

OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
August 03, 2007

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

FORM 10-Q

- Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934
for the quarterly period ended: **June 30, 2007** 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

| Class | Shares Outstanding June 30, 2007 |
|------------------------------|-------------------------------------|
| Common Stock / \$1 par value | 231,568,599 |

There are 33 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2007

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 - 29 |
| QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK | 30 |
| CONTROLS AND PROCEDURES | 30 |
| PART II OTHER INFORMATION: | |
| ITEM 1A – RISK FACTORS | 31 |
| ITEM 6 – EXHIBITS | 31 |
| SIGNATURE | 32 |
| EXHIBIT INDEX | 33 |

Old Republic International Corporation and Subsidiaries**Consolidated Balance Sheets**

(\$ in Millions, Except Share Data)

| | (Unaudited) June 30, 2007 | December 31, 2006 |
|--|---------------------------------|----------------------|
| Assets | | |
| Investments: | | |
| Available for sale: | | |
| Fixed maturity securities (at fair value)(cost: \$7,056.7 and \$6,873.8) | \$ 6,944.5 | \$ 6,832.6 |
| Equity securities (at fair value)(cost: \$557.6 and \$534.7) | 714.5 | 669.1 |
| Short-term investments (at fair value which approximates cost) | 464.9 | 493.6 |
| M i s c e l l a n e o u s investments | 56.1 | 52.7 |
| Total | 8,180.2 | 8,048.1 |
| Other investments | 8.1 | 7.9 |
| Total investments | 8,188.3 | 8,056.1 |
| Other Assets: | | |
| Cash | 114.5 | 71.6 |
| S e c u r i t i e s a n d i n d e b t e d n e s s o f r e l a t e d parties | 18.2 | 21.8 |
| A c c r u e d i n v e s t m e n t income | 104.5 | 102.9 |
| A c c o u n t s a n d n o t e s receivable | 847.5 | 962.1 |
| F e d e r a l i n c o m e t a x r e c o v e r a b l e : Current | 15.2 | 15.5 |
| P r e p a i d f e d e r a l i n c o m e taxes | 536.5 | 468.4 |
| R e i n s u r a n c e b a l a n c e s a n d f u n d s held | 76.3 | 74.2 |
| R e i n s u r a n c e r e c o v e r a b l e : P a i d losses | 59.5 | 58.6 |
| Policy and claim reserves | 2,143.4 | 2,172.7 |
| 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 | 253.7 | 264.9 |
| Sundry assets | 347.3 | 342.9 |
| | 4,517.1 | 4,556.1 |
| Total Assets | \$ 12,705.5 | \$ 12,612.2 |
| Liabilities, Preferred Stock, and Common Shareholders' Equity | | |
| Liabilities: | | |
| L o s s e s , c l a i m s a n d s e t t l e m e n t expenses | \$ 5,698.0 | \$ 5,534.7 |
| Unearned premiums | 1,200.5 | 1,209.4 |
| 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 | 188.3 | 188.6 |

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

| | | |
|---|--------------------|-------------|
| T o t a l p o l i c y l i a b i l i t i e s a n d accruals | 7,086.9 | 6,932.8 |
| C o m m i s s i o n s , e x p e n s e s , f e e s a n d taxes | 220.1 | 243.5 |
| R e i n s u r a n c e b a l a n c e s a n d funds | 255.4 | 314.4 |
| F e d e r a l i n c o m e t a x p a y a b l e : | | |
| Deferred | 465.5 | 469.4 |
| Debt | 23.8 | 144.3 |
| Sundry liabilities | 135.9 | 138.4 |
| C o m m i t m e n t s a n d c o n t i n g e n t liabilities | | |
| Total Liabilities | 8,187.8 | 8,243.0 |
| Preferred Stock | | |
| C o n v e r t i b l e p r e f e r r e d s t o c k (1) | - | - |
| Common Shareholders' Equity | | |
| Common stock (1) | 231.5 | 231.0 |
| A d d i t i o n a l p a i d - i n capital | 334.3 | 319.5 |
| Retained earnings | 3,925.1 | 3,773.9 |
| A c c u m u l a t e d o t h e r c o m p r e h e n s i v e income | 26.5 | 44.6 |
| T o t a l C o m m o n S h a r e h o l d e r s ' Equity | 4,517.6 | 4,369.2 |
| Total Liabilities, Preferred Stock, and Common Shareholders' Equity | \$ 12,705.5 | \$ 12,612.2 |

(1) At June 30, 2007 and December 31, 2006, 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 231,568,599 at June 30, 2007 and 231,047,890 at December 31, 2006 were issued and outstanding. At June 30, 2007 and December 31, 2006, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.

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

| | Quarters Ended June 30, | | Six Months Ended June 30, | |
|---|----------------------------|-------------|------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Net premiums earned | \$ 853.0 | \$ 781.6 | \$ 1,667.2 | \$ 1,566.1 |
| Title, escrow, and other fees | 60.1 | 66.7 | 115.7 | 126.1 |
| Total premiums and fees | 913.2 | 848.4 | 1,783.0 | 1,692.2 |
| Net investment income | 93.7 | 82.6 | 185.2 | 165.3 |
| Other income | 12.0 | 9.6 | 21.5 | 18.5 |
| Total operating revenues | 1,018.9 | 940.7 | 1,989.8 | 1,876.1 |
| Realized investment gains | 13.3 | 8.1 | 16.3 | 15.7 |
| Total revenues | 1,032.2 | 948.9 | 2,006.2 | 1,891.8 |
| Benefits, Claims and Expenses: | | | | |
| Benefits, claims, and settlement expenses | 466.8 | 372.2 | 886.4 | 736.2 |
| Dividends to policyholders | 2.2 | 1.7 | 4.9 | 3.1 |
| Underwriting, acquisition, and other expenses | 393.3 | 385.5 | 786.9 | 788.7 |
| Interest and other charges | 2.6 | 2.8 | 4.9 | 5.3 |
| Total expenses | 865.0 | 762.4 | 1,683.3 | 1,533.4 |
| Income before income taxes | 167.2 | 186.4 | 322.9 | 358.3 |
| Income Taxes: | | | | |
| Current | 38.9 | 42.4 | 88.1 | 87.8 |
| Deferred | 13.1 | 17.3 | 11.8 | 26.4 |
| Total | 52.0 | 59.7 | 99.9 | 114.3 |
| Net Income | \$ 115.1 | \$ 126.6 | \$ 222.9 | \$ 244.0 |
| Net Income Per Share: | | | | |
| Basic | \$.50 | \$.55 | \$.96 | \$ 1.06 |
| Diluted | \$.49 | \$.54 | \$.95 | \$ 1.05 |
| Average shares outstanding: Basic | 231,558,161 | 230,013,892 | 231,551,981 | 230,007,372 |
| Diluted | 233,556,032 | 232,240,816 | 233,668,853 | 232,233,930 |
| Dividends Per Common Share: | | | | |
| Cash | \$.16 | \$.15 | \$.31 | \$.29 |

See accompanying Notes to Consolidated Financial Statements.

4

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

| | Quarters Ended June 30, | | Six Months Ended June 30, | |
|---|----------------------------|----------|------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income as reported | \$ 115.1 | \$ 126.6 | \$ 222.9 | \$ 244.0 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | 10.8 | 5.2 | 11.4 | 5.1 |
| Unrealized gains (losses) on securities: | | | | |
| Unrealized losses arising during period | (60.2) | (57.0) | (30.5) | (122.6) |
| Less: elimination of pretax realized gains included in income as reported | 13.3 | 8.1 | 16.3 | 15.7 |
| Pretax unrealized losses on securities carried at market value | (73.5) | (65.2) | (46.8) | (138.3) |
| Deferred income tax credits | (25.7) | (22.8) | (16.4) | (48.4) |
| Net unrealized losses on securities | (47.8) | (42.3) | (30.4) | (89.9) |
| Amortization of pension loss and prior service cost included in net periodic pension cost, net of deferred income taxes | .4 | - | .8 | - |
| Net adjustments | (36.5) | (37.1) | (18.0) | (84.7) |
| Comprehensive income | \$ 78.5 | \$ 89.5 | \$ 204.8 | \$ 159.3 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|--|------------------------------|----------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 222.9 | \$ 244.0 |
| 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 | 12.5 | (3) |
| P r e m i u m s a n d o t h e r receivables | 114.9 | 7.2 |
| U n p a i d c l a i m s a n d r e l a t e d items | 179.1 | 144.5 |
| 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 | 2.0 | 26.2 |
| Income taxes | 12.1 | (109.5) |
| P r e p a i d f e d e r a l i n c o m e taxes | (68.1) | 77.3 |
| R e i n s u r a n c e b a l a n c e s a n d funds | (62.4) | (60.5) |
| R e a l i z e d i n v e s t m e n t gains | (16.3) | (15.7) |
| 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 | 7.8 | 12.1 |
| Total | 404.8 | 325.5 |
| 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 | 353.5 | 262.0 |
| Sales | 24.5 | 50.7 |
| Sales of: | | |
| Equity securities | 70.2 | 15.4 |
| Other items - net | 9.9 | 19.8 |
| Purchases of: | | |
| Fixed maturity securities | (564.1) | (375.2) |
| Equity securities | (83.8) | (46.7) |
| Other items - net | (18.8) | (14.4) |
| N e t d e c r e a s e (i n c r e a s e) i n s h o r t - t e r m investments | 29.8 | (182.1) |
| Other - net | (2.4) | (1.8) |
| Total | (181.0) | (272.3) |
| Cash flows from financing activities: | | |
| I s s u a n c e o f d e b e n t u r e s a n d notes | .3 | - |

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

| | | | |
|--|----|----------------|----------|
| I s s u a n c e o f c o m m o n shares | | 8.1 | 6.3 |
| R e d e m p t i o n o f d e b e n t u r e s a n d notes | | (120.9) | (.5) |
| D i v i d e n d s o n c o m m o n shares | | (71.7) | (66.6) |
| Other - net | | 3.2 | (.3) |
| Total | | (180.9) | (61.2) |
| Increase (decrease) in cash | | 42.8 | (7.9) |
| C a s h , b e g i n n i n g o f period | | 71.6 | 68.3 |
| Cash, end of period | \$ | 114.5 | \$ 60.3 |
| Supplemental cash flow information: | | | |
| Cash paid during the period for: Interest | \$ | 4.7 | \$ 4.7 |
| Income taxes | \$ | 87.2 | \$ 223.4 |

See accompanying Notes to Consolidated Financial Statements.

OLD REPUBLIC INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(\$ in Millions, Except Share Data)

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with 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.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB 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 calendar year 2007. The Company views its income tax exposures as consisting of timing differences whereby the ultimate deductibility of a tax position 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 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, other than possible interest and penalties, the possible accelerated payment of tax to the IRS would not affect the annual effective tax rate. The Company classifies interest and penalties as income tax expense in the consolidated statement of income. The IRS has audited the Company's consolidated Federal income tax returns through year end 2003 and no significant adjustments ultimately resulted.

2. Common Share Data:

(a) 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 | | Six Months Ended | |
|---|----------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Numerator: | | | | |
| Net Income | \$ 115.1 | \$ 126.6 | \$ 222.9 | \$ 244.0 |
| Numerator for basic earnings per share - income available to common stockholders | 115.1 | 126.6 | 222.9 | 244.0 |
| Numerator for diluted earnings per share - income available to common stockholders | | | | |

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

| | | | | | | | | |
|---|----|-------------|----|-------------|----|-------------|----|-------------|
| after assumed conversions | \$ | 115.1 | \$ | 126.6 | \$ | 222.9 | \$ | 244.0 |
| Denominator: | | | | | | | | |
| Denominator for basic earnings per share - weighted-average shares (1) | | 231,558,161 | | 230,013,892 | | 231,551,981 | | 230,007,372 |
| Effect of dilutive securities – stock options | | 1,997,871 | | 2,226,924 | | 2,116,872 | | 2,226,558 |
| Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions | | | | | | | | |
| (1) | | 233,556,032 | | 232,240,816 | | 233,668,853 | | 232,233,930 |
| Earnings per share: Basic | \$ | .50 | \$ | .55 | \$ | .96 | \$ | 1.06 |
| Diluted | \$ | .49 | \$ | .54 | \$ | .95 | \$ | 1.05 |

(1) Common share data has been retroactively adjusted to reflect all stock dividends and splits declared through June 30, 2007.

3. **Unrealized Appreciation/(Depreciation) of Investments:**

Cumulative net unrealized gains on investments included in a separate account in common shareholders' equity amounted to \$36.1 at June 30, 2007. Unrealized appreciation of investments, before applicable deferred income taxes of \$19.3 at June 30, 2007 included gross unrealized gains and (losses) of \$206.1 and \$(150.6), respectively.

For the six months ended June 30, 2007 and 2006, net unrealized depreciation of investments, net of deferred income tax credits, amounted to \$30.4 and \$89.9, respectively.

4. **Pension Plans:**

The Company has three defined benefit pension plans covering a portion of its work force. The three plans are the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), the Bituminous Casualty Corporation Retirement Income Plan (the Bituminous Plan) and the Old Republic National Title Group Pension Plan (the Title Plan). The plans are defined benefit plans pursuant to which pension payments are based primarily on years of service and employee compensation near retirement. All three plans are closed to new employees. 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 measurement dates used to determine pension measurements are December 31 for the Old Republic Plan and the Bituminous Plan and September 30 for the Title Plan.

The components of estimated net periodic pension cost for the plans consisted of the following:

| | Quarters Ended | | Six Months Ended | |
|--------------------------------|----------------|--------|------------------|--------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 2.3 | \$ 2.3 | \$ 4.7 | \$ 4.6 |
| Interest cost | 3.4 | 3.2 | 6.8 | 6.4 |
| Expected return on plan assets | (3.9) | (3.6) | (7.9) | (7.3) |
| Recognized loss | .8 | .8 | 1.5 | 1.6 |
| Net cost | \$ 2.6 | \$ 2.6 | \$ 5.2 | \$ 5.3 |

The companies are not expecting to make any cash or non-cash contributions to their pension plans in calendar year 2007.

5. **Information About Segments of Business:**

The Company is engaged in the single business of insurance. It conducts its operations through three major regulatory 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 consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

| | Quarters Ended June 30, | | Six Months Ended June 30, | |
|---|----------------------------|----------|------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| General Insurance Group: | | | | |
| Net premiums earned | \$ 540.1 | \$ 473.0 | \$ 1,061.9 | \$ 933.0 |
| Net investment income and other income | 72.0 | 58.5 | 140.0 | 115.4 |
| Total revenues before realized gains or losses | \$ 612.2 | \$ 531.5 | \$ 1,202.0 | \$ 1,048.4 |
| Income before taxes and realized investment gains or losses (1) | \$ 108.7 | \$ 105.2 | \$ 211.7 | \$ 202.3 |
| Income tax expense on above | \$ 33.2 | \$ 32.8 | \$ 64.3 | \$ 62.6 |
| Mortgage Guaranty Group: | | | | |
| Net premiums earned | \$ 125.0 | \$ 110.2 | \$ 243.0 | \$ 219.2 |
| Net investment income and other income | 21.9 | 20.8 | 43.3 | 43.0 |
| Total revenues before realized gains or losses | \$ 147.0 | \$ 131.0 | \$ 286.4 | \$ 262.3 |
| Income before taxes and realized investment gains or losses | \$ 36.8 | \$ 63.7 | \$ 85.1 | \$ 123.8 |
| Income tax expense on above | \$ 11.6 | \$ 21.1 | \$ 27.3 | \$ 40.9 |
| Title Insurance Group: | | | | |
| Net premiums earned | \$ 169.3 | \$ 180.4 | \$ 323.8 | \$ 374.6 |
| Title, escrow and other fees | 60.1 | 66.7 | 115.7 | 126.1 |
| Sub-total | 229.5 | 247.2 | 439.6 | 500.7 |
| Net investment income and other income | 7.0 | 6.6 | 14.1 | 13.4 |
| Total revenues before realized gains or losses | \$ 236.5 | \$ 253.8 | \$ 453.7 | \$ 514.2 |
| Income before taxes and realized investment gains or losses (1) | \$ 3.6 | \$ 12.1 | \$ 4.3 | \$ 19.7 |
| Income tax expense on above | \$.8 | \$ 3.8 | \$.6 | \$ 6.2 |
| Consolidated Revenues: | | | | |
| Total revenues of above Company segments | \$ 995.8 | \$ 916.4 | \$ 1,942.2 | \$ 1,825.0 |
| Other sources (2) | 31.7 | 30.6 | 65.1 | 63.2 |
| Consolidated net realized investment gains | 13.3 | 8.1 | 16.3 | 15.7 |
| Elimination of intersegment revenues (3) | (8.6) | (6.4) | (17.4) | (12.1) |
| Consolidated revenues | \$ 1,032.2 | \$ 948.9 | \$ 2,006.2 | \$ 1,891.8 |
| Consolidated Income Before Taxes: | | | | |
| Total income before taxes and realized investment gains or losses of above Company segments | \$ 149.3 | \$ 181.2 | \$ 301.3 | \$ 345.9 |
| Other sources – net (2) | 4.5 | (2.9) | 5.2 | (3.3) |

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

| | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|-------|
| Consolidated net realized investment gains | | 13.3 | | 8.1 | | 16.3 | | 15.7 |
| Consolidated income before income taxes | \$ | 167.2 | \$ | 186.4 | \$ | 322.9 | \$ | 358.3 |
| Consolidated Income Tax Expense: | | | | | | | | |
| Total income tax expense of above | | | | | | | | |
| Company segments | \$ | 45.8 | \$ | 57.9 | \$ | 92.3 | \$ | 109.9 |
| Other sources – net (2) | | 1.5 | | (1.0) | | 1.8 | | (1.0) |
| Income tax expense on consolidated | | | | | | | | |
| net realized investment gains | | | | | | | | |
| Consolidated income tax expense | \$ | 4.6 | \$ | 2.8 | \$ | 5.7 | \$ | 5.4 |
| | \$ | 52.0 | \$ | 59.7 | \$ | 99.9 | \$ | 114.3 |

| | June 30, 2007 | December 31, 2006 |
|-----------------------------|------------------|-------------------------|
| Consolidated Assets: | | |
| General | \$ 9,439.9 | \$ 9,363.5 |
| Mortgage | 2,324.4 | 2,189.6 |
| Title | 773.0 | 772.7 |
| Other – net (2) | 383.5 | 443.4 |
| Eliminations (3) | (215.4) | (157.0) |
| Consolidated | \$ 12,705.5 | \$ 12,612.2 |

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.

- (1) In the above tables, income before taxes is reported net of interest charges on intercompany financing arrangements with Old Republic's holding company parent for the following segments: General - \$4.1 and \$8.3 compared to \$.2 and \$.5 for the quarter and six months ending June 30, 2007 and 2006, respectively; Title - \$.5 and \$.9 for the quarter and six months ending June 30, 2007 compared to zero for the corresponding 2006 periods.
- (2) Represents amounts for Old Republic's holding company parent, minor corporate services subsidiaries, and a small life and health insurance operation.
- (3) Represents consolidation eliminating adjustments.

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 actions have been filed against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC") in state courts in Connecticut, Florida, New Jersey, Ohio and Pennsylvania. 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 credits on the premiums charged for title insurance covering mortgage refinancing transactions. Substantially similar lawsuits have been filed against other unaffiliated title insurance companies in these and other states as well. The actions seek damages and declaratory and injunctive relief. The class actions in Florida were recently settled by ORNTIC for less than \$0.1, exclusive of attorneys' fees and costs. ORNTIC intends to defend vigorously against the actions in the other states as well but, at this stage in the litigation, the Company cannot estimate the ultimate costs it may incur as the actions proceed to their conclusions.

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Six Months Ended June 30, 2007 and 2006
(\$ 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 both consolidated revenues for the six months ended June 30, 2007 and consolidated assets as of June 30, 2007, 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 coverages are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance of a policy. This basic fact casts Old Republic’s business as a long-term undertaking which is managed with a primary focus on the achievement of favorable underwriting results over time. In addition to operating income stemming from Old Republic’s basic underwriting and related services functions, significant revenues are obtained from investable funds generated by those functions as well as from retained shareholders’ capital. In managing investable funds the Company aims to assure 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 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 for the long run, without regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic’s view, short reporting time frames do not comport well with the long-term nature of much of its business, driven as it is by a strong focus on the fundamental underwriting and related service functions of the Company. Management believes that Old Republic’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 time intervals are likely to encompass one or two economic and/or underwriting cycles, and 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

Consolidated earnings for this year’s second quarter and first half benefited from higher General Insurance operating revenues and profits that were mainly attributable to a book of liability insurance business acquired in late 2006. Greater year-over-year claim costs in the Company’s Mortgage Guaranty line, and an increased operating expense ratio in Title Insurance, however, were major offsetting factors. As a result of these varying business developments, net operating earnings per share dropped by 13.5% in this year’s second quarter, compared to a year ago, while net income per share declined by a lesser 9.3% due to higher realized investment gains. For the first half of 2007, the downturn in consolidated earnings was not as severe due to stronger first quarter performance by Old Republic’s Mortgage Guaranty line.

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

| | Quarters Ended June 30, | | | Six Months Ended June 30, | | |
|--|-------------------------|----------|--------|---------------------------|------------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Operating revenues: | | | | | | |
| General insurance | \$ 612.2 | \$ 531.5 | 15.2% | \$ 1,202.0 | \$ 1,048.4 | 14.6% |
| Mortgage guaranty | 147.0 | 131.0 | 12.2 | 286.4 | 262.3 | 9.2 |
| Title insurance | 236.5 | 253.8 | -6.8 | 453.7 | 514.2 | -11.8 |
| Corporate and other | 23.1 | 24.2 | | 47.6 | 51.0 | |
| Total | \$ 1,018.9 | \$ 940.7 | 8.3% | \$ 1,989.8 | \$ 1,876.1 | 6.1% |
| Pretax operating income (loss): | | | | | | |
| General insurance | \$ 108.7 | \$ 105.2 | 3.3% | \$ 211.7 | \$ 202.3 | 4.7% |
| M o r t g a g e | | | | | | |
| guaranty | 36.8 | 63.7 | -42.2 | 85.1 | 123.8 | -31.2 |
| Title insurance | 3.6 | 12.1 | -69.7 | 4.3 | 19.7 | -77.8 |
| Corporate and other | 4.5 | (2.9) | | 5.2 | (3.3) | |
| Sub-total | 153.8 | 178.2 | -13.7 | 306.5 | 342.6 | -10.5 |
| Realized investment gains (losses): | | | | | | |
| From sales | 13.3 | 8.1 | | 16.3 | 15.7 | |
| From impairments | - | - | | - | - | |
| Net realized investment gains | 13.3 | 8.1 | | 16.3 | 15.7 | |
| Consolidated pretax income | 167.2 | 186.4 | -10.3 | 322.9 | 358.3 | -9.9 |
| Income taxes | 52.0 | 59.7 | -12.9 | 99.9 | 114.3 | -12.5 |
| Net income | \$ 115.1 | \$ 126.6 | -9.1% | \$ 222.9 | \$ 244.0 | -8.7% |
| Consolidated underwriting ratio: | | | | | | |
| Benefits and claims ratio | 51.4% | 44.1% | | 50.0% | 43.7% | |
| Expense ratio | 41.5 | 43.8 | | 42.5 | 45.1 | |
| Composite ratio | 92.9% | 87.9% | | 92.5% | 88.8% | |
| Components of diluted net income per share: | | | | | | |
| Net operating income | \$ 0.45 | \$ 0.52 | -13.5% | \$ 0.91 | \$ 1.01 | -9.9% |
| Net realized investment gains | 0.04 | 0.02 | - | 0.04 | 0.04 | - |
| Net income | \$ 0.49 | \$ 0.54 | -9.3% | \$ 0.95 | \$ 1.05 | -9.5% |

The above table shows Old Republic’s consolidated results in terms of both operating and net income to highlight the effects of 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 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 – Old Republic’s General Insurance Group continued to post favorable year-over-year earnings comparisons. Key indicators of that performance follow:

| | Quarters Ended June 30, | | | Six Months Ended June 30, | | |
|-------------------------|-------------------------|----------|--------|---------------------------|----------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Net premiums earned | \$ 540.1 | \$ 473.0 | 14.2% | \$ 1,061.9 | \$ 933.0 | 13.8% |
| Net investment income | 64.7 | 53.7 | 20.4 | 127.5 | 106.6 | 19.5 |
| Pretax operating income | \$ 108.7 | \$ 105.2 | 3.3% | \$ 211.7 | \$ 202.3 | 4.7% |
| Claims ratio | 67.3% | 65.6% | | 66.0% | 65.0% | |
| Expense ratio | 23.6 | 23.4 | | 25.2 | 24.6 | |
| Composite ratio | 90.9% | 89.0% | | 91.2% | 89.6% | |

Substantially all general insurance premium growth in this year’s second quarter and first half stemmed from the previously noted new book of liability insurance. Premiums from all other sources combined were slightly higher, constrained by a moderately declining rate environment and the attendant difficulty it poses in retaining or attracting business meeting the Company’s underwriting standards. Nonetheless, Old Republic’s composite ratio, the most widely accepted indicator of underwriting performance in the industry, continued at a very favorable level for the 21st consecutive quarter. Net investment income grew on the strength of a greater invested asset base and slightly higher investment yields.

Mortgage Guaranty Results – Pretax mortgage guaranty operating income declined significantly due to less favorable underwriting results. Key performance indicators are shown below.

| | Quarters Ended June 30, | | | Six Months Ended June 30, | | |
|-------------------------|-------------------------|----------|--------|---------------------------|----------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Net premiums earned | \$ 125.0 | \$ 110.2 | 13.4% | \$ 243.0 | \$ 219.2 | 10.8% |
| Net investment income | 19.0 | 17.6 | 7.8 | 37.9 | 36.8 | 3.0 |
| Pretax operating income | \$ 36.8 | \$ 63.7 | -42.2% | \$ 85.1 | \$ 123.8 | -31.2% |
| Claims ratio | 65.9% | 35.6% | | 60.3% | 37.2% | |
| Expense ratio | 19.8 | 22.6 | | 20.3 | 23.1 | |
| Composite ratio | 85.7% | 58.2% | | 80.6% | 60.3% | |

The reduction in mortgage guaranty pretax operating income resulted from much higher claim costs, which outweighed positive contributions from increased premium revenue and lower production costs. Traditional primary new insurance written grew 41.0% year-to-date, and related business persistency improved to 74.7% from 68.1% at mid-year 2006. Year-over-year, however, bulk new insurance written and earned premiums represented the major source of overall premium growth. The lower expense ratios in this year’s second quarter and first half were driven by the continued benefits of cost management, and the greater efficiency associated with bulk business production.

The rise in mortgage guaranty claim costs reflected a continuation of particularly unfavorable trends since mid-2006. While comparative paid loss ratios remained relatively stable, greater reserve provisions were required to address a deteriorating claims environment. Year-over-year, the more significant factors in this regard were higher loan defaults,

greater claim severity due to higher values of insured risks, and fewer loss mitigation opportunities, especially in parts of the nation where home prices and sales activity have declined measurably. As indicated by the higher composite ratio of claims and expenses, underwriting margins worsened significantly in the first six months of 2007. Their full impact, however, was mitigated to a small extent by greater yields on a slightly higher invested asset base.

Title Insurance Results – Old Republic’s Title Insurance segment registered a continued drop in profitability during the second quarter and first half of 2007. Key performance indicators follow:

| | Quarters Ended June 30, | | | Six Months Ended June 30, | | |
|---|-------------------------|----------|--------|---------------------------|----------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Net premiums and fees earned | \$ 229.5 | \$ 247.2 | -7.2% | \$ 439.6 | \$ 500.7 | -12.2% |
| Net investment income | 6.8 | 6.5 | 4.4 | 13.5 | 13.3 | 1.7 |
| P r e t a x o p e r a t i n g income | \$ 3.6 | \$ 12.1 | -69.7% | \$ 4.3 | \$ 19.7 | -77.8% |
| C l a i m s ratio | 6.4% | 5.9% | | 6.2% | 6.0% | |
| Expense ratio | 94.7 | 91.7 | | 95.7 | 92.6 | |
| Composite ratio | 101.1% | 97.6% | | 101.9% | 98.6% | |

Amid a continuing downturn in the housing and related mortgage lending industries, the Company’s title business experienced further reductions in premium and fee revenues. As has been the case for several quarters, direct production facilities in the Western United States sustained the greatest adverse impact. Consolidated title premium and fee revenues dropped by 7.2% in this year’s second quarter, while operating expenses fell by a lesser 3.9%. For the first six months of the year, these amounts declined by 12.2% and 9.1%, respectively. While significant efforts to reduce operating costs have been made in the past several quarters, substantial challenges remain in redressing the imbalance between operating revenues and certain relatively fixed costs. In combination with a slightly higher claims ratio, these fluctuations produced the negative underwriting margins evidenced by the composite ratios shown in the above table. At this juncture, the Company believes that current market conditions affecting the title industry are unlikely to improve much before year-end 2008.

Corporate and Other Operations – Old Republic’s small life and health business, and the net costs associated with the parent holding company and its corporate services subsidiaries produced higher income contributions in 2007. Period-to-period variability in the results of these relatively minor elements of the Company’s operations usually stems from the volatility inherent to the Company’s small scaled life and health business, fluctuations in the timing of expense recognition related to such variable costs as stock option expenses, interest income on intercompany financing arrangements, and costs associated with a relatively small debt level.

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:

| | June 2007 | December 2006 | June 2006 | % Change | |
|---|--------------|------------------|--------------|----------------------|-----------------------|
| | | | | June ‘07/ Dec ‘06 | June ‘07/ June ‘06 |
| Cash and invested assets | \$ 8,407.4 | \$ 8,230.8 | \$ 7,512.9 | 2.1% | 11.9% |
| Shareholders’ equity: | | | | | |
| Total | 4,517.6 | 4,369.2 | 4,130.6 | 3.4 | 9.4 |
| Per share | \$ 19.51 | \$ 18.91 | \$ 17.96 | 3.2% | 8.6% |
| Composition of shareholders’ equity per share: | | | | | |
| Equity before items below | \$ 19.39 | \$ 18.72 | \$ 18.06 | 3.6% | 7.4% |
| Unrealized investment gains or losses and other accumulated comprehensive income | 0.12 | 0.19 | (0.10) | | |
| Total | \$ 19.51 | \$ 18.91 | \$ 17.96 | 3.2% | 8.6% |

Cash flow from operating activities of \$404.8 for the first half of 2007 compares with the \$325.5 registered in the same period of 2006. These cash flows were additive to the invested asset base although their full benefit was curbed by the June 2007 repayment of matured corporate debt of \$115.0.

The investment portfolio reflects a current allocation of approximately 85% to fixed-maturity securities and 9% to equities most of which are committed to several indexed stock portfolios. As has been the case for many years, Old Republic’s invested assets are managed in consideration of enterprise-wide risk management objectives and to assure solid funding of its subsidiaries’ long-term obligations to insurance policyholders and other beneficiaries. As a result, it contains little or no exposure to real estate investments, mortgage-backed securities, collateralized debt obligations, derivatives, junk bonds, illiquid private equity investments, or mortgage loans.

Substantially all of the changes in the shareholders’ equity account for the periods reported upon reflect earnings retained in excess of dividend payments. A summary of such changes on a per share basis follows:

| | Six Months Ended June 30, 2007 | Fiscal Year Ended June 30, 2007 |
|--|---|--|
| Beginning shareholders’ equity per share | \$ 18.91 | \$ 17.96 |
| Changes in shareholders’ equity for the periods: | | |
| Net operating income | 0.92 | 1.87 |
| | 0.04 | 0.05 |

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

| | | |
|--|----------|----------|
| Net realized investment gains (losses) | | |
| Net unrealized investment gains (losses) | (0.13) | 0.33 |
| Cash dividends | (0.31) | (0.61) |
| Stock issuance, foreign exchange, and other transactions | 0.08 | (0.09) |
| Net change | 0.60 | 1.55 |
| Ending shareholders' equity per share | \$ 19.51 | \$ 19.51 |

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 continual process of evaluating, analyzing, and quantifying 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 reserves for losses and loss adjustment expenses. The major assumptions and methods used in the establishment of these estimates are discussed in the Company's 2006 Annual Report on Form 10K.

CHANGES IN ACCOUNTING POLICIES

In July 2006, the Financial Accounting Standards Board (FASB) issued its Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*, 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 calendar year 2007. 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.

FINANCIAL POSITION

The Company's financial position at June 30, 2007 reflected increases in assets and common shareholders' equity of .7% and 3.4%, respectively, and a decrease in liabilities of .7% when compared to the immediately preceding year-end. Cash and invested assets represented 66.2% and 65.3% of consolidated assets as of June 30, 2007 and December 31, 2006, respectively. Consolidated operating cash flow was positive at \$404.8 in the first six months of 2007 compared to \$325.5 in the same period of 2006. As of June 30, 2007, the invested asset base increased 1.6% to \$8,188.3 principally as a result of positive operating cash flow in excess of debt repayments and dividends on common shares.

During the first six months of 2007 and 2006, the Company committed substantially all investable funds to short to intermediate-term fixed maturity securities. At both June 30, 2007 and 2006, 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" or types of securities categorized as derivatives. At June 30, 2007, 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 June 30, 2007. 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 affect negatively 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 (1)

| | June 30, 2007 | December 31, 2006 |
|------------------------|------------------|-------------------------|
| Aaa | 33.4% | 32.9% |
| Aa | 18.1 | 19.0 |
| A | 26.6 | 26.4 |
| Baa | 20.2 | 20.1 |
| Total investment grade | 98.3 | 98.4 |
| All other (2) | 1.7 | 1.6 |
| Total | 100.0% | 100.0% |

(1) 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.

(2) "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

| | June 30, 2007 | |
|--|-------------------|-------------------------------|
| | Amortized Cost | Gross Unrealized Losses |
| Fixed Maturity Securities by Industry Concentration: | | |
| Service | \$ 30.9 | \$ 1.4 |
| Consumer Durables | 7.6 | 1.0 |
| Retail | 18.1 | .8 |
| Finance | 14.0 | .3 |
| O t h e r (i n c l u d e s 2 i n d u s t r y groups) | 11.3 | .2 |
| Total | \$ 82.1 (3) | \$ 4.1 |

(3)Represents 1.2% of the total fixed maturity securities portfolio.

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

| | June 30, 2007 | |
|--|-------------------|-------------------------------|
| | Amortized Cost | Gross Unrealized Losses |
| Fixed Maturity Securities by Industry Concentration: | | |
| Municipals | \$ 1,906.9 | \$ 40.8 |
| Utilities | 537.7 | 16.7 |
| Industrials | 359.6 | 7.9 |
| Consumer Non-durables | 301.3 | 7.8 |
| Other (includes 17 industry groups) | 2,447.5 | 62.0 |
| Total | \$ 5,553.1 (4) | \$ 135.3 |

(4) Represents 78.7% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

| | June 30, 2007 | |
|--|---------------|-------------------------------|
| | Cost | Gross Unrealized Losses |
| Equity Securities by Industry Concentration: | | |
| Banking | \$ 24.7 | \$.7 |
| Service | 5.0 | .4 |
| Health Care | 25.9 | .3 |
| Consumer Non-durables | 5.0 | .1 |
| Other (includes 5 industry groups) | 20.8 | .3 |
| Total | \$ 81.7 (5) | \$ 2.0 (6) |

(5) Represents 14.6% of the total equity securities portfolio.

(6) Represents .4% of the cost of the total equity securities portfolio, while gross unrealized gains represent 28.5% of the portfolio.

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

| | June 30, 2007 | | | |
|---------------------------------------|---|---------------------------------|-------------------------|---------------------------------|
| | 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 | \$ 491.2 | \$ 3.0 | \$ 3.1 | \$ - |
| Due after one year through five years | 2,180.0 | 68.2 | 48.0 | 2.6 |

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

| | | | | |
|--|------------|---------|----------|--------|
| Due after five years through ten years | 2,945.5 | 10.8 | 87.6 | 1.4 |
| Due after ten years | 18.4 | - | .6 | - |
| Total | \$ 5,635.2 | \$ 82.1 | \$ 139.4 | \$ 4.1 |

17

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

| | June 30, 2007 | | | |
|------------------------------------|-----------------------------------|--------------------|-----------------------|-----------------------------|
| | Amount of Gross Unrealized Losses | | | Total Gross Unrealized Loss |
| | 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 | \$ 32.0 | \$ - | \$ - | \$ 32.0 |
| Seven to twelve months | .5 | - | - | .5 |
| More than twelve months | 106.8 | - | - | 106.8 |
| Total | \$ 139.4 | \$ - | \$ - | \$ 139.4 |
| Equity Securities: | | | | |
| One to six months | \$ 2.0 | \$ - | \$ - | \$ 2.0 |
| Seven to twelve months | - | - | - | - |
| More than twelve months | - | - | - | - |
| Total | \$ 2.0 | \$ - | \$ - | \$ 2.0 |
| Number of Issues in Loss Position: | | | | |
| Fixed Maturity Securities: | | | | |
| One to six months | 658 | - | - | 658 |
| Seven to twelve months | 2 | - | - | 2 |
| More than twelve months | 846 | - | - | 846 |
| Total | 1,506 | - | - | 1,506(7) |
| Equity Securities: | | | | |
| One to six months | 13 | - | - | 13 |
| Seven to twelve months | - | - | - | - |
| More than twelve months | - | 1 | - | 1 |
| Total | 13 | 1 | - | 14(7) |

(7) At June 30, 2007 the number of issues in an unrealized loss position represent 77.9% as to fixed maturities, and 18.4% 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. The percentage reduction from original cost reflects the decline as of a specific point in time (June 30, 2007 in the previous 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

| | June 30, 2007 | December 31, 2006 |
|--|------------------|-------------------------|
| Maturity Ranges: | | |
| Due in one year or less | 11.5% | 9.6% |
| D u e a f t e r o n e y e a r t h r o u g h f i v e years | 43.7 | 44.4 |
| D u e a f t e r f i v e y e a r s t h r o u g h t e n years | 44.5 | 45.6 |
| D u e a f t e r t e n y e a r s t h r o u g h f i f t e e n years | .3 | .4 |
| Due after fifteen years | - | - |
| Total | 100.0% | 100.0% |
| Average Maturity in Years | 4.4 | 4.5 |
| Duration (8) | 3.8 | 3.9 |

(8)Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.8% as of June 30, 2007 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the market value of the long-term fixed maturity investment portfolio of approximately 3.8%.

Composition of Unrealized Gains (Losses)

| | June 30, 2007 | December 31, 2006 |
|----------------------------|------------------|-------------------------|
| Fixed Maturity Securities: | | |
| Amortized cost | \$ 7,056.7 | \$ 6,873.8 |
| Estimated fair value | 6,944.5 | 6,832.6 |
| Gross unrealized gains | 27.2 | 46.6 |
| Gross unrealized losses | (139.4) | (87.8) |
| Net unrealized losses | \$ (112.1) | \$ (41.2) |
| Equity Securities: | | |
| Cost | \$ 557.6 | \$ 534.7 |
| Estimated fair value | 714.5 | 669.1 |
| Gross unrealized gains | 158.9 | 136.1 |
| Gross unrealized losses | (2.0) | (1.8) |
| Net unrealized gains | \$ 156.9 | \$ 134.3 |

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.

The parent holding company meets its liquidity and capital needs principally through dividends paid by its subsidiaries. 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 \$533.6 in dividends from its subsidiaries in 2007 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is more than adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest on outstanding debt and quarterly cash dividend payments to shareholders. In addition, Old Republic can access the commercial paper market for up to \$150.0 to meet unanticipated liquidity needs of which \$19.0 was outstanding at June 30, 2007.

Old Republic's total capitalization of \$4,541.4 at June 30, 2007 consisted of debt of \$23.8 and common shareholders' equity of \$4,517.6. Changes in the common shareholders' equity account reflect primarily the retention of earnings in excess of dividend requirements. Old Republic has paid cash dividends to its shareholders without interruption since 1942, and has increased the annual rate in each of the past 25 years. The annual dividend rate is typically reviewed and approved by the Board of Directors in the first quarter of 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 six most recent calendar years, and management's long-term expectations for the Company's consolidated business. At its February, 2007 meeting, the Board of Directors approved a new quarterly cash dividend rate of 16 cents per share effective in the second quarter of 2007, up from 15 cents per share, subject to the usual quarterly authorizations.

At its May, 2006 meeting, the Company's Board of Directors authorized the reacquisition of up to \$500.0 of common shares as market conditions warrant during the two year period from that date; no stock had been acquired through June 30, 2007 pursuant to this authorization.

RESULTS OF OPERATIONS

Revenues: Premiums & Fees

Pursuant to GAAP 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. Nearly all of the Company's mortgage guaranty premiums stem from monthly installment policies. Accordingly, such premiums are generally written and earned in the month coverage is effective. With respect to minor numbers of 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 subsidiaries of the Company) represent approximately 34% of 2007 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 66% 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.

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

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

| | General | Mortgage | Title | Other | Total | % Change from prior period |
|---------------------------|------------|----------|------------|---------|------------|----------------------------------|
| Years Ended December 31: | | | | | | |
| 2004 | \$ 1,623.0 | \$ 403.2 | \$ 1,025.2 | \$ 64.6 | \$ 3,116.1 | 6.1% |
| 2005 | 1,805.2 | 429.5 | 1,081.8 | 70.3 | 3,386.9 | 8.7 |
| 2006 | 1,902.1 | 444.3 | 980.0 | 74.1 | 3,400.5 | .4 |
| Six Months Ended June 30: | | | | | | |
| 2006 | 933.0 | 219.2 | 500.7 | 39.2 | 1,692.2 | 3.4 |
| 2007 | 1,061.9 | 243.0 | 439.6 | 38.4 | 1,783.0 | 5.4 |
| Quarters Ended June 30: | | | | | | |
| 2006 | 473.0 | 110.2 | 247.2 | 17.8 | 848.4 | .1 |
| 2007 | \$ 540.1 | \$ 125.0 | \$ 229.5 | \$ 18.4 | \$ 913.2 | 7.6% |

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

| | Type of Coverage | | | | | |
|---------------------------|--|--------------------------|------------------------|-------------------------------------|----------------------|-------|
| | Commercial Automobile (mostly trucking) | Workers' Compensation | Financial Indemnity | Inland Marine and Property | General Liability | Other |
| Years Ended December 31: | | | | | | |
| 2004 | 37.9% | 21.8% | 11.8% | 11.3% | 5.8% | 11.4% |
| 2005 | 39.2 | 21.9 | 10.3 | 11.0 | 5.4 | 12.2 |
| 2006 | 39.8 | 21.7 | 11.0 | 10.7 | 5.1 | 11.7 |
| Six Months Ended June 30: | | | | | | |
| 2006 | 39.8 | 21.8 | 10.7 | 10.7 | 5.1 | 11.9 |
| 2007 | 35.9 | 24.4 | 12.3 | 9.2 | 7.9 | 10.3 |
| Quarters Ended June 30: | | | | | | |
| 2006 | 39.8 | 21.1 | 10.5 | 10.6 | 5.4 | 12.6 |
| 2007 | 35.3% | 23.6% | 12.8% | 9.0% | 8.0% | 11.3% |

The following tables provide information on risk exposure trends for Old Republic's Mortgage Guaranty Group.

Production

| <u>New Insurance Written</u> | Production | | | |
|------------------------------|------------------------|------------|------------|-------------|
| | Traditional Primary | Bulk | Other | Total |
| Years Ended December 31: | | | | |
| 2004 | \$ 24,749.4 | \$ 4,487.8 | \$ 7,324.7 | \$ 36,562.0 |
| 2005 | 20,554.5 | 9,944.3 | 498.2 | 30,997.1 |
| 2006 | 17,187.0 | 13,716.7 | 583.7 | 31,487.5 |
| Six Months Ended June 30: | | | | |
| 2006 | 8,353.1 | 4,238.8 | 140.7 | 12,732.8 |
| 2007 | 11,775.5 | 8,486.9 | 246.7 | 20,509.2 |
| Quarters Ended June 30: | | | | |

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

| | | | | |
|------|------------|------------|---------|-------------|
| 2006 | 4,460.6 | 981.9 | 89.4 | 5,532.0 |
| 2007 | \$ 7,156.7 | \$ 4,551.1 | \$ 69.6 | \$ 11,777.6 |

20

| <u>New Risk Written</u> | Traditional | | | |
|---------------------------|-------------|----------|---------|------------|
| | Primary | Bulk | Other | Total |
| Years Ended December 31: | | | | |
| 2004 | \$ 6,100.2 | \$ 112.4 | \$ 89.9 | \$ 6,302.5 |
| 2005 | 5,112.4 | 1,053.1 | 11.7 | 6,177.4 |
| 2006 | 4,246.8 | 1,146.6 | 12.2 | 5,405.7 |
| Six Months Ended June 30: | | | | |
| 2006 | 2,079.2 | 322.5 | 2.9 | 2,404.7 |
| 2007 | 2,847.1 | 534.5 | 7.2 | 3,388.9 |
| Quarters Ended June 30: | | | | |
| 2006 | 1,109.9 | 114.3 | 2.0 | 1,226.3 |
| 2007 | \$ 1,731.5 | \$ 231.8 | \$ 1.2 | \$ 1,964.5 |

Premium and Persistency Trends:

| | Earned Premiums | | Persistency | |
|---------------------------|-----------------|----------|---------------------|----------|
| | Direct | Net | Traditional Primary | Bulk (1) |
| Years Ended December 31: | | | | |
| 2004 | \$ 483.6 | \$ 403.2 | 64.5% | 55.7% |
| 2005 | 508.0 | 429.5 | 65.5 | 59.5 |
| 2006 | 524.7 | 444.3 | 73.1 | 70.5 |
| Six Months Ended June 30: | | | | |
| 2006 | 258.8 | 219.2 | 68.1 | 69.1 |
| 2007 | 286.7 | 243.0 | 74.7% | 66.5% |
| Quarters Ended June 30: | | | | |
| 2006 | 129.8 | 110.2 | | |
| 2007 | \$ 147.5 | \$ 125.0 | | |

(1) Due to the relative immaturity of the bulk business, the above trends may prove to be highly volatile.

Risk in Force

| <u>Net Risk in Force</u> | Traditional | | | |
|--------------------------|-------------|------------|----------|-------------|
| | Primary | Bulk | Other | Total |
| As of December 31: | | | | |
| 2004 | \$ 15,452.2 | \$ 834.8 | \$ 580.9 | \$ 16,868.0 |
| 2005 | 14,711.2 | 1,758.8 | 586.1 | 17,056.2 |
| 2006 | 14,582.1 | 2,471.1 | 578.9 | 17,632.2 |
| As of June 30: | | | | |
| 2006 | 14,502.0 | 1,891.8 | 587.8 | 16,981.7 |
| 2007 | \$ 15,392.1 | \$ 2,607.6 | \$ 543.5 | \$ 18,543.3 |

Analysis of Risk in Force

| <u>By Fair Issac & Company ("FICO") Scores:</u> | FICO | | | |
|---|--------------------|-----------------|------------------|----------------------|
| | FICO less than 620 | FICO 620 to 680 | Greater than 680 | Unscored/Unavailable |
| <u>Traditional Primary</u> | | | | |

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

As of December 31:

| | | | | |
|------|------|-------|-------|------|
| 2004 | 8.6% | 31.1% | 51.4% | 8.9% |
| 2005 | 8.3 | 31.8 | 53.1 | 6.8 |
| 2006 | 8.5 | 32.6 | 54.6 | 4.3 |

As of June 30:

| | | | | |
|------|------|-------|-------|------|
| 2006 | 8.3 | 32.6 | 54.2 | 4.9 |
| 2007 | 8.7% | 33.3% | 54.3% | 3.7% |

Bulk (1)

As of December 31:

| | | | | |
|------|-------|-------|-------|------|
| 2004 | 11.5% | 45.4% | 40.9% | 2.2% |
| 2005 | 21.2 | 38.7 | 38.7 | 1.4 |
| 2006 | 24.1 | 35.7 | 39.8 | .4 |

As of June 30:

| | | | | |
|------|-------|-------|-------|-----|
| 2006 | 20.5 | 37.2 | 40.2 | 2.1 |
| 2007 | 21.4% | 35.5% | 42.8% | .3% |

| <u>By Loan to Value (“LTV”) Ratio:</u> | LTV less than 85 | LTV 85 to 90 | LTV 90 to 95 | LTV Greater than 95 |
|--|---------------------|-----------------|-----------------|---------------------------|
| <u>Traditional Primary</u> | | | | |
| As of December 31: | | | | |
| 2004 | 5.7% | 36.8% | 42.0% | 15.5% |
| 2005 | 5.4 | 37.7 | 39.1 | 17.8 |
| 2006 | 5.0 | 37.4 | 36.0 | 21.6 |
| As of June 30: | | | | |
| 2006 | 5.2 | 37.7 | 37.7 | 19.4 |
| 2007 | 4.8% | 36.2% | 33.8% | 25.2% |
| <u>Bulk (1)</u> | | | | |
| As of December 31: | | | | |
| 2004 | 66.4% | 16.9% | 12.9% | 3.8% |
| 2005 | 57.3 | 27.4 | 11.6 | 3.7 |
| 2006 | 63.4 | 23.1 | 9.0 | 4.5 |
| As of June 30: | | | | |
| 2006 | 59.6 | 27.1 | 10.2 | 3.1 |
| 2007 | 63.2% | 21.3% | 9.0% | 6.5% |

| | Full Docu- mentation | Reduced Docu- mentation |
|----------------------------|----------------------------|-------------------------------|
| <u>Traditional Primary</u> | | |
| As of December 31: | | |
| 2004 | 93.2% | 6.8% |
| 2005 | 90.6 | 9.4 |
| 2006 | 89.4 | 10.6 |
| As of June 30: | | |
| 2006 | 90.2 | 9.8 |
| 2007 | 88.8% | 11.2% |
| <u>Bulk (1)</u> | | |
| As of December 31: | | |
| 2004 | 34.0% | 66.0% |
| 2005 | 51.9 | 48.1 |
| 2006 | 51.9 | 48.1 |
| As of June 30: | | |
| 2006 | 49.9 | 50.1 |
| 2007 | 49.1% | 50.9% |

(1) Bulk pool risk in-force, which represented 44.9% of total bulk risk in-force at June 30, 2007, 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 Production

| | Direct Operations | Independent Title Agents & Other |
|---------------------------|----------------------|---|
| Years Ended December 31: | | |
| 2004 | 38.1% | 61.9% |
| 2005 | 37.1 | 62.9 |
| 2006 | 32.3 | 67.7 |
| Six Months Ended June 30: | | |
| 2006 | 32.2 | 67.8 |
| 2007 | 33.6 | 66.4 |
| Quarters Ended June 30: | | |
| 2006 | 34.7 | 65.3 |
| 2007 | 33.3% | 66.7% |

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 individual reporting periods. 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 market values, yields are evaluated on the basis of investment income earned in relation to the amortized cost of the underlying invested assets, though yields based on the market values of such assets are also shown in the statistics below.

| | Invested Assets at Cost | | | | | Total | Market Value Adjustment | Invested Assets at Market Value |
|--------------------|-------------------------|------------|----------|---------------------|------------|---------|-------------------------|---------------------------------|
| | General | Mortgage | Title | Corporate and Other | | | | |
| As of December 31: | | | | | | | | |
| 2005 | \$ 4,694.8 | \$ 1,515.4 | \$ 616.8 | \$ 326.4 | \$ 7,153.5 | \$ 76.6 | \$ 7,230.2 | |
| 2006 | 5,524.8 | 1,571.6 | 611.1 | 246.6 | 7,954.3 | 101.8 | 8,056.1 | |
| As of June 30: | | | | | | | | |
| 2006 | 4,869.1 | 1,515.4 | 594.2 | 440.1 | 7,418.9 | (61.6) | 7,357.3 | |
| 2007 | \$ 5,717.2 | \$ 1,632.6 | \$ 602.4 | \$ 181.2 | \$ 8,133.6 | \$ 54.7 | \$ 8,188.3 | |

| | Net Investment Income | | | | | Total | Yield at | |
|------------------|-----------------------|----------|---------|---------------------|----------|-------|----------|--|
| | General | Mortgage | Title | Corporate and Other | Cost | | Market | |
| Years Ended | | | | | | | | |
| December 31: | | | | | | | | |
| 2004 | \$ 183.4 | \$ 67.7 | \$ 25.5 | \$ 14.0 | \$ 290.8 | 4.64% | 4.42% | |
| 2005 | 197.0 | 70.1 | 26.0 | 16.9 | 310.1 | 4.51 | 4.40 | |
| 2006 | 221.5 | 74.3 | 26.9 | 18.7 | 341.6 | 4.52 | 4.47 | |
| Six Months Ended | | | | | | | | |
| June 30, | | | | | | | | |
| 2006 | 106.6 | 36.8 | 13.3 | 8.4 | 165.3 | 4.54 | 4.53 | |
| 2007 | 127.5 | 37.9 | 13.5 | 6.2 | 185.2 | 4.60 | 4.56 | |
| Quarters Ended | | | | | | | | |
| June 30, | | | | | | | | |
| 2006 | 53.7 | 17.6 | 6.5 | 4.6 | 82.6 | 4.49 | 4.50 | |
| 2007 | \$ 64.7 | \$ 19.0 | \$ 6.8 | \$ 3.1 | \$ 93.7 | 4.62% | 4.57% | |

Revenues: Net Realized Gains

The Company's investment policies have not been designed to maximize or emphasize the realization of investment gains. Rather, these policies aim to assure a stable source of income from interest and dividends, protection of capital, and provision 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 six months of 2007 and 2006, 93.5% and 83.8%, respectively, of all such dispositions resulted from these occurrences. Dispositions of equity securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, 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. As previously reported, relatively greater realized gains in equity securities in 2004 and 2005 resulted largely from sales of substantial portions of actively managed equity holdings and reinvestment of proceeds in index-style investment portfolios.

| Years Ended | Realized Gains on Disposition of: | | | Impairment Losses on: | | | Net realized gains |
|------------------|-----------------------------------|---|---------|---------------------------|---|----------|--------------------|
| | Fixed maturity securities | Equity securities and miscellaneous investments | Total | Fixed maturity securities | Equity securities and miscellaneous investments | Total | |
| December 31: | | | | | | | |
| 2004 | \$ 4.6 | \$ 48.5 | \$ 53.2 | \$ - | \$ (5.2) | \$ (5.2) | \$ 47.9 |
| 2005 | 4.5 | 69.6 | 74.1 | (2.7) | (6.5) | (9.2) | 64.9 |
| 2006 | 2.0 | 16.9 | 19.0 | - | - | - | 19.0 |
| Six Months Ended | | | | | | | |
| June 30: | | | | | | | |
| 2006 | 1.6 | 14.0 | 15.7 | - | - | - | 15.7 |
| 2007 | 1.2 | 15.1 | 16.3 | - | - | - | 16.3 |
| Quarters Ended | | | | | | | |
| June 30: | | | | | | | |
| 2006 | .4 | 7.7 | 8.1 | - | - | - | 8.1 |
| 2007 | \$.4 | \$ 12.8 | \$ 13.3 | \$ - | \$ - | \$ - | \$ 13.3 |

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 and loss adjustment expense reserve estimates for major types of insurance coverages as of June 30, 2007 and December 31, 2006:

| | June 30, 2007 | | December 31, 2006 | |
|--|---------------|----------|-------------------|----------|
| | Gross | Net | Gross | Net |
| Commercial automobile (mostly trucking) | \$ 1,026.5 | \$ 833.5 | \$ 977.7 | \$ 810.9 |
| Workers' compensation | 2,122.4 | 1,233.7 | 2,093.2 | 1,175.7 |
| General liability | 1,138.7 | 561.5 | 1,123.8 | 537.3 |
| Other coverages | 626.9 | 420.9 | 610.0 | 400.7 |
| Unallocated loss adjustment expense reserves | 147.8 | 98.9 | 147.0 | 97.8 |
| Total general insurance reserves | 5,062.5 | 3,148.8 | 4,951.8 | 3,022.6 |
| Mortgage | | | | |
| guaranty | 306.6 | 306.1 | 248.6 | 247.9 |
| Title | 271.8 | 271.8 | 278.4 | 278.4 |

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

| | | | | | | | | | | |
|--|---|---|---|---|---|---|------------|------------|------------|------------|
| L | i | f | e | a | n | d | | | | |
| health | | | | | | | 29.3 | 23.4 | 28.4 | 21.6 |
| Unallocated loss adjustment expense reserves – | | | | | | | | | | |
| o | t | h | e | r | | | | | | |
| coverages | | | | | | | 27.7 | 27.7 | 27.2 | 27.2 |
| Total claim and loss adjustment expense reserves | | | | | | | \$ 5,698.0 | \$ 3,778.0 | \$ 5,534.7 | \$ 3,598.0 |
| Asbestosis and environmental claim reserves included | | | | | | | | | | |
| in the above general insurance reserves: | | | | | | | | | | |
| Amount | | | | | | | \$ 190.3 | \$ 153.4 | \$ 194.9 | \$ 157.8 |
| % of total general insurance | | | | | | | | | | |
| reserves | | | | | | | 3.8% | 4.9% | 3.9% | 5.2% |

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

Most of Old Republic's consolidated claim and related expense reserves stem from its *general insurance* business. At June 30, 2007, such reserves accounted for 88.8% and 83.3% of consolidated gross and net of reinsurance reserves, respectively, while similar reserves at December 31, 2006 represented 89.5% and 84.0% of the respective consolidated amounts.

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 87% 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.

Overall 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. Expected loss ratios typically reflect the projected loss ratio from prior accident years, adjusted for the effect of actual and anticipated rate changes, actual and anticipated changes in coverage, reinsurance, or 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 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 IBNR. Further, such loss reserve estimates also take into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan defaults at various stages of default, and judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand, and extensions.

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, concurrently with the recognition of premium and escrow service revenues. 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 have a material effect on its consolidated results of operations for any one annual or interim reporting period. See further discussion in the Company's 2006 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: | | | | |
| 2004 | 65.9% | 35.5% | 5.8% | 42.0% |
| 2005 | 66.9 | 37.2 | 6.0 | 43.3 |
| 2006 | 65.9 | 42.8 | 5.9 | 45.3 |
| Six Months Ended June 30: | | | | |
| 2006 | 65.0 | 37.2 | 6.0 | 43.7 |
| 2007 | 66.0 | 60.3 | 6.2 | 50.0 |
| Quarters Ended June 30: | | | | |
| 2006 | 65.6 | 35.6 | 5.9 | 44.1 |
| 2007 | 67.3% | 65.9% | 6.4% | 51.4% |

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

| | | Type of Coverage | | | | |
|--|--------------------------|------------------------|-------------------------------------|----------------------|-------|--|
| Commercial Automobile (mostly trucking) | Workers' Compensation | Financial Indemnity | Inland Marine and Property | General Liability | Other | |

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

Years Ended December 31:

| | | | | | | |
|------|-------|-------|-------|-------|--------|-------|
| 2004 | 66.5% | 72.4% | 47.6% | 56.2% | 108.6% | 59.3% |
| 2005 | 67.2 | 78.9 | 48.9 | 52.2 | 97.4 | 58.5 |
| 2006 | 75.3 | 74.6 | 41.5 | 55.0 | 57.5 | 54.8 |

Six Months Ended June 30:

| | | | | | | |
|------|------|------|------|------|------|------|
| 2006 | 74.1 | 73.3 | 45.1 | 52.6 | 58.9 | 52.2 |
| 2007 | 74.7 | 70.4 | 56.8 | 53.5 | 55.9 | 55.1 |

Quarters Ended June 30:

| | | | | | | |
|------|-------|-------|-------|-------|-------|-------|
| 2006 | 76.2 | 73.1 | 46.2 | 53.3 | 45.8 | 51.1 |
| 2007 | 73.6% | 72.0% | 61.0% | 56.1% | 63.0% | 50.5% |

The *general insurance* portion of the claims ratio reflects reasonably consistent trends for all reporting periods. 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. During the three most recent calendar years, the *general insurance* group experienced favorable development of prior year loss reserves primarily stemming from the commercial automobile and the E&O/D&O (financial indemnity) lines of business; this was 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 reclassifications of other coverages’ reserves, typically workers compensation, deemed to be 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 7.5 years (gross) and 10.2 years (net of reinsurance) as of June 30, 2007 and 7.6 years (gross) and 10.9 years (net of reinsurance) as of December 31, 2006. 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 3.4% of *general insurance* group net incurred losses for the five years ended December 31, 2006.

The *mortgage guaranty* claims ratios have continued to rise in recent years, principally reflecting higher paid losses, as well as expectations of greater claim frequency and severity. The most recent quarterly claim ratio comparisons reflect a significant increase due mostly to increasing loss severity. Claim severity has trended upward primarily due to loans with larger unpaid principal balances and corresponding risk moving into the primary default period along with a lower level of mitigation potential due to the slowing of housing appreciation levels. Expectations of greater claim frequency are impacted by several factors, including the outlook for the housing market, tightening lending standards which effect borrowers' ability to refinance troubled loans, the aging of the bulk business, and the state of the economy overall, especially employment levels.

While there is no consensus in the marketplace as to the precise definition of "sub-prime", Old Republic views loans with FICO scores less than 620, loans underwritten with reduced levels of loan 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 on pages 20 to 22 for both traditional primary and bulk business channels. The traditional primary business is less exposed to loans exhibiting higher risk attributes. Conversely, while the bulk business includes a higher concentration of higher risk loans, particularly loans with low FICO scores, it represents a much smaller percentage of the total risk in force. Typically premiums received for these products are higher than more traditional products to compensate for the additional risk. As anticipated, defaults attributable to higher risk loans continue to increase as the loans age, however, they did not significantly impact the claim ratios for the second quarter and first six months of 2007.

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

| | Average Paid Claim | | Delinquency Ratio | |
|---------------------------|------------------------|-----------|-------------------|----------|
| | Amount (1) | | Traditional | |
| | Traditional Primary | Bulk (2) | Primary | Bulk (2) |
| Years Ended December 31: | | | | |
| 2004 | \$ 23,920 | \$ 19,885 | 4.11% | 4.59% |
| 2005 | 24,255 | 20,639 | 4.67 | 3.67 |
| 2006 | 25,989 | 21,846 | 4.41 | 3.29 |
| Six Months Ended June 30: | | | | |
| 2006 | 25,550 | 18,873 | 4.08 | 3.24 |

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

| | | | | |
|-------------------------|-----------|-----------|-------|-------|
| 2007 | 28,989 | 27,301 | 4.36% | 3.71% |
| Quarters Ended June 30: | | | | |
| 2006 | 24,940 | 20,234 | | |
| 2007 | \$ 29,860 | \$ 26,682 | | |

(1) Amounts are in whole dollars.

(2) Due to the relative immaturity of the bulk business, the above trends may prove to be highly volatile.

27

Traditional Primary Delinquency Ratios for Top Ten States (3):

| | FL | TX | GA | IL | OH | PA | NJ | MN | NC | MI |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| As of December 31: | | | | | | | | | | |
| 2004 | 3.2% | 5.0% | 5.6% | 3.8% | 7.6% | 4.4% | 4.2% | 3.5% | 4.9% | 6.1% |
| 2005 | 3.1 | 5.7 | 5.9 | 4.2 | 8.3 | 4.7 | 4.1 | 4.0 | 4.9 | 7.3 |
| 2006 | 2.7 | 4.5 | 6.1 | 4.5 | 7.8 | 4.8 | 4.1 | 5.4 | 4.6 | 8.2 |
| As of June 30: | | | | | | | | | | |
| 2006 | 2.2 | 4.4 | 5.5 | 4.1 | 7.5 | 4.3 | 3.9 | 4.6 | 4.3 | 7.1 |
| 2007 | 4.0% | 3.9% | 6.0% | 4.6% | 7.2% | 4.3% | 4.2% | 5.9% | 3.8% | 8.7% |

Bulk Delinquency Ratios for Top Ten States (3):

| | FL | TX | GA | IL | OH | PA | NJ | CA | AZ | NY |
|--------------------|------|------|------|------|-------|------|------|------|------|------|
| As of December 31: | | | | | | | | | | |
| 2004 | 2.5% | 6.1% | 7.0% | 5.2% | 13.3% | 6.5% | 3.3% | 1.3% | 3.6% | 4.9% |
| 2005 | 1.9 | 5.5 | 5.8 | 3.0 | 8.4 | 5.3 | 3.7 | .9 | .9 | 4.3 |
| 2006 | 1.6 | 4.0 | 4.4 | 4.2 | 9.3 | 5.1 | 3.5 | 1.6 | 1.0 | 4.4 |
| As of June 30: | | | | | | | | | | |
| 2006 | 1.3 | 4.3 | 4.8 | 3.7 | 8.7 | 5.2 | 3.5 | 1.0 | .8 | 4.0 |
| 2007 | 2.8% | 3.6% | 4.4% | 4.6% | 8.2% | 5.0% | 3.7% | 2.8% | 1.7% | 4.2% |

Total Delinquency Ratios for Top Ten States (includes "other" business) (3):

| | FL | TX | GA | IL | OH | PA | NJ | CA | NC | MI |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| As of December 31: | | | | | | | | | | |
| 2004 | 2.7% | 4.8% | 5.1% | 2.5% | 7.2% | 4.1% | 3.7% | 1.1% | 3.5% | 5.3% |
| 2005 | 2.4 | 5.3 | 5.3 | 2.8 | 7.5 | 4.3 | 3.7 | .9 | 3.8 | 6.4 |
| 2006 | 2.0 | 4.1 | 5.2 | 3.1 | 7.3 | 4.3 | 3.6 | 1.4 | 3.3 | 7.2 |
| As of June 30: | | | | | | | | | | |
| 2006 | 1.7 | 4.1 | 4.9 | 2.8 | 6.9 | 3.9 | 3.5 | .9 | 3.2 | 6.3 |
| 2007 | 3.2% | 3.7% | 5.2% | 3.3% | 7.0% | 4.2% | 3.8% | 2.4% | 3.1% | 7.8% |

(3)As determined by risk in force as of June 30, 2007, these 10 states represent approximately 49%, 59%, and 50%, of traditional primary, bulk, and total risk in force, respectively.

The *title insurance* loss ratios remain in the low single digits due to a continuation of favorable trends in claims frequency and severity for business underwritten since 1992 in particular.

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 2006 Annual Report on Form 10-K on pages 13 and 14.

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 |
|--|---------|----------|-------|--------------|
|--|---------|----------|-------|--------------|

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

Years Ended December 31:

| | | | | |
|------|-------|-------|-------|-------|
| 2004 | 24.8% | 25.6% | 90.5% | 47.3% |
| 2005 | 24.6 | 22.4 | 88.2 | 45.2 |
| 2006 | 24.4 | 22.5 | 93.6 | 44.7 |

Six Months Ended June 30:

| | | | | |
|------|------|------|------|------|
| 2006 | 24.6 | 23.1 | 92.6 | 45.1 |
| 2007 | 25.2 | 20.3 | 95.7 | 42.5 |

Quarters Ended June 30:

| | | | | |
|------|-------|-------|-------|-------|
| 2006 | 23.4 | 22.6 | 91.7 | 43.8 |
| 2007 | 23.6% | 19.8% | 94.7% | 41.5% |

Expense ratios for the Company as a whole have remained basically stable for the periods reported upon. Variations in these consolidated ratios reflect a continually chang–ing mix of coverages sold and attendant costs of producing business in the Company’s three 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. Further, general operating expenses 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 net claims, benefits and underwriting expenses that reflect the sum total of all the factors discussed herein were as follows:

| | General | Mortgage | Title | Consolidated |
|---------------------------|---------|----------|--------|--------------|
| Years Ended December 31: | | | | |
| 2004 | 90.7% | 61.1% | 96.3% | 89.3% |
| 2005 | 91.5 | 59.6 | 94.2 | 88.5 |
| 2006 | 90.3 | 65.3 | 99.5 | 90.0 |
| Six Months Ended June 30: | | | | |
| 2006 | 89.6 | 60.3 | 98.6 | 88.8 |
| 2007 | 91.2 | 80.6 | 101.9 | 92.5 |
| Quarters Ended June 30: | | | | |
| 2006 | 89.0 | 58.2 | 97.6 | 87.9 |
| 2007 | 90.9% | 85.7% | 101.1% | 92.9% |

Expenses: Income Taxes

The effective consolidated income tax rates were 31.1% and 31.0% in the second quarter and first six months of 2007, respectively, and 32.1% and 31.9% for similar periods in 2006, respectively. The rates reflect primarily the varying proportions of pretax operating income derived from partially tax-sheltered investment income (principally state and municipal tax-exempt interest) on the one hand, and the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, on the other hand.

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 statements made in this report and other Company-published reports, as well as oral statements or commentaries made by the Company’s management in 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, commentaries, or inferences 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, most particularly, 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.

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 June 30, 2007, have not materially changed from those identified in the Company's 2006 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 June 30, 2007, 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 1A – Risk Factors

There have been no material changes with respect to the risk factors disclosed in the Company's 2006 Annual Report on Form 10-K.

Item 4 – Submission of Matters to a Vote of Security Holders

- (a) The annual meeting of registrant's shareholders was held on May 25, 2007.
- (b) Proxies for the meeting were solicited by management pursuant to Regulation 14A under the Security Exchange Act of 1934. There was no solicitation in opposition to management's nominees for directors as listed in the proxy statement and all such nominees were elected.
- (c) At the Annual Meeting of Shareholders (the Annual Meeting) held on May 25, 2007, shareholders voted on the re-election of four Class 2 members of the Board of Directors for terms expiring in 2010 as follows:

| | <u>For</u> | <u>Withheld</u> |
|-----------------------|-------------|-----------------|
| Jimmy A. Dew | 138,989,904 | 76,711,396 |
| John M. Dixon | 158,706,756 | 56,994,544 |
| John W. Popp | 127,259,803 | 88,441,497 |
| Dennis P. Van Mieghem | 158,792,099 | 56,909,201 |

Other directors whose terms of office continued after the meeting were:

| Class 3 Directors (Term expires 2008) | Class 1 Directors (Term expires 2009) |
|--|--|
| Leo E. Knight, Jr. | Harrington Bischof |
| William A. Simpson | Peter Lardner |
| Arnold L. Steiner | Charles F. Titterton |
| Fredricka Taubitz | Steven R. Walker |
| Aldo C. Zucaro | |

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.

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

32.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

31

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: August 3, 2007

/s/ Karl W. Mueller
Karl W. Mueller
Senior Vice President and
Chief Financial 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. |
| 32.1 | Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |