

OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
May 02, 2008

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

FORM 10-Q

- Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
for the quarterly period ended: March 31, 2008 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:x 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 x

Accelerated filer "

Non-accelerated filer "

Smaller reporting company "

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

| Class | Shares Outstanding March 31, 2008 |
|------------------------------|--------------------------------------|
| Common Stock / \$1 par value | 230,512,566 |

There are 34 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / March 31, 2008

INDEX

| | PAGE NO. |
|---|----------|
| PART I FINANCIAL INFORMATION: | |
| CONSOLIDATED BALANCE SHEETS | 3 |
| CONSOLIDATED STATEMENTS OF INCOME | 4 |
| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME | 5 |
| CONSOLIDATED STATEMENTS OF CASH FLOWS | 6 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | 7 - 10 |
| MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS | 11 - 30 |
| QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK | 31 |
| CONTROLS AND PROCEDURES | 31 |
| PART II OTHER INFORMATION: | |
| ITEM 1A – RISK FACTORS | 32 |
| ITEM 6 – EXHIBITS | 32 |
| SIGNATURE | 33 |
| EXHIBIT INDEX | 34 |

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Old Republic International Corporation and Subsidiaries

Consolidated Balance Sheets

(\$ in Millions, Except Share Data)

| | (Unaudited) | |
|---|-------------------|----------------------|
| | March 31, 2008 | December 31, 2007 |
| Assets | | |
| Investments: | | |
| Available for sale: | | |
| Fixed maturity securities (at fair value) (cost: \$7,230.1 and \$7,312.2) | \$ 7,389.2 | \$ 7,383.6 |
| Equity securities (at fair value) (cost: \$882.0 and \$807.3) | 659.0 | 842.1 |
| Short-term investments (at fair value which approximates cost) | 617.4 | 462.6 |
| Miscellaneous investments | 39.0 | 64.7 |
| Total | 8,704.7 | 8,753.1 |
| Other investments | 8.0 | 8.1 |
| Total investments | 8,712.8 | 8,761.2 |
| Other Assets: | | |
| Cash | 76.9 | 54.0 |
| Securities and indebtedness of related parties | 18.3 | 15.3 |
| Accrued investment income | 105.3 | 108.7 |
| Accounts and notes receivable | 879.8 | 880.3 |
| Federal income tax recoverable: | | |
| Current | - | 6.2 |
| Prepaid federal income taxes | 501.3 | 536.5 |
| Reinsurance balances and funds held | 68.7 | 69.9 |
| Reinsurance recoverable: Paid losses | 74.5 | 65.8 |
| Policy and claim reserves | 2,214.0 | 2,193.4 |
| Deferred policy acquisition costs | 239.6 | 246.5 |
| Sundry assets | 358.2 | 352.3 |
| Total Assets | \$ 13,249.7 | \$ 13,290.6 |
| Liabilities, Preferred Stock, and Common Shareholders' Equity | | |
| Liabilities: | | |

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| | | |
|--|-------------|-------------|
| Losses, claims, and settlement expenses | \$ 6,465.3 | \$ 6,231.1 |
| Unearned premiums | 1,171.6 | 1,182.2 |
| Other policyholders' benefits and funds | 186.5 | 190.2 |
| Total policy liabilities and accruals | 7,823.4 | 7,603.5 |
| Commissions, expenses, fees, and taxes | 211.8 | 225.9 |
| Reinsurance balances and funds | 300.7 | 288.7 |
| Federal income tax payable: Current | 11.9 | - |
| Deferred | 316.9 | 417.7 |
| Debt | 66.9 | 64.1 |
| Subsidiary liabilities | 141.0 | 148.8 |
| Commitments and contingent liabilities | | |
| Total Liabilities | 8,873.0 | 8,749.0 |
| Preferred Stock: | | |
| Convertible preferred stock (1) | - | - |
| Common Shareholders' Equity: | | |
| Common stock (1) | 232.0 | 232.0 |
| Additionals paid-in capital | 350.1 | 344.4 |
| Retained earnings | 3,844.2 | 3,900.1 |
| Accumulated other comprehensive income (loss) | (21.3) | 93.3 |
| Treasury stock (at cost)(1) | (28.3) | (28.3) |
| Total Common Shareholders' Equity | 4,376.7 | 4,541.6 |
| Total Liabilities, Preferred Stock and Common Shareholders' Equity | \$ 13,249.7 | \$ 13,290.6 |

(1) At March 31, 2008 and December 31, 2007, 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 232,078,666 at March 31, 2008 and 232,038,331 at December 31, 2007 were issued. At March 31, 2008 and December 31, 2007, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued. Common shares classified as treasury stock were 1,566,100 as of March 31, 2008 and December 31, 2007.

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarters Ended March 31, | |
|--|-----------------------------|-----------------|
| | 2008 | 2007 |
| Revenues: | | |
| Net premium income earned | \$ 804.1 | \$ 814.2 |
| Title, escrow, and other fees | 42.5 | 55.5 |
| Total premium and fees | 846.6 | 869.8 |
| Net investment income | 95.2 | 91.5 |
| Other income | 8.8 | 9.4 |
| Total operating revenues | 950.7 | 970.9 |
| Realized investment gains | .9 | 2.9 |
| Total revenues | 951.6 | 973.9 |
| Benefits, Claims and Expenses: | | |
| Benefits, claims, and settlement expenses | 646.0 | 419.5 |
| Dividends to policyholders | 2.3 | 2.7 |
| Underwriting, acquisition, and other expenses | 342.3 | 393.6 |
| Interest and other charges | .6 | 2.2 |
| Total expenses | 991.3 | 818.2 |
| Income (loss) before income taxes (credits) | (39.6) | 155.6 |
| Income Taxes (Credits): | | |
| Current | 19.4 | 49.1 |
| Deferred | (40.0) | (1.3) |
| Total | (20.5) | 47.8 |
| Net Income (Loss) | \$ (19.0) | \$ 107.7 |
| Net Income (Loss) Per Share: | | |
| Basic: | \$ (.08) | \$.47 |
| Diluted: | \$ (.08) | \$.46 |
| Average shares outstanding: | | |
| Basic | 230,495,852 | 231,388,190 |

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| | | | |
|-----------------------------|--|-------------|-------------|
| Diluted | | 230,495,852 | 233,614,450 |
| Dividends Per Common Share: | | | |
| Cash | | \$.16 | \$.15 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarters Ended March 31, | |
|---|-----------------------------|----------|
| | 2008 | 2007 |
| Net income (loss) as reported | \$ (19.0) | \$ 107.7 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (5.4) | .6 |
| Unrealized gains (losses) on securities: | | |
| Unrealized gains (losses) arising during period | (167.5) | 29.7 |
| Less: elimination of pretax realized gains included in income as reported | .9 | 2.9 |
| Pretax unrealized gains (losses) on securities carried at market value | (168.5) | 26.7 |
| Deferred income taxes (credits) | (59.0) | 9.3 |
| Net unrealized gains (losses) on securities | (109.4) | 17.3 |
| Net adjustment related to defined benefit pension plans, net of tax | .1 | .4 |
| Net adjustments | (114.7) | 18.4 |
| Comprehensive income (loss) | \$ (133.7) | \$ 126.2 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarters Ended March 31, | |
|--|-----------------------------|----------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (19.0) | \$ 107.7 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| D e f e r r e d p o l i c y a c q u i s i t i o n costs | 6.2 | 11.8 |
| P r e m i u m s a n d o t h e r receivables | .6 | 70.6 |
| U n p a i d c l a i m s a n d r e l a t e d items | 217.2 | 72.0 |
| O t h e r p o l i c y h o l d e r s ' b e n e f i t s a n d funds | (17.4) | (21.5) |
| Income taxes | (24.4) | 46.1 |
| P r e p a i d f e d e r a l i n c o m e taxes | 35.2 | (68.1) |
| R e i n s u r a n c e b a l a n c e s a n d funds | 4.6 | (19.4) |
| R e a l i z e d i n v e s t m e n t gains | (.9) | (2.9) |
| A c c o u n t s p a y a b l e , a c c r u e d e x p e n s e s a n d other | (2.8) | .6 |
| Total | 199.3 | 197.1 |
| Cash flows from investing activities: | | |
| Fixed maturity securities: | | |
| M a t u r i t i e s a n d e a r l y calls | 233.1 | 168.8 |
| Sales | 19.9 | 14.3 |
| Sales of: | | |
| Equity securities | 6.1 | 3.4 |
| Other investments | 26.9 | .6 |
| F i x e d a s s e t s f o r c o m p a n y use | .8 | .2 |
| Purchases of: | | |
| F i x e d m a t u r i t y securities | (183.9) | (266.2) |
| Equity securities | (80.8) | - |
| Other investments | (2.3) | (.7) |
| F i x e d a s s e t s f o r c o m p a n y use | (8.2) | (3.8) |
| P u r c h a s e o f a business | (4.3) | - |

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| | | |
|---|---------|---------|
| Net decrease (increase) in short-term investments | (155.2) | (66.2) |
| Other-net | 4.8 | (2.1) |
| Total | (142.9) | (151.7) |
| Cash flows from financing activities: | | |
| Issuance of debentures and notes | 3.0 | - |
| Issuance of common shares | .4 | 5.4 |
| Redemption of debentures and notes | (.2) | (5.5) |
| Dividends on common shares | (36.8) | (34.7) |
| Other-net | .3 | - |
| Total | (33.3) | (34.6) |
| Increase (decrease) in cash: | 22.9 | 10.6 |
| Cash, beginning of period | 54.0 | 71.6 |
| Cash, end of period | \$ 76.9 | \$ 82.3 |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$.6 | \$.3 |
| Income taxes | \$ 1.7 | \$ 1.3 |

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 generally accepted accounting principles (“GAAP”) as described in the Company’s latest annual report to shareholders or otherwise disclosed herein. The financial accounting and reporting process relies on estimates and on the exercise of judgment, but in the opinion of management all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results were 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.

The Financial Accounting Standards Board’s (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”) became effective for the Company in the first quarter of 2007. FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. The Company’s unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements and have not changed significantly upon the adoption of FIN 48. 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 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 under GAAP, other than possible interest and penalties which are classified as income tax expense, the possible accelerated payment of tax to the IRS would not affect the annual effective tax rate. The IRS has audited the Company’s consolidated Federal income tax returns through year end 2003 and no significant adjustments have resulted.

The Company’s adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”), is discussed in Note 3 of the Notes to Consolidated Financial Statements.

The adoption of FIN 48 and FAS 157 result in additional financial statement disclosures for GAAP reporting purposes and have no effect on the conduct of the Company’s business, its financial condition and results of operations.

2. Common Share Data:

Earnings Per Share - The following table provides a reconciliation of the income and number of shares used in basic and diluted earnings per share calculations.

| Quarters Ended March 31, | |
|--------------------------|------|
| 2008 | 2007 |

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| | | | |
|--|---------|-------------|-------------|
| Numerator: | | | |
| Net Income (loss) | | \$ (19.0) | \$ 107.7 |
| Numerator for basic earnings per share - income (loss) available to common stockholders | | | |
| | | (19.0) | 107.7 |
| Numerator for diluted earnings per share - income (loss) available to common stockholders after assumed conversions | | | |
| | | \$ (19.0) | \$ 107.7 |
| Denominator: | | | |
| Denominator for basic earnings per share - weighted-average shares | | | |
| (a) | | 230,495,852 | 231,388,190 |
| Effect of dilutive securities – stock options | | | |
| (b) | | - | 2,226,260 |
| Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions | | | |
| (a) | | 230,495,852 | 233,614,450 |
| Earnings per share: | | | |
| Basic | | \$ (.08) | \$.47 |
| | Diluted | \$ (.08) | \$.46 |

- (a) All per share statistics have been restated to reflect all stock dividends and splits declared through March 31, 2008.
- (b) Outstanding stock option awards totaling 15,527,938 and 2,912,293 shares as of March 31, 2008 and 2007, respectively, were excluded from the computation of earnings per share because their effect would have been antidilutive to the periods presented.

3. Investments:

Effective January 1, 2008, the Company adopted FAS 157, Fair Value Measurements, which establishes a framework for measuring fair value, and applies to existing accounting pronouncements that require or permit fair value measurements. A fair value hierarchy is established within FAS 157 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 inputs); observable inputs based on corroboration with available market data (Level 2 inputs); and unobservable inputs based on uncorroborated market data or a reporting entity’s own assumptions (Level 3 inputs). The adoption of FAS 157 has had no impact on the Company’s consolidated financial statements nor has it resulted in any changes in the asset valuation methods consistently followed by the Company. The Company’s Annual Report on Form 10-K contains disclosures regarding fair value techniques used for its invested asset portfolio.

The following table shows a summary of assets measured at fair value segregated among the various input levels required by FAS 157:

Fair value measurements as of March 31, 2008:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|----------|------------|---------|------------|
| Available for sale: | | | | |
| Fixed maturity securities | \$ 285.7 | \$ 7,092.9 | \$ 10.5 | \$ 7,389.2 |
| Equity securities | 617.6 | .3 | 40.9 | 659.0 |
| Short-term investments | 610.3 | - | 7.1 | 617.4 |

The Company’s Level 3 fair value measurements are generally based upon external quotes provided from third party sources which utilize inputs that are not corroborated with observable market data, or in very few instances, upon the Company’s own internal assumptions. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs during the quarter ended March 31, 2008. Net unrealized losses on investments amounted to \$30.3 million at March 31, 2008. Unrealized depreciation of investments, before applicable deferred income tax credits of \$16.6 million at March 31, 2008 included gross unrealized gains and (losses) of \$301.2 million and \$(348.3) million, respectively. For the quarters ended March 31, 2008 and 2007, changes in net unrealized appreciation (depreciation) of investments, net of deferred income taxes (credits), amounted to \$(109.4) million and \$17.3 million, respectively.

4. Pension Plans:

The Company has three defined benefit pension plans covering a portion of its work force. All three plans have been closed to new participants since December 31, 2004. Pursuant to plan terms pension payments are based primarily on years of service and employee compensation near retirement. 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 components of estimated net periodic pension cost for the plans consisted of the following:

| Quarter Ended March 31, | |
|----------------------------|------|
| 2008 | 2007 |

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| | | | | |
|---|----|-------|----|-------|
| Service cost | \$ | 2.0 | \$ | 2.3 |
| Interest cost | | 3.8 | | 3.4 |
| E x p e c t e d r e t u r n o n p l a n assets | | (4.1) | | (3.9) |
| Recognized loss | | .1 | | .8 |
| Net cost | \$ | 1.8 | \$ | 2.6 |

The Companies made no cash contributions to their pension plans in the first quarter 2008 and expect to make cash contributions of approximately \$6.0 million to their pension plans in the remaining portion of calendar year 2008.

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 as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

| | Quarters Ended March 31, | |
|--|-----------------------------|----------|
| | 2008 | 2007 |
| General Insurance Group: | | |
| Net premiums earned | \$ 512.7 | \$ 521.7 |
| Net investment income and other income | 68.8 | 68.0 |
| Total revenues before realized gains or losses | \$ 581.5 | \$ 589.7 |
| Income before taxes and realized investment gains or losses (a) | \$ 89.8 | \$ 102.9 |
| Income tax expense on above | \$ 26.5 | \$ 31.0 |
| Mortgage Guaranty Group: | | |
| Net premiums earned | \$ 147.6 | \$ 118.0 |
| Net investment income and other income | 24.7 | 21.3 |
| Total revenues before realized gains or losses | \$ 172.4 | \$ 139.4 |
| Income (loss) before taxes (credits) and realized investment gains or losses | \$ (122.3) | \$ 48.3 |
| Income tax expense (credit) on above | \$ (44.2) | \$ 15.7 |
| Title Insurance Group: | | |
| Net premiums earned | \$ 118.1 | \$ 154.5 |
| Title, escrow and other fees | 42.5 | 55.5 |
| Sub-total | 160.7 | 210.1 |
| Net investment income and other income | 6.3 | 7.1 |
| Total revenues before realized gains or losses | \$ 167.1 | \$ 217.2 |
| Income (loss) before tax credits and realized investment gains or losses (a) | \$ (12.6) | \$.7 |
| Income tax credit on above | \$ (4.9) | \$ (.2) |

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Consolidated Revenues:

| | | | | |
|---|----|-------|----|-------|
| T o t a l r e v e n u e s o f a b o v e C o m p a n y segments | \$ | 921.1 | \$ | 946.3 |
| Other sources (b) | | 38.4 | | 33.3 |
| C o n s o l i d a t e d n e t r e a l i z e d i n v e s t m e n t gains | | .9 | | 2.9 |
| C o n s o l i d a t i o n e l i m i n a t i o n adjustments | | (8.8) | | (8.8) |
| Consolidated revenues | \$ | 951.6 | \$ | 973.9 |

Consolidated Income (Loss) Before Taxes (Credits):

| | | | | |
|--|----|--------|----|-------|
| Total income (loss) before taxes (credits) and realized investment gains or losses of above Company segments | \$ | (45.2) | \$ | 151.9 |
| Other sources – net (b) | | 4.6 | | .6 |
| C o n s o l i d a t e d n e t r e a l i z e d i n v e s t m e n t gains | | .9 | | 2.9 |
| Consolidated income (loss) before income taxes (credits) | \$ | (39.6) | \$ | 155.6 |

Consolidated Income Tax Expense (Credit):

| | | | | |
|--|----|--------|----|------|
| Total income tax expense (credit) for above Company segments | \$ | (22.5) | \$ | 46.5 |
| Other sources – net (b) | | 1.6 | | .2 |
| Income tax expense on consolidated net realized investment gains | | .3 | | 1.0 |
| C o n s o l i d a t e d i n c o m e t a x e x p e n s e (credit) | \$ | (20.5) | \$ | 47.8 |

| | March 31, 2008 | December 31, 2007 |
|--|-------------------|----------------------|
| Consolidated Assets: | | |
| General | \$ 9,695.6 | \$ 9,769.9 |
| Mortgage | 2,624.9 | 2,523.8 |
| Title | 777.7 | 770.4 |
| Other assets (b) | 438.9 | 437.9 |
| C o n s o l i d a t i o n e l i m i n a t i o n adjustments | (287.5) | (211.5) |
| Consolidated | \$ 13,249.7 | \$ 13,290.6 |

In the above tables, net premiums earned on a GAAP basis differ slightly from statutory amounts due to certain differences in calculations of unearned premium reserves under each accounting method.

- (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 - \$3.5 million and \$4.2 million for the quarters ending March 31, 2008 and 2007, respectively; Title - \$.7 million and \$.3 million for the quarters ending March 31, 2008 and 2007, 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 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 legal proceedings 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, pursuant to rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulators, ORNTIC was required to, but failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions. Substantially similar lawsuits are also pending against other unaffiliated title insurance companies in these and other states as well. The actions seek damages and declaratory and injunctive relief. ORNTIC intends to defend vigorously against the actions but, at this stage in the litigation, the Company cannot estimate the ultimate costs it may incur as the actions proceed to their conclusions.

Since early February 2008, more than 50 purported consumer class action lawsuits have been filed against the 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. The Company and its principal title insurance subsidiary, Old Republic National Title Insurance Company, are among the named defendants in 25 of these actions, and are likely to be included in others. A second subsidiary, American Guaranty Title Insurance Company, is also named in most but not all of the same suits. The Company and its subsidiaries intend to defend vigorously against all of these actions and, given the recency of these actions, are unable to estimate the costs they may incur in defending them to their conclusions.

Purported class action lawsuits are also pending against two of the Company's title agency subsidiaries, Old Republic Title & Escrow, Ltd. and Old Republic Title Company, in the Superior Court of Washington, King County, and the U.S. District Court for the Northern District of California, respectively. The action in Washington alleges that the Company's subsidiary overcharged customers for escrow-related fees and did not disclose to customers that it would keep interest or credits or benefits in lieu of interest on money deposited into escrow. The action in California is brought by and on behalf of Hispanic home buyers in Monterey County against various real estate developers, brokers, mortgage brokers, mortgage lenders, mortgage loan servicers, as well as the Company's title agency subsidiary, and alleges that the title agency failed to provide adequate disclosures to protect the buyers from the abusive sales and predatory lending practices of the other defendants. Both actions seek damages, declaratory and injunctive relief. The Company's subsidiaries intend to defend vigorously against both actions and are unable at this early stage in the litigation to estimate the costs they may incur in defending these actions to their conclusions.

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Quarters Ended March 31, 2008 and 2007
(\$ in Millions, Except Share Data)

OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation (“Old Republic” or “the Company”). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Mortgage Guaranty, and Title insurance segments. A small life and health insurance business, accounting for 2.9% of consolidated revenues for the quarter ended March 31, 2008 and 2.1% of consolidated assets as of March 31, 2008, is included within the corporate and other caption of this financial report. The consolidated accounts are presented on the basis of generally accepted accounting principles (“GAAP”). This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance coverages 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 consolidated operating results, which exclude net realized investment gains, decreased significantly in this year’s first quarter. The reduced performance stemmed from ongoing weakness in the Company’s housing-related mortgage guaranty and title insurance lines. In management’s opinion, the substantial dislocations that have enveloped all businesses with housing and mortgage-lending exposures are likely to exert earnings pressures well into 2009. These lowered expectations aside, the Company’s strong financial underpinnings and the earnings sustainability of its general insurance business should provide necessary earnings support and capital management flexibility for the resumption of positive operating trends in 2010 and beyond.

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Consolidated Results – The major components of Old Republic’s consolidated results were as follows for the periods shown:

| | Quarters Ended March 31, | | |
|--|--------------------------|----------|---------|
| | 2008 | 2007 | Change |
| Operating revenues: | | | |
| General insurance | \$ 581.5 | \$ 589.7 | -1.4% |
| Mortgage guaranty | 172.4 | 139.4 | 23.7 |
| Title insurance | 167.1 | 217.2 | -23.1 |
| Corporate and other | 29.6 | 24.5 | |
| Total | \$ 950.7 | \$ 970.9 | -2.1% |
| Pretax operating income (loss): | | | |
| General insurance | \$ 89.8 | \$ 102.9 | -12.7% |
| Mortgage guaranty | (122.3) | 48.3 | -353.3 |
| Title insurance | (12.6) | 0.7 | N/M |
| Corporate and other | 4.6 | 0.6 | |
| Sub-total | (40.5) | 152.6 | -126.6 |
| Realized investment gains (losses): | | | |
| From sales | 0.9 | 2.9 | |
| From impairments | - | - | |
| Net realized investment gains | 0.9 | 2.9 | |
| Consolidated pretax income (loss) | (39.6) | 155.6 | -125.5 |
| Income taxes (credits) | (20.5) | 47.8 | -143.0 |
| Net income (loss) | \$ (19.0) | \$ 107.7 | -117.7% |
| Consolidated underwriting ratio: | | | |
| Benefit ratio | 76.6% | 48.6% | |
| Expense ratio | 39.1 | 43.6 | |
| Composite ratio | 115.7% | 92.2% | |
| Components of diluted earnings per share: | | | |
| Net operating income (loss) | \$ (0.08) | \$ 0.45 | -117.8% |
| Net realized investment gains | - | 0.01 | |
| Net income (loss) | \$ (0.08) | \$ 0.46 | -117.4% |

N/M = not meaningful

The above table shows both operating and net income 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 GAAP 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-GAAP 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 – First quarter 2008 general insurance earnings were mainly affected by a slightly lower earned premium base and the higher claim ratio shown in the following table:

| | General Insurance Group | | |
|-------------------------|--------------------------|----------|--------|
| | Quarters Ended March 31, | | |
| | 2008 | 2007 | Change |
| Net premiums earned | \$ 512.7 | \$ 521.7 | -1.7% |
| Net investment income | 64.5 | 62.8 | 2.7 |
| Pretax operating income | \$ 89.8 | \$ 102.9 | -12.7% |
| Claims ratio | 69.9% | 64.5% | |
| Expense ratio | 24.4 | 26.9 | |
| Composite ratio | 94.3% | 91.4% | |

Earned premiums trended lower in this year's first three months. A moderately declining rate environment for most commercial insurance prices in the past two years has precluded more positive additions to Old Republic's premium base. For this year's first quarter, the slightly lower top line was accompanied by an increase in the claims ratio to 69.9% from 64.5% in last year's first quarter, versus an average of 66.8% for the five most recent calendar years. This year's higher claims ratio was driven mostly by greater loss costs in Old Republic's consumer credit indemnity line and, to a lesser extent, those of its general aviation and truck physical damage coverages.

Expense-wise, the ratio of 24.4% to earned premiums in the first three months of 2008 compared favorably with the 26.9% registered in last year's first quarter, and the average of 24.8% for the five years ended in 2007. This most recent quarterly decline reflects temporary differences in volume contributions by insurance coverages experiencing varying year-over-year production volumes and expense content. Over the near term, however, these differences should attenuate and trend toward longer term averages.

General Insurance Group net investment income growth, up 2.7% for this year's first quarter, was influenced by the combination of a greater invested asset base, slightly higher market yields on fixed maturity securities, and lower dividend yields on equity holdings.

Mortgage Guaranty Results – A continued rise in claim costs, driven mainly by higher mortgage loan delinquencies and claim severity, overcame a strong double digit increase in net premiums earned for this year's first three months. As a consequence, pretax operating results were unprofitable for the third consecutive quarter. Key indicators of this cyclical reversal in profitability for Old Republic's second largest business segment are shown below and in the accompanying statistical exhibit.

| | Mortgage Guaranty Group | | |
|--------------------------------|--------------------------|----------|---------|
| | Quarters Ended March 31, | | |
| | 2008 | 2007 | Change |
| Net premiums earned | \$ 147.6 | \$ 118.0 | 25.1% |
| Net investment income | 21.5 | 18.9 | 13.7 |
| Pretax operating income (loss) | \$ (122.3) | \$ 48.3 | -353.3% |
| Claims ratio | 181.1% | 54.4% | |
| Expense ratio | 16.4 | 20.8 | |
| Composite ratio | 197.5% | 75.2% | |

Mortgage guaranty premium growth of 25.1% in this year's first quarter was mostly due to a 34.2% increase in traditional primary risk in force vis-à-vis the first quarter of 2007. Growth of risk in force was in turn driven by higher persistency of traditional primary business produced in prior years (78.3% for this year's first quarter versus 73.7% in the same period of 2007), and a 70.3% year-over-year increase in new insurance written resulting from greater market acceptance of traditional primary mortgage guaranty insurance.

The unprecedented cyclical downturn in housing and related mortgage finance industries currently affecting this Old Republic segment, however, contributed to the above noted offsetting impact of claim costs. Such costs reflect the combination of unfavorable loan default trends, greater claim severity caused by the larger insured loan values of recent years, and lessened opportunities to mitigate reported claims. Inflated inventories of unsold homes, weakening home values, and a more restrictive credit environment are main causes for these lessened mitigation opportunities.

This year's first quarter incurred loss ratio increased to 181.1% from 54.4% registered in the same period last year. By contrast the ratio of paid losses to earned premiums rose from 35.3% in the first quarter of 2007 to 55.0% in the latest quarter. The disparity between paid and incurred losses is caused by much greater claim reserve provisions which accounted for 126.1 loss ratio points in this year's first quarter, compared to just 19.1 loss ratio points in the same quarter of 2007, and 76.3 loss ratio points for all of 2007 when the incurred loss ratio rested at 118.8%. As of March

31, 2008, net claims reserves of \$831.0 million were approximately 206% higher than they were one year before, and 29% greater than the year end 2007 level.

Lower production and operating expenses, at 16.4% of net premiums earned for this year's first three months, continued to be a bright spot in operating trends. The beneficial effect of this lower cost element on bottom line results, however, was offset by the more severe impact of greater claim costs. The combination of all these factors led to a rise in the composite ratio of claims and expenses to 197.5% in this year's first quarter versus 75.2% in last year's first three months, 194.6% in the final quarter of 2007, and 136.5% for all of 2007.

Underwriting results notwithstanding, Old Republic's Mortgage Guaranty segment continued to post strong operating cash flows. These have been additive to a very liquid invested asset base which reached \$1.91 billion as of March 31, 2008, up 21.1% from the level attained one year earlier. The greater invested asset base produced 13.7% more investment income for the quarter.

Title Insurance Results – Old Republic’s title insurance business registered an operating loss for this year’s first quarter. Key indicators of its results are shown in the following table:

| | Title Insurance Group | | |
|--------------------------------|--------------------------|----------|--------|
| | Quarters Ended March 31, | | |
| | 2008 | 2007 | Change |
| Net premiums and fees earned | \$ 160.7 | \$ 210.1 | -23.5% |
| Net investment income | 6.4 | 6.7 | -4.3 |
| Pretax operating income (loss) | \$ (12.6) | \$ 0.7 | N/M |
| Claims ratio | 7.0% | 6.0% | |
| Expense ratio | 104.5 | 96.8 | |
| Composite ratio | 111.5% | 102.8% | |

The ongoing cyclical downturn in the housing and related mortgage lending sectors of the U.S. economy led to further reductions of premiums and fees revenues for the title segment. Direct production facilities in the Western United States continued to sustain the greatest adverse effects of this downturn. While overall 2008 production and operating expenses dropped by 17.4% quarter over quarter, the decline was insufficient to counter the much larger reduction in title premium and fees revenues.

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 greater gain in this year’s first quarter. 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.

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 | | | | |
|--|------------|---------------|------------|--------------------|----------------------|
| | March 2008 | December 2007 | March 2007 | March '08/ Dec '07 | March '08/ March '07 |
| Cash and invested assets at fair value | \$ 8,895.1 | \$ 8,924.0 | \$ 8,407.4 | -0.3% | 5.8% |
| Shareholders’ equity: | | | | | |
| Total | \$ 4,376.7 | \$ 4,541.6 | \$ 4,471.8 | -3.6% | -2.1% |
| Per common share | \$ 18.99 | \$ 19.71 | \$ 19.33 | -3.7% | -1.8% |

Composition of shareholders’ equity per share:

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| | | | | | | | | |
|--|----|--------|----|-------|----|-------|-------|-------|
| Equity before items below | \$ | 19.08 | \$ | 19.31 | \$ | 19.06 | -1.2% | 0.1% |
| Unrealized investment gains or losses and other accumulated comprehensive income | | (0.09) | | 0.40 | | 0.27 | | |
| Total | \$ | 18.99 | \$ | 19.71 | \$ | 19.33 | -3.7% | -1.8% |

Consolidated cash flow from operating activities amounted to \$199.3 million for the first three months of 2008 versus \$197.1 million for the same period in 2007. Other than title insurance, each Old Republic segment remained cash flow - positive in this year's first quarter. Excluding the effects of unrealized gains or losses, the cash and invested asset base grew by 1.6% to \$8.94 billion between year-end 2007 and March 31st of this year, and by 8.0% for the fiscal twelve months ended on the latter date.

The investment portfolio reflects a current allocation of approximately 85% to fixed-maturity securities and 8% 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. Consequently, it contains little or no insurance risk-correlated asset exposures to real estate, mortgage-backed securities and collateralized debt obligations ("CDO's"), nor to derivatives, junk bonds, or illiquid private equity investments. In a similar vein, the Company does not engage in hedging transactions and does not invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous counter-party risk attributes.

Substantially all changes in the shareholders' equity account for the periods reported upon reflect the registered earnings or losses, dividend payments, and changes in market valuations of invested assets. A summary of changes in book value per share follows:

| | Three Months Ended March 31, 2008 | Fiscal Twelve Months Ended March 31, 2008 |
|---|--|---|
| B e g i n n i n g b o o k v a l u e p e r \$ share | 19.71 | \$ 19.33 |
| Changes in shareholders' equity for the periods: | | |
| N e t o p e r a t i n g i n c o m e (loss) | (0.08) | 0.44 |
| N e t r e a l i z e d i n v e s t m e n t g a i n s (losses) | - | 0.19 |
| N e t u n r e a l i z e d i n v e s t m e n t g a i n s (losses) | (0.48) | (0.50) |
| Cash dividends | (0.16) | (0.64) |
| T r e a s u r y s t o c k acquired | - | 0.01 |
| S t o c k i s s u a n c e , f o r e i g n e x c h a n g e , a n d o t h e r transactions | - | 0.16 |
| Net change | (0.72) | (0.34) |
| E n d i n g b o o k v a l u e p e r \$ share | 18.99 | \$ 18.99 |

TECHNICAL MANAGEMENT ANALYSIS

CRITICAL ACCOUNTING ESTIMATES

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, 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 2007 Annual Report on Form 10K.

CHANGES IN ACCOUNTING POLICIES

In July 2006, the Financial Accounting Standards Board (“FASB”) issued its Interpretation No. 48, Accounting for Uncertainty in Income Taxes (“FIN 48”), which became effective for the Company in the first quarter of 2007. FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. The Company’s unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements and did not change significantly upon the adoption of FIN 48. 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. As indicated in Note 1 of the Notes to Consolidated Financial Statements, the Company believes that the major uncertainties relating to its tax position pertain to timing differences in the recognition of taxable income. Accordingly, the annual effective tax rate, other than possible interest and penalties, would be largely unaffected as an increase in currently due income taxes would likely be offset by a corresponding deferred income tax adjustment.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 Fair Value Measurements (“FAS 157”), which establishes a framework for measuring fair value. FAS 157 applies to existing accounting pronouncements that require or permit fair value measurements, and became effective for the Company in the first quarter of 2008. Disclosure requirements associated with the standard have been incorporated in Note 3 of the Notes to Consolidated Financial Statements.

The adoption of FIN 48 and FAS 157 result in additional financial statement disclosures for GAAP reporting purposes and have no effect on the conduct of the Company’s business, its financial condition and results of operations.

FINANCIAL POSITION

The Company's financial position at March 31, 2008 reflected decreases in assets and common shareholders' equity of .3%, and 3.6%, respectively, and increased liabilities of 1.4% when compared to the immediately preceding year-end. Cash and invested assets represented 67.1% of consolidated assets as of March 31, 2008 and December 31, 2007. Consolidated operating cash flow was positive at \$199.3 million in the first quarter of 2008 compared to \$197.1 million in the same period of 2007. As of March 31, 2008, invested assets decreased .6% to \$8,712.8 million principally as a result of a net decline in the market valuation of such assets.

Investments - During the first quarters of 2008 and 2007, the Company committed most investable funds to short to intermediate-term fixed maturity securities. At both March 31, 2008 and 2007, 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. Investable funds have not been directed to so-called "junk bonds", illiquid private equity investments, real estate, mortgage loans, mortgage-backed securities, collateralized debt obligations ("CDO's"), or derivatives. In a similar vein, the Company does not invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous counter-party risk attributes. At March 31, 2008, 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 March 31, 2008. 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 market 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 market 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 market 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. Accordingly, the recognition of losses from other-than-temporary value impairments is subject to a great deal of judgment as well as turns of events over which the Company can exercise little or no control. In the event the Company's estimate of other-than-temporary impairments is insufficient at any point in time, future periods' net income 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)

| | March 31, 2008 | December 31, 2007 |
|-------------------------------|-------------------|----------------------|
| Aaa | 30.3% | 32.9% |
| Aa | 18.1 | 17.0 |
| A | 29.6 | 27.9 |
| Baa | 19.8 | 20.2 |
| T o t a l i n v e s t m e n t | 97.8 | 98.0 |
| grade | | |
| A l l o t h e r | 2.2 | 2.0 |
| (b) | | |
| Total | 100.0% | 100.0% |

(a) Credit quality ratings used are those assigned primarily by Moody's; other ratings are assigned by Standard & Poor's and converted to equivalent Moody's ratings classifications.

(b) "All other" includes non-investment grade or non-rated small issues of tax-exempt bonds.

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

| | March 31, 2008 | |
|--|-------------------|-------------------------------|
| | Amortized Cost | Gross Unrealized Losses |
| Fixed Maturity Securities by Industry Concentration: | | |
| Service | \$ | \$ |
| | 39.4 | 7.4 |
| C o n s u m e r | 40.1 | 3.9 |
| Durables | | |
| Financial | 13.9 | 2.0 |
| Industrial | 5.0 | .9 |
| O t h e r (i n c l u d e s 6 i n d u s t r y | 33.7 | 1.3 |
| groups) | | |
| Total | \$ (c) | \$ |
| | 132.3 | 15.7 |

(c) Represents 1.8% of the total fixed maturity securities portfolio.

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

| | March 31, 2008 | |
|---|---------------------|-------------------------------|
| | Amortized Cost | Gross Unrealized Losses |
| Fixed Maturity Securities by Industry Concentration: | | |
| Financial | \$ 116.3 | \$ 6.4 |
| Banking | 140.9 | 4.9 |
| Utilities | 165.8 | 2.2 |
| Telecom | 33.4 | 2.2 |
| Other (includes 14 industry groups) | 481.7 | 9.4 |
| Total | \$ 938.4 (d) | \$ 25.1 |

(d) Represents 13.0% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

| | March 31, 2008 | |
|---|----------------|-------------------------|
| | Cost | Gross Unrealized Losses |
| Equity Securities by Industry Concentration: | | |
| Insurance | \$ 483.1(e) | \$ (e) 275.5 |
| Banking | 102.0 | 23.6 |
| Health Care | 22.4 | 4.2 |
| Natural Gas | 7.1 | .9 |
| Utilities | 6.8 | .5 |
| Total | \$ 621.6(f) | \$ (g) 304.9 |

(e) Represents principally two insurance companies that have business operations concentrated in the U.S. housing industry.

(f) Represents 70.5% of the total equity securities portfolio.

(g) Represents 34.6% of the cost of the total equity securities portfolio, while gross unrealized gains represent 9.3% of the portfolio.

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

| | March 31, 2008 | | | |
|--|--|---------------------------|-------------------------|---------------------------|
| | Amortized Costs 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 | \$ 129.3 | \$ 31.9 | \$ 1.8 | \$ 1.4 |
| Due after one year through five years | 483.3 | 85.1 | 22.7 | 11.2 |
| Due after five years through ten years | 450.6 | 15.2 | 16.1 | 3.1 |
| Due after ten years | 7.3 | - | .2 | - |
| Total | \$ 1,070.7 | \$ 132.3 | \$ 40.9 | \$ 15.7 |

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

March 31, 2008
Amount of Gross Unrealized Losses

| | Less than 20% of Cost | 20% to 50% of Cost | More than 50% of Cost | Total Gross Unrealized Loss |
|---|-----------------------------|-----------------------|-----------------------------|-----------------------------------|
| Number of Months in Loss Position: | | | | |
| Fixed Maturity Securities: | | | | |
| One to six months | \$ | 4.4 | \$ - | \$ 4.4 |
| Seven to twelve months | | 7.0 | 1.3 | 8.3 |
| More than twelve months | | 21.7 | 5.0 | 1.4 |
| Total | \$ | 33.1 | \$ 6.3 | \$ 40.9 |
| Equity Securities: | | | | |
| One to six months | \$ | 8.5 | \$ 135.0 | \$ 157.0 |
| Seven to twelve months | | 4.2 | - | 4.2 |
| More than twelve months | | - | - | - |
| Total | \$ | 12.8 | \$ 135.0 | \$ 157.0 |

| | | | | |
|---|--|-----|---|---|
| Number of Issues in Loss Position: | | | | |
| Fixed Maturity Securities: | | | | |
| One to six months | | 79 | - | - |
| Seven to twelve months | | 31 | 1 | - |
| More than twelve months | | 133 | 3 | 1 |
| Total | | 243 | 4 | 1 |
| Equity Securities: | | | | |
| One to six months | | | | |