term, disability-type workers' compensation reserves are discounted to present value based on interest rates that range from 3.5% to 4.0%.

A large variety of statistical analyses and formula calculations are utilized to provide for IBNR claim costs as well as additional costs that can arise from such factors as monetary and social inflation, changes in claims administration

processes, changes in reinsurance ceded and recoverability levels, and expected trends in claim costs and related ratios. Typically, such formulas take into account so-called link ratios that represent prior years' patterns of incurred or paid loss trends between succeeding years, or past experience relative to progressions of the number of claims reported over time and ultimate average costs per claim.

Overall, reserves pertaining to several hundred large individual commercial insurance accounts that exhibit sufficient statistical credibility, and at times may be subject to retrospective premium rating plans or the utilization of varying levels or types of self-insured retentions through captive insurers and similar risk management mechanisms are established on an account by account basis using case reserves and applicable formula-driven methods. Large account reserves are usually set and analyzed for groups of coverages such as workers' compensation, commercial auto and general liability that are typically underwritten jointly for many customers. For certain so-called long-tail categories of insurance such as retained or assumed excess liability or excess workers' compensation, officers and directors' liability, and commercial umbrella liability relative to which claim development patterns are particularly long, more volatile, and immature in their early stages of development, the Company judgmentally establishes the most current accident years' loss reserves on the basis of expected loss ratios. Such expected loss ratios typically reflect currently estimated loss ratios from prior accident years, adjusted for the effect of actual and anticipated rate changes, actual and anticipated changes in coverage, reinsurance, mix of business, and other anticipated changes in external factors such as trends in loss costs or the legal and claims environment. Expected loss ratios are generally used for the two to three most recent accident years depending on the individual class or category of business. As actual claims data emerges in succeeding interim

and annual periods, the original accident year loss ratio assumptions are validated or otherwise adjusted sequentially through the application of statistical projection techniques such as the Bornhuetter/Ferguson method which utilizes data from the more mature experience of prior years to arrive at a likely indication of more recent years' loss trends and costs.

Mortgage guaranty insurance reserves for unpaid claims and claim adjustment expenses are established only upon an instance of default, defined as an insured mortgage loan that has missed 2 or more consecutive monthly payments. Loss reserves are based on statistical calculations that take into account the number of reported insured mortgage loan defaults as of each balance sheet date, as well as experience-based estimates of loan defaults that have occurred but have not as yet been reported ("IBNR"). Further, the loss reserve estimating process takes into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan delinquencies at various stages of default, the level of policy rescissions for non-compliance with terms of the master policy, and management judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand, and extensions. Mortgage guaranty net claim and loss adjustment expense reserves reported as of September 30, 2009 and December 31, 2008 included \$106.1 and \$67.3 attributable to net IBNR claim estimates at each corresponding balance sheet date.

Title insurance and related escrow services loss and loss adjustment expense reserves are established as point estimates to cover the projected settlement costs of known as well as IBNR losses related to premium and escrow service revenues of each reporting period. Reserves for known claims are based on an assessment of the facts available to the Company during the settlement process. The point estimates covering all claim reserves take into account IBNR claims based on past experience and evaluations of such variables as changing trends in the types of policies issued, changes in real estate markets and interest rate environments, and changing levels of loan refinancing, all of which can have a bearing on the emergence, number, and ultimate costs of claims.

#### Incurred Loss Experience

Management is of the opinion that the Company's overall reserving practices have been consistently applied over many years. For at least the past ten years, previously established aggregate reserves have produced reasonable estimates of the cumulative ultimate net costs of claims incurred. However, there are no guarantees that such outcomes will continue, and accordingly, no representation is made that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates. In management's opinion, however, such potential development is not likely to have a material effect on the Company's consolidated financial position, although it could affect materially its consolidated results of operations for any one annual or interim reporting period. See further discussion in the Company's 2008 Annual Report on Form 10-K under Item 1A - Risk Factors.

The percentage of net claims, benefits and related settlement expenses incurred as a percentage of premiums and related fee revenues of the Company's three major operating segments and for its consolidated results were as follows:

	General	Mortgage	Title	Consolidated
Years Ended December 31:				
2006	65.9 %	42.8 %	5.9 %	45.3 %
2007	67.8	118.8	6.6	60.2
2008	73.0	199.3	7.0	81.8
Nine Months Ended September 30:				
2008	72.8	192.3	7.0	80.1
2009	76.1	203.8	7.6	80.3
Quarters Ended September 30:				

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

2008	72.5		203.1		7.0		81.8	
2009	77.5	%	214.0	%	8.3	%	78.4	%

31

The percentage of net claims, benefits and related settlement expenses measured against premiums earned by major types of general insurance coverage were as follows:

	General Insurance Claims Ratios by Type of Coverage						
	All Coverages	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended							
December 31:							
2006	65.9%	75.4%	74.5%	40.6%	55.0%	57.5%	55.6%
2007	67.8	74.0	70.9	69.6	54.9	59.9	55.9
2008	73.0	76.1	69.4	95.0	60.5	64.4	53.9
Nine Months Ended							
September 30:							
2008	72.8	74.8	67.4	98.9	62.3	61.1	53.7
2009	76.1	72.1	71.5	119.0	64.0	65.7	60.0
Quarters Ended							
September 30:							
2008	72.5	77.3	63.8	92.5	72.8	53.4	52.6
2009	77.5%	72.2%	68.5%	116.7%	70.0%	76.5%	63.6%

The overall general insurance claims ratio reflects reasonably consistent trends for the past three years. To a large extent this major cost factor reflects pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. The higher claim ratio for financial indemnity coverages in 2008, 2007, and in the first nine months 2009 was driven principally by greater claim frequencies experienced in Old Republic's consumer credit indemnity coverage. During the three most recent calendar years, the general insurance group experienced favorable development of prior year loss reserves primarily due to the commercial automobile and the E&O/D&O (financial indemnity) lines of business; these were partially offset by unfavorable development in excess workers' compensation coverages and for ongoing development of asbestos and environmental ("A&E") exposures (general liability). Unfavorable developments attributable to A&E claim reserves are due to periodic re-evaluations of such reserves as well as subsequent reclassifications of other coverages' reserves, typically workers' compensation, deemed assignable to A&E types of losses.

Except for a small portion that emanates from ongoing primary insurance operations, a large majority of the A&E claim reserves posted by Old Republic stem mainly from its participations in assumed reinsurance treaties and insurance pools which were discontinued fifteen or more years ago and have since been in run-off status. With respect to the primary portion of gross A&E reserves, Old Republic administers the related claims through its claims personnel as well as outside attorneys, and posted reserves reflect its best estimates of ultimate claim costs. Claims administration for the assumed portion of the Company's A&E exposures is handled by the claims departments of unrelated primary or ceding reinsurance companies. While the Company performs periodic reviews of certain claim files managed by third parties, the overall A&E reserves it establishes respond to the paid claim and case reserve activity reported to the Company as well as available industry statistical data such as so-called survival ratios. Such ratios represent the number of years' average paid losses for the three or five most recent calendar years that are encompassed by an insurer's A&E reserve level at any point in time. According to this simplistic appraisal of an insurer's A&E loss reserve level, Old Republic's average five year survival ratios stood at 8.4 years (gross) and 11.5 years (net of reinsurance) as of September 30, 2009 and 7.3 years (gross) and 9.9 years (net of reinsurance) as of December 31, 2008. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns

associated with these types of claims. Incurred net losses for A&E claims have averaged 2.4% of general insurance group net incurred losses for the five years ended December 31, 2008.

The mortgage guaranty claims ratios have continued to rise in recent periods, principally as a result of higher reserve provisions and paid losses. Reserve additions have been increasing as a result of higher levels of reported delinquencies as well as increased expectations as to claim frequencies and severities. Claim severity has trended upward primarily due to loans with larger unpaid principal balances and corresponding risk becoming delinquent along with a lower level of mitigation potential due to housing depreciation trends. Expectations of greater claim frequency are impacted by several factors, including the number of loans entering into default, the level of rescission activity, the outlook for the housing market, tightening lending standards which affect borrowers' ability to refinance troubled loans, the aging of the bulk business, and the overall declining state of the economy.

Edgar Filing: OLD REPUBLIC INTERNATIONAL CORP - Form 10-Q

Average mortgage guaranty paid claims, and certain delinquency ratio data as of the end of the periods shown are listed below:

	Average Paid Claim Amount (a)		Delinquency Ratio	
	Traditional	Bulk	Traditional	Bulk
	Primary		Primary	
Years Ended December 31:				
2006	\$ 25,989	\$ 21,846	4.41%	3.29%
2007	32,214	34,951	5.47	6.85
2008	43,532	56,481	10.34	17.17
Nine Months Ended September 30:				
2008	41,401	56,047	8.36	13.80
2009	48,389	60,804	15.04%	27.57%
Quarters Ended September 30:				
2008	44,649	61,023		
2009	\$ 45,919	\$ 59,640		

(a) Amounts are in whole dollars.

	Traditional Primary Delinquency Ratios for Top Ten States (b):									
	FL	TX	GA	IL	OH	CA	NJ	VA	NC	PA
As of December 31:										
2006	2.7%	4.5%	6.1%	4.5%	7.8%	2.9%	4.1%	2.6%	4.6%	4.8%
2007	7.7	4.5	7.2	5.4	8.1	6.7	5.4	4.1	4.8	5.2
2008	21.9	7.1	11.1	10.8	11.0	19.8	11.4	8.1	7.6	7.7
As of September 30:										
2008	17.1	5.7	9.2	8.5	9.5	15.9	9.1	6.5	6.0	6.6
2009	31.2%	9.2%	16.2%	17.1%	14.7%	28.5%	18.9%	12.5%	10.8%	10.6%

	Bulk Delinquency Ratios for Top Ten States (b):									
	FL	TX	GA	IL	OH	CA	NJ	NY	CO	AZ
As of December 31:										
2006	1.6%	4.0%	4.4%	4.2%	9.3%	1.6%	3.5%	4.4%	3.3%	1.0%
2007	7.8	5.4	7.3	8.6	10.6	7.0	6.6	6.6	5.8	5.1
2008	27.0	10.2	16.3	19.1	17.1	22.4	16.0	13.8	9.8	18.2
As of September 30:										
2008	21.4	8.0	13.3	15.7	15.0	17.6	12.9	11.5	8.0	13.9
2009	42.5%	14.5%	23.6%	31.3%	21.1%	37.5%	30.0%	23.7%	15.2%	34.0%

	Total Delinquency Ratios for Top Ten States (includes "other" business) (b):									
	FL	TX	GA	IL	OH	CA	NJ	NY	NC	PA
As of December 31:										
2006	2.0%	4.1%	5.2%	3.1%	7.3%	1.4%	3.6%	4.0%	3.3%	4.3%
2007	6.9	4.5	6.7	5.0	8.0	5.5	5.5	5.4	4.1	5.1
2008	21.3	7.2	11.2	10.2	11.4	17.2	12.1	10.8	6.8	8.1
As of September 30:										
2008	16.7	5.8	9.3	8.2	9.8	13.6	9.7	8.8	5.4	6.9



2009	33.3%	9.7%	16.6%	17.8%	15.4%	30.9%	21.6%	17.8%	10.0%	11.7%
------	-------	------	-------	-------	-------	-------	-------	-------	-------	-------

(b) As determined by risk in force as of September 30, 2009, these 10 states represent approximately 50.0%, 59.9%, and 50.4%, of traditional primary, bulk, and total risk in force, respectively.

The title insurance loss ratios remain in the single digits due to a continuation of favorable trends in claims frequency and severity for business underwritten since 1992 in particular. Though still reasonably contained, the increases in claim ratios for the first nine months of 2009 and the years 2008 and 2007 are reflective of the continuing downturn in the housing and related mortgage lending industries.

#### Reinsurance Programs

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic may cede a portion or all of its premiums and liabilities on certain classes of insurance, individual policies, or blocks of business to other insurers and reinsurers. Further discussion of the Company's reinsurance programs can be found in Part 1 of the Company's 2008 Annual Report on Form 10-K.

## Expenses: Underwriting Acquisition and Other Expenses

The following table sets forth the expense ratios registered by each major business segment and in consolidation for the periods shown:

	General	Mortgage	Title	Consolidated
Years Ended December 31:				
2006	24.4%	22.5%	93.6%	44.7%
2007	24.1	17.7	98.1	41.3
2008	24.2	15.7	103.6	39.1
Nine Months Ended September 30:				
2008	24.2	15.8	102.0	39.0
2009	26.0	15.1	94.4	42.2
Quarters Ended September 30:				
2008	23.8	14.8	102.2	38.8
2009	25.8%	17.3%	91.1%	44.4%

Variations in the Company's consolidated expense ratios reflect a continually changing mix of coverages sold and attendant costs of producing business in the Company's three largest business segments. To a significant degree, expense ratios for both the general and title insurance segments are mostly reflective of variable costs, such as commissions or similar charges, that rise or decline along with corresponding changes in premium and fee income, as well as changes in general operating expenses which can contract or expand in differing proportions due to varying levels of operating efficiencies and expense management opportunities in the face of changing market conditions.

## Expenses: Total

The composite ratios of the above summarized net claims, benefits and underwriting expenses that reflect the sum total of all the factors enumerated above have been as follows:

	General	Mortgage	Title	Consolidated
Years Ended December 31:				
2006	90.3%	65.3%	99.5%	90.0%
2007	91.9	136.5	104.7	101.5
2008	97.2	215.0	110.6	120.9
Nine Months Ended September 30:				
2008	97.0	208.1	109.0	119.1
2009	102.1	218.9	102.0	122.5
Quarters Ended September 30:				
2008	96.3	217.9	109.2	120.6
2009	103.3%	231.3%	99.4%	122.8%

## Expenses: Income Taxes

The effective consolidated income tax rates (credits) were (58.6%) and (60.0%) in the third quarter and first nine months of 2009, compared to (34.6%) and (31.6%) in the third quarter and first nine months of 2008. The rates for each year reflect primarily the varying proportions of pretax operating income (loss) derived from partially tax sheltered investment income (principally state and municipal tax-exempt interest), the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, and judgments about

the recoverability of deferred tax assets.

#### OTHER INFORMATION

Reference is here made to “Information About Segments of Business” appearing elsewhere herein.

Historical data pertaining to the operating results, liquidity, and other performance indicators applicable to an insurance enterprise such as Old Republic are not necessarily indicative of results to be achieved in succeeding years. In addition to the factors cited below, the long term nature of the insurance business, seasonal and annual patterns in premium production and incidence of claims, changes in yields obtained on invested assets, changes in government policies and free markets affecting inflation rates and general economic conditions, and changes in legal precedents or the application of law affecting the settlement of disputed and other claims can have a bearing on period-to-period comparisons and future operating results.

Some of the oral or written statements made in the Company’s reports, press releases, and conference calls following earnings releases, can constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Of necessity, any such forward-looking statements involve assumptions, uncertainties,

and risks that may affect the Company's future performance. With regard to Old Republic's General Insurance segment, its results can be affected, in particular, by the level of market competition, which is typically a function of available capital and expected returns on such capital among competitors, the levels of interest and inflation rates, and periodic changes in claim frequency and severity patterns caused by natural disasters, weather conditions, accidents, illnesses, work-related injuries, and unanticipated external events. Mortgage Guaranty and Title Insurance results can be affected by similar factors and by changes in national and regional housing demand and values, the availability and cost of mortgage loans, employment trends, and default rates on mortgage loans. Mortgage Guaranty results, in particular, may also be affected by various risk-sharing arrangements with business producers as well as the risk management and pricing policies of government sponsored enterprises. Life and health insurance earnings can be affected by the levels of employment and consumer spending, variations in mortality and health trends, and changes in policy lapsation rates. At the parent holding company level, operating earnings or losses are generally reflective of the amount of debt outstanding and its cost, interest income on temporary holdings of short-term investments, and period-to-period variations in the costs of administering the Company's widespread operations.

A more detailed listing and discussion of the risks and other factors which affect the Company's risk-taking insurance business are included in Part I, Item 1A – Risk Factors, of the Company's 2008 Annual Report to the Securities and Exchange Commission, which Item is specifically incorporated herein by reference.

Any forward-looking statements or commentaries speak only as of their dates. Old Republic undertakes no obligation to publicly update or revise any and all such comments, whether as a result of new information, future events or otherwise, and accordingly they may not be unduly relied upon.

OLD REPUBLIC INTERNATIONAL CORPORATION

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments as a result of changes in interest rates, equity prices, foreign exchange rates and commodity prices. Old Republic's primary market risks consist of interest rate risk associated with investments in fixed maturities and equity price risk associated with investments in equity securities. The Company has no material foreign exchange or commodity risk.

Old Republic's market risk exposures at September 30, 2009, have not materially changed from those identified in the Company's 2008 Annual Report on Form 10-K.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and its principal financial officer have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective for the above referenced evaluation period.

Changes in Internal Control

During the three month period ended September 30, 2009, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

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



OLD REPUBLIC INTERNATIONAL CORPORATION  
FORM 10-Q  
PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

The information contained in Note 6 “Commitments and Contingent Liabilities” of the Notes to Consolidated Financial Statements filed as Part 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A – Risk Factors

There have been no material changes with respect to the risk factors disclosed in the Company’s 2008 Annual Report on Form 10-K.

Item 6 – Exhibits

(a) Exhibits

31.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Old Republic International Corporation  
(Registrant)

Date: November 6, 2009

/s/ Karl W. Mueller  
Karl W. Mueller  
Senior Vice President,  
Chief Financial Officer, and  
Principal Accounting Officer



EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

