OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
August 09, 2006

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

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: June 30, 2006 or

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

Commission File Number: 001-10607

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

Delaware	No. 36-2678171
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

307 North Michigan Avenue, Chicago, Illinois	60601
(Address of principal executive office)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes:_X_ No:___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 _X_ 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:_X_

Class	Shares Outstanding June 30, 2006
Common Stock / $1 par value	230,026,330

There are 35 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2006

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

	(Un J
Assets	
Investments:	
Available for sale:	
Fixed maturity securities (at fair value)(cost: $6,376.2 and $6,323.7)...........	$
Equity securities (at fair value)(cost: $533.4 and $500.9).......................	
Short-term investments (at fair value which approximates cost)....................	
Miscellaneous investments...	

Total	
Other investments	
Total investments	
Other Assets:	
Cash	
Securities and indebtedness of related parties	
Accrued investment income	
Federal income tax recoverable: current	
Accounts and notes receivable	
Prepaid federal income taxes	
Reinsurance balances and funds held	
Reinsurance recoverable: Paid losses	
Policy and claim reserves	
Deferred policy acquisition costs	
Sundry assets	
Total Assets	$

Liabilities, Preferred Stock, and Common Shareholders' Equity	
Liabilities:	
Losses, claims and settlement expenses	$
Unearned premiums	
Other policyholders' benefits and funds	
Total policy liabilities and accruals	
Commissions, expenses, fees and taxes	
Reinsurance balances and funds	
Federal income tax payable: Current	
Deferred	
Debt	
Sundry liabilities	
Commitments and contingent liabilities	
Total Liabilities	
Preferred Stock:	
Convertible preferred stock (1)	
Common Shareholders' Equity:	
Common stock (1)	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total Common Shareholders' Equity	
Total Liabilities, Preferred Stock, and Common Shareholders' Equity	$

(1) At June 30, 2006 and December 31, 2005, 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 230,026,330 at June 30, 2006 and 229,575,404 at December 31, 2005 were issued and outstanding. At June

30, 2006 and December 31, 2005, 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.

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

	Quarters Ended June 30, 2006	Quarters Ended June 30, 2005
Revenues:		
Net premiums earned	$ 781.6	$ 761.7
Title, escrow, and other fees	66.7	85.9
Total premiums and fees	848.4	847.6
Net investment income	82.6	75.8
Other income	9.6	8.5
Total operating revenues	940.7	932.1
Realized investment gains	8.1	12.8
Total revenues	948.9	944.9
Benefits, Claims and Expenses:		
Benefits, claims, and settlement expenses	372.2	367.2
Dividends to policyholders	1.7	2.1
Underwriting, acquisition, and other expenses	385.5	385.2
Interest and other charges	2.8	2.7
Total expenses	762.4	757.4
Income before income taxes	186.4	187.5
Income Taxes:		
Currently payable (recoverable)	42.4	(1.8)
Deferred	17.3	17.0
Total	59.7	15.2
Net Income	$ 126.6	$ 172.3
Net Income Per Share:		
Basic	$ .55	$ .75
Diluted	$ .54	$ .74

Average shares outstanding: Basic	230,013,892	228,629,783
Diluted	232,240,816	231,190,413
Dividends Per Common Share:		
Cash	$ .150	$ .136

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended June 30,	
	2006	2005
Net income as reported	$ 126.6	$ 172.3
Other comprehensive income (loss):		
Foreign currency translation adjustment	5.2	(1.5)
Unrealized gains (losses) on securities:		
Unrealized gains (losses) arising during period	(57.0)	79.2
Less: elimination of pretax realized gains included in income as reported	8.1	12.8

Pretax unrealized gains (losses) on securities carried at market value	(65.2)	66.4
Deferred income taxes (credits)	(22.8)	23.4
Net unrealized gains (losses) on securities	(42.3)	43.0
Net adjustments	(37.1)	41.4
Comprehensive income	$ 89.5	$ 213.7

See accompanying Notes to Consolidated Financial Statements.

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

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Deferred policy acquisition costs
Premiums and other receivables
Unpaid claims and related items
Other policyholders' benefits and funds
Income taxes
Prepaid federal income taxes
Reinsurance balances and funds
Realized investment gains
Accounts payable, accrued expenses and other
Total
Cash flows from investing activities:
Fixed maturity securities:
Maturities and early calls
Sales
Sales of:
Equity securities
Other investments
Fixed assets for company use
Cash and short-term investments of subsidiary acquired
Purchases of:
Fixed maturity securities
Equity securities
Other investments
Fixed assets for company use
Investment in affiliates
Net decrease (increase) in short-term investments
Other-net
Total
Cash flows from financing activities:
Issuance of debentures and notes
Issuance of common shares
Redemption of debentures and notes
Dividends on common shares
Other-net
Total
Increase (decrease) in cash
Cash, beginning of period
Cash, end of period

Supplemental cash flow information:
  Cash paid during the period for: Interest ....

Income taxes..

See accompanying Notes to Consolidated Financial Statements.

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

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as described in the Corporation'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). 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. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 becomes effective for the Company in the first quarter of 2007. The Company anticipates that the impact of its adoption of FIN 48 will not have a material effect on the consolidated financial statements.

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 June 30, 2006	Quarters Ended June 30, 2005
Numerator:		
Net Income	$ 126.6	$ 172.3
Numerator for basic earnings per share - income available to common stockholders..........	126.6	172.3
Numerator for diluted earnings per share - income available to common stockholders after assumed conversions.......................	$ 126.6	$ 172.3
Denominator:		
Denominator for basic earnings per share weighted-average shares (1)	230,013,892	228,629,783
Effect of dilutive securities - stock options......	2,226,924	2,560,630
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (1)..........................	232,240,816	231,190,413
Earnings per share: Basic............................	$ .55	$ .75
Diluted..........................	$ .54	$ .74

(1) Common share data has been retroactively adjusted to reflect all stock dividends and splits declared through June 30, 2006.

(b) Stock Options Compensation - The Company has had stock option plans in effect for certain eligible key employees since 1992. The plan adopted in 1992 was replaced at its expiration by a plan approved by the shareholders in 2002, and the 2002 plan was replaced by the 2006 Incentive Compensation Plan approved by the shareholders in May 2006. Under the current plan, options

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awarded at the date of grant together with options previously issued and then-outstanding may not exceed 9% of the Company's outstanding common stock at the end of the month immediately preceding an option grant. Under the current plan, like its predecessors, the exercise price of stock options is equal to the market price of the Company's common stock at the date of the grant, and the term of the grant is generally ten years from the date of the grant. Options granted in 2001 and prior years under the 1992 plan may be exercised to the extent of 10% of the number of shares covered thereby on and after the date of grant, and cumulatively, to the extent of an additional 10% on and after each of the first through ninth subsequent calendar years. Options granted in 2002 and thereafter may be exercised to the extent of 10% of the number of shares covered thereby as of December 31st of the year of the grant and, cumulatively, to the extent of an additional 15%, 20%, 25% and 30% on and after the second through fifth calendar years, respectively. Options granted to employees who meet certain retirement eligibility provisions become fully vested upon retirement.

In the event the closing market price of Old Republic's common stock reaches a pre-established value ("the vesting acceleration price"), options granted in 2001 and prior years may be exercised cumulatively to the extent of 10% of the number of shares covered by the grant for each year of employment by the optionee. For grants in 2002 and 2003, optionees become vested on an accelerated basis to the extent of the greater of 10% of the options granted times the number of years of employment, or the sum of the optionee's already vested grant plus 50% of the remaining unvested grant. There is no vesting acceleration for 2004 and subsequent years' grants.

Prior to January 1, 2006, the Company accounted for stock options under APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations as permitted by Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation" which permitted the inclusion of stock-based compensation as a pro forma disclosure in the financial statements. The measurement and recognition provisions of APB 25 were followed until April 1, 2003, at which time the Company adopted the requirements of Statement of Financial Accounting Standards No. 148 ("FAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS No. 123" on a prospective basis. Under FAS 148, stock-based compensation expense was recognized for awards granted after the beginning of the fiscal year of adoption, as such awards became vested.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123-Revised ("FAS 123R"), "Share-Based Payment" using the modified prospective transition method. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all stock option awards granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123 and (2) all stock option awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. FAS 123R also requires that compensation cost be recognized immediately for awards granted to the Company's retirement eligible employees after January 1, 2006. Second quarter and first half 2006 earnings include the accelerated recognition of stock option expenses of $4.1 attributable to second quarter option grants to employees who meet certain age and service criteria, typically long-term employees who are ages 57 or older. Prior to adoption of FAS 123R, the Company recognized compensation cost for such awards on a straight line basis over the nominal vesting period. Results for prior periods have not been restated. The cumulative effect of the initial adoption of FAS 123R on the Company's financial statements and earnings per share information was immaterial.

The following table presents the stock based compensation expense and income tax benefit recognized in the financial statements:

	Quarters Ended June 30, 2006	Quarters Ended June 30, 2005
Stock based compensation expense..................	$ 5.9	$ 1.3
Income tax benefit................................	$ 2.0	$ .4

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value provisions of FAS 123 to all options granted under the Company's stock option plans in the second quarter and first six months of 2005.

	Quar June
Net income, as reported...	$
Add: Stock-based compensation expense included in reported income, net of related tax effects.........................	
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects................	
Pro forma basis..	$
Basic earnings per share:	
As reported..	$
Pro forma basis..	
Diluted earnings per share:	
As reported..	
Pro forma basis..	$

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton Model. The following table presents the assumptions used in the Black-Scholes Model for the awards granted during the second quarter and first half of 2006. Expected volatilities are based on the historical experience of Old Republic's common stock. The expected term of stock options represents the period of time that stock options granted are expected to be outstanding. Beginning in 2006, the Company uses historical data to estimate stock option exercise and employee departure behavior; groups of employees that have similar historical behavior are considered separately for valuation purposes. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury rate in effect at the time of the grant.

Quarters Ended

	June 30,	
	2006	2005
Expected volatility.....................	.27	.26
Expected dividends......................	3.54%	3.82%
Expected term (in years)................	8	10
Risk-free rate..........................	5.10%	4.63%

A summary of stock option activity under the plan as of June 30, 2006 and changes during the six month period then ended is presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding, January 1, 2006...............	12,266,170	$ 15.76
Granted................................	2,506,800	22.01
Exercised..............................	422,514	13.57
Forfeited and canceled.................	53,146	18.13
Outstanding, June 30, 2006................	14,297,311	$ 16.91
Exercisable, June 30, 2006................	8,062,586	$ 14.57

The weighted average grant date fair value of stock options granted during the quarter and six months ended June 30, 2006 was $5.46 and $5.12 per share, respectively. As of June 30, 2006, there was $21.4 of total unrecognized compensation cost related to nonvested stock based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of approximately 4 years.

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The cash received from stock option exercises, the total intrinsic value of stock options exercised, and the actual tax benefit realized for the tax deductions from option exercises are as follows:

	Quarters Ended June 30,	
	2006	20
Cash received from stock option exercise......................	$ 2.2	$
Intrinsic value of stock options exercised....................	1.2	
Actual tax benefit realized for tax deductions from stock options exercised............................	$ .4	$

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3. Unrealized Appreciation/(Depreciation) of Investments:

Cumulative net unrealized losses on fixed maturity securities available for sale and equity securities included in a separate account in common shareholders' equity amounted to $39.7 at June 30, 2006. Unrealized depreciation of investments, before applicable deferred income tax credits of $21.4, at June 30, 2006 included gross unrealized gains and (losses) of $123.3 and ($184.6), respectively.

For the six months ended June 30, 2006 and 2005, net unrealized depreciation of investments, net of deferred income tax credits, amounted to $89.9 and $34.3, respectively.

4. Pension Plans:

The Corporation 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. It is the Corporation'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 June 30,	
	2006	200
Service cost	$ 2.3	$
Interest cost	3.2	
Expected return on plan assets	(3.6)	(
Recognized loss	.8	
Net cost	$ 2.6	$

The companies made a cash contribution of $.3 to their pension plans in the second quarter of 2006 and expect to make additional cash or non-cash contributions to their pension plans in the second half of 2006 of approximately $6.0.

Effective January 1, 2005, both the Old Republic Plan and the Bituminous Plan were closed to new employees hired after December 31, 2004. The Title Plan was already closed to new employees. There were no changes to the benefits for employees/beneficiaries already in the Plans.

Also effective January 1, 2005, the Old Republic International Employees Savings and Stock Ownership Plan ("ESSOP") became a 401K plan. All aspects of the ESSOP remained unchanged, except that employee contributions are now made on a pretax rather than post-tax basis.

5. Information About Segments of Business:

The Corporation conducts its operations through three major regulatory segments, namely its General Insurance (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The Company includes the results of its small life & health insurance business with those of its corporate and minor service operations. Each of the Corporation'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 Ende June 30,	
	2006	20
General Insurance Group:		
Net premiums earned	$ 473.0	$ 4
Net investment income and other income	58.5	
Total revenues before realized gains	$ 531.5	$ 5
Income before taxes (credits) and realized investment gains	$ 105.2	$
Income tax expense (credits) on above (1)	$ 32.8	$ (
Mortgage Guaranty Group:		
Net premiums earned	$ 110.2	$ 1
Net investment income and other income	20.8	
Total revenues before realized gains	$ 131.0	$ 1
Income before taxes and realized investment gains	$ 63.7	$
Income tax expense on above	$ 21.1	$
Title Insurance Group:		
Net premiums earned	$ 180.4	$ 1
Title, escrow and other fees	66.7	
Sub-total	247.2	2
Net investment income and other income	6.6	
Total revenues before realized gains	$ 253.8	$ 2
Income before taxes and realized investment gains	$ 12.1	$
Income tax expense on above	$ 3.8	$

Consolidated Revenues:		
Total revenues of above Company segments	$ 916.4	$ 9
Other sources (2)	30.6	
Consolidated net realized investment gains	8.1	
Elimination of intersegment revenues (3)	(6.4)	
Consolidated revenues	$ 948.9	$ 9
Consolidated Income Before Taxes:		
Total income before taxes and realized investment gains of above Company segments	$ 181.2	$ 1
Other sources - net (2)	(2.9)	
Consolidated net realized investment gains	8.1	
Consolidated income before income taxes	$ 186.4	$ 1
Consolidated Income Tax Expense:		
Total income tax expense of above Company segments (1)	$ 57.9	$
Other sources - net (2)	(1.0)	
Income tax expense on consolidated net realized investment gains	2.8	
Consolidated income tax expense	$ 59.7	$

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Consolidated Assets:	
General	$
Mortgage	
Title	
Other - net (2)	
Consolidated	$

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) General Insurance tax expense was reduced by $45.9 in the second quarter and six months ended June 30, 2005 as discussed in note 7(a).

(2) Represents amounts for Old Republic's holding company parent, minor internal 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 and Ohio. 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. ORNTIC has reached a tentative settlement in Florida for an amount not to exceed $1.2, 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 costs it may incur as the actions proceed to their conclusions.

An action was filed in the Federal District court for South Carolina against the Company's wholly-owned mortgage guaranty insurance subsidiary, Republic Mortgage Insurance Company ("RMIC"). Similar lawsuits have been filed against the other six private mortgage insurers in different Federal District Courts. The action against RMIC seeks certification of a nationwide class of consumers who were allegedly required to pay for private mortgage insurance at a cost greater than RMIC's "best available rate". The action alleges that the decision to insure their loans at a higher rate was based on the consumers' credit scores and constituted an "adverse action" within the meaning, and in violation of the Fair Credit Reporting Act, that requires notice, allegedly not given, to the consumers. The action seeks statutory and punitive damages, as well as other costs. RMIC intends to defend vigorously against the action, but at this stage in the litigation the Company cannot estimate the costs it may incur as the litigation proceeds to its conclusion. RMIC is proceeding with its defense.

7. Income Taxes:

(a) The Company obtained a favorable resolution on its claim for a Federal income tax refund pertaining to the three years ended December 31, 1990. As a result, a combined recovery of income taxes and related accumulated interest of $57.9 was recorded in the second quarter of 2005. The net of tax effect on this recovery resulted in a non-recurring addition to net income of $45.9 in the second quarter and six months ended June 30, 2005.

(b) Pursuant to special provisions of the Internal Revenue Code pertaining to mortgage guaranty insurers, a contingency reserve (established in accordance with insurance regulations designed to protect policyholders against extraordinary volumes of claims) is deductible from gross income. The tax benefits obtained from such deductions must, however, be invested in non-interest bearing U.S. Treasury Tax and Loss Bonds in an amount equal to the tax benefit derived from deducting any portion of the Company's statutory contingency reserves. Through December 31, 2005, cumulative tax and loss bonds purchased and subsequent redemptions were reflected as U.S. government securities within the investments section of the consolidated balance sheets.

Effective January 1, 2006 the Company has reclassified such bonds to conform to more common industry reporting practices and to better align these investments with the corresponding long-term deferred income tax liabilities to which they relate. As a result of this reclassification, invested asset balances have been reduced and the prepaid income tax asset has been increased, while periodic operating cash flow and cash flow from investing activities have been adjusted by correspondingly identical amounts. The reclassification has no effect on the financial position or net income of the Company, nor does it call for the receipt or disbursement of any additional cash resources. The following table shows the effect of these adjustments on pertinent financial statement performance indicators as of the balance sheet dates and for the periods shown.

	June 30, 2006
Cash and invested assets:	
Previous classification	$ 7,981.4
After reclassification	7,512.9
Change	(468.4)
Total other assets:	
Previous classification	3,671.1
After reclassification	4,139.6
Change	$ 468.4

	Six Months Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Previous classification	$ 248.2	$ 371.2
After reclassification	325.5	324.7
Change	77.3	(46.4)
Cash flows from investing activities:		
Previous classification	(195.0)	(324.6)
After reclassification	(272.3)	(278.1)
Change	$ (77.3)	$ 46.4

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Six Months Ended June 30, 2006 and 2005
($ 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 approximately 2.3% of consolidated revenues for the six months ended June 30, 2006 and 2.3% of consolidated assets as of June 30, 2006, 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

Second quarter and first half 2006 earnings were constrained by the accelerated recognition of stock option expenses of $4.1 ($2.6 after tax or one cent per diluted share). The additional charge stems from second quarter option grants to employees who meet certain age and service criteria, typically long-term employees who are ages 57 or older. Under the recently issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment", the values attributed to such options must be expensed immediately.

On the other hand, second quarter and first half 2005 earnings were enhanced by the posting of a non-recurring recovery of income taxes and related accumulated interest of $57.9 ($45.9 net of tax, or 20 cents per diluted share). The recovery stemmed from a favorable resolution of the Company's claim for a permanent Federal income tax refund applicable to the three years ended December 31, 1990.

Consolidated Results

The major components of Old Republic's consolidated operating revenues and income were as follows for the periods being reported upon:

	Quarters Ended June 30,			
	2006	2005	Change	2
Operating revenues:				
General insurance	$ 531.5	$ 513.2	3.6%	$
Mortgage guaranty	131.0	130.3	.6	
Title insurance	253.8	268.2	-5.3	
Corporate and other	24.2	20.3		
Total	$ 940.7	$ 932.1	.9%	$
Pretax operating income (loss):				
General insurance	$ 105.2	$ 86.4	21.7%	$
Mortgage guaranty	63.7	67.9	-6.1	
Title insurance	12.1	22.8	-46.8	
Corporate and other	(2.9)	(2.6)		
Sub total	178.2	174.6	2.0	
Realized investment gains (losses):				
From sales	8.1	12.9		
From impairments	-	(.1)		
Net realized investment gains	8.1	12.8		
Consolidated pretax income	186.4	187.5	-.6	
Income taxes	59.7	15.2	293.1	

Net income	$ 126.6	$ 172.3	-26.5%	$
Consolidated underwriting ratio:				
Benefits and claims ratio	44.1%	43.6%		
Expense ratio	43.8	44.0		
Composite ratio	87.9%	87.6%		
Components of diluted net income per share:				
Net operating income:				
Before non-recurring tax benefit	$ 0.52	$ 0.51	2.0%	$
2005 non-recurring tax benefit	-	0.20		
Total	0.52	0.71	-26.8	
Net realized investment gains	0.02	0.03		
Net income	$ 0.54	$ 0.74	-27.0%	$

Consolidated results are provided in terms of both operating and net income to highlight the effect of realized investment gain or loss recognition on period-to-period comparisons. Recognition of such gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of losses from write-downs of 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.

General Insurance Results

The General Insurance Group's operating performance continued at high levels for the latest quarter and year-to-date periods. Key indicators of that performance follow:

	Quarters Ended June 30,			
	2006	2005	Change	2
Net premiums earned	$ 473.0	$ 461.3	2.5%	$
Net investment income	53.7	47.8	12.3	
Pretax operating income	$ 105.2	$ 86.4	21.7%	$
Claims ratio	65.6%	67.5%		
Expense ratio	23.4	24.0		
Composite ratio	89.0%	91.5%		

Earned premium growth of 2.5 percent in this year's second quarter fell short of expectations. For the first half of the year, net premiums earned grew by 4.5 percent. For the first six months of 2006, the Company experienced double digit premium growth among its trucking, and home and extended warranty coverages while nearly all other lines reflected few or no increases. General insurance underwriting margins, however, remained at highly satisfactory levels due to the relative stability of overall claim and productions costs. Net investment income climbed at low double digit rates, benefiting from the combination of a greater invested asset base and rising yields on fixed maturity securities.

Mortgage Guaranty Results

Old Republic's Mortgage Guaranty Group posted moderately lower year-over-year pretax operating earnings in the second quarter and first half of 2006. Key indicators of this segment's performance follow:

	Quarters Ended June 30,			
	2006	2005	Change	2
Net premiums earned........................	$ 110.2	$ 108.5	1.5%	$
Net investment income......................	17.6	17.4	1.2	
Pretax operating income....................	$ 63.7	$ 67.9	-6.1%	$
Claims ratio...............................	35.6%	31.5%		
Expense ratio..............................	22.6	22.0		
Composite ratio..........................	58.2%	53.5%		

Mortgage Guaranty premium revenue trends for this year's first half reflected the combination of slightly improved business persistency, lower overall mortgage originations, and a sharp decline in bulk insurance production. The higher composite underwriting ratio for 2006 periods was largely driven by higher claim costs. The rise in claim costs stemmed primarily from higher paid claims as well as expectations of greater claim frequency for the traditional primary business. Lower underwriting profit margins evidenced by this year's higher composite ratio were partially offset by a slight increase in net investment income.

Title Insurance Results

Old Republic's Title Insurance segment registered significant drops in profitability for the 2006 periods reported upon. Key indicators of that performance follow:

	Quarters Ended June 30,			
	2006	2005	Change	2
Net premiums and fees earned...............	$ 247.2	$ 261.7	-5.5%	$
Net investment income......................	6.5	6.4	1.7	
Pretax operating income....................	$ 12.1	$ 22.8	-46.8%	$
Claims ratio...............................	5.9%	5.9%		
Expense ratio..............................	91.7	87.7		
Composite ratio..........................	97.6%	93.6%		

Title premium and fee revenues dropped by 5.5 percent in this year's second quarter but rose by 1.5 percent in the first half. For both 2006 periods, profit margins in underwriting/service operations deteriorated significantly. Substantially all of the margin compression occurred in the segment's direct operations, most of which are concentrated in the Western United States. Revenues in that region dropped by 26.6 percent in this year's second quarter and 25.1 percent in the first half. The resulting production levels in that region have been much lower than necessary to support the related operating expense structure. As a consequence of the relatively greater expense load, the segment posted a much higher composite underwriting ratio in this year's second quarter and first half. Slight net investment income growth in this segment was insufficient to offset the substantial reduction in underwriting/service profitability in 2006 to date.

Corporate and Other Operations

Old Republic's small life and health business, and the net corporate service costs of the parent holding company and internal services subsidiaries produced combined pretax losses of $2.9 and $3.3 in the second quarter and first six months of 2006, respectively. Life and health pretax income was affected adversely by greater life insurance claim costs in both periods of 2006. Overall net corporate expenses, however, were moderately lower year-over-year.

Cash, Invested Assets and Shareholders' Equity

The following table shows the changes in consolidated cash and invested assets as well as shareholders' equity, as of the dates shown:

	June 2006	December 2005	
Cash and invested assets:			
Total: As reported, with securities at market..........	$ 7,512.9	$ 7,394.1	$
With securities at cost........................	7,574.6	7,317.3	
Per share: As reported, with securities at market......	32.66	32.21	
With securities at cost...................	32.93	31.87	
Shareholders' equity:			
Total: As reported, with securities at market..........	4,130.6	4,024.0	
With securities at cost........................	4,170.4	3,973.9	
Per share: As reported, with securities at market......	17.96	17.53	
With securities at cost...................	$ 18.13	$ 17.31	$

The investment portfolio reflects a current allocation of approximately 85 percent in fixed-maturity securities and 8 percent in equities. As in the past, it contains little or no exposure to real estate investments, mortgage-backed securities, derivatives, junk bonds, private placements or mortgage loans. The latest periods' changes in shareholders' equity, as reported, reflects principally additions from earnings in excess of dividend payments, offset by a decline in the value of investment securities carried at market values.

Effective January 1, 2006, the Company reclassified its long-term investments in U.S. Treasury Tax and Loss Bonds held by its mortgage guaranty insurance subsidiaries. The reclassification is intended to conform to more common industry reporting practices and to better align such assets with the corresponding long-term deferred income tax liabilities to which they relate. As a result of this reclassification, invested asset balances have been reduced and the prepaid income tax asset has been increased, while periodic operating cash flow and cash flow from investing activities have been adjusted by correspondingly identical amounts. The reclassification has no effect on the financial position or net income of the Company, nor does it call for the receipt or disbursement of any additional cash resources. The following table shows the effect of these adjustments on pertinent financial statement performance indicators as of the balance sheet dates and for the periods shown.

	June 30, 2006
Cash and invested assets:	
Previous classification	$ 7,981.4
After reclassification	7,512.9
Change	(468.4)
Total other assets:	
Previous classification	3,671.1
After reclassification	4,139.6
Change	$ 468.4

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities:		
Previous classification	$ 248.2	$ 371.2
After reclassification	325.5	324.7
Change	77.3	(46.4)
Cash flows from investing activities:		
Previous classification	(195.0)	(324.6)
After reclassification	(272.3)	(278.1)
Change	$ (77.3)	$ 46.4

CHANGES IN ACCOUNTING POLICIES

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123-Revised ("FAS 123R"), "Share-Based Payment" using the modified prospective transition method. The impact of the adoption of FAS123R is discussed in note 2 of the notes to consolidated financial statements.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). A discussion regarding the provisions of FIN 48 is included in note 1 of the notes to consolidated financial statements.

FINANCIAL POSITION

The Company's financial position at June 30, 2006 reflected increases in assets and common shareholders' equity of .9% and 2.6%, respectively, when compared to the immediately preceding year-end. Cash and invested assets represented 64.5% and 64.1% of consolidated assets as of June 30, 2006 and December 31, 2005, respectively. Consolidated operating cash flow was positive at $325.5 in the first six months of 2006 compared to $324.7 in the same period of 2005. As of June 30, 2006, the invested asset base increased 1.8% to $7,357.3 principally as a result of positive operating cash flow offset by a decline in the fair value of fixed maturity and equity investments.

During the first six months of 2006 and 2005, the Corporation committed substantially all investable funds to short to intermediate-term fixed maturity securities. At both June 30, 2006 and 2005, 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, 2006, the Company had $3.7 of 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, 2006. 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)

	J
Aaa...	
Aa..	
A...	
Baa...	

Total investment grade	
All other (2)	
Total	

(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 or non-rated small issues of tax-exempt bonds.

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

	Amort Cos
Fixed Maturity Securities by Industry Concentration:	
Retail	$
Finance	
Service	
Consumer Durables	
Other (includes 2 industry groups)	
Total	$

(3) Represents 1.1% of the total fixed maturity securities portfolio.

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

	Amort Cos
Fixed Maturity Securities by Industry Concentration:	
Municipals	$
Utilities	
Consumer Non-durables	
Industrial	
Other (includes 17 industry groups)	
Total	$

(4) Represents 74.5% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	Cos
Equity Securities by Industry Concentration:	
Insurance..	$
Health Care..	
Consumer Non-durables..	
Banking..	
Other (6 industry groups)..	
Total..	$

(5) Represents 22.8% of the total equity securities portfolio.
(6) Represents 1.4% of the cost of the total equity securities portfolio, while gross unrealized gains represent 13.7% of the portfolio.

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

	June 30,	
	Amortized Cost of Fixed Maturity Securities	
	All	Non-Investment Grade Only
Maturity Ranges:		
Due in one year or less...........................	$ 486.1	$ 2.9
Due after one year through five years.............	1,659.8	57.3
Due after five years through ten years............	2,665.2	10.3
Due after ten years...............................	10.7	-
Total...	$ 4,821.9	$ 70.6

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

	June 30,	
	Amount of Gross Unr	
	Less than 20% of Cost	20% to 50% of Cost
Number of Months in Loss Position:		

Fixed Maturity Securities:		
One to six months............................	$ 37.1	$ -
Seven to twelve months........................	81.3	-
More than twelve months.......................	53.7	-
Total...............................	$ 172.2	$ -
Equity Securities:		
One to six months............................	$ 7.4	$ -
Seven to twelve months........................	-	-
More than twelve months.......................	-	-
Total...............................	$ 7.4	$ -
Number of Issues in Loss Position:		
Fixed Maturity Securities:		
One to six months............................	460	-
Seven to twelve months........................	482	-
More than twelve months.......................	307	-
Total...............................	1,249	-
Equity Securities:		
One to six months............................	24	-
Seven to twelve months........................	-	-
More than twelve months.......................	-	1
Total...............................	24	1

(7) At June 30, 2006 the number of issues in an unrealized loss position represent 70.1% as to fixed maturities, and 30.5% 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, 2006 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 200
Maturity Ranges:	
Due in one year or less..	
Due after one year through five years..................................	
Due after five years through ten years.................................	
Due after ten years through fifteen years..............................	
Due after fifteen years..	

Total	1
Average Maturity	4.
Duration (8)	3.

(8) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.9 as of June 30, 2006 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 3.9%.

Composition of Unrealized Gains (Losses)

	June 200