

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
May 01, 2015

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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934  
for the quarterly period ended: March 31, 2015 or

Transition report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934  
Commission File Number: 001-10607

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

No. 36-2678171  
(IRS Employer Identification No.)

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

60601  
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Class

Shares Outstanding  
March 31, 2015

Common Stock / \$1 par value

261,162,860

There are 47 pages in this report

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OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / March 31, 2015

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

	(Unaudited) March 31, 2015	December 31, 2014
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,207.8 and \$8,126.5)	\$8,577.6	\$8,417.2
Equity securities (at fair value) (cost: \$1,796.5 and \$1,726.5)	2,057.5	2,011.7
Short-term investments (at fair value which approximates cost)	582.8	609.4
Miscellaneous investments	25.1	24.7
Total	11,243.1	11,063.2
Other investments	5.1	5.5
Total investments	11,248.2	11,068.8
Other Assets:		
Cash	150.4	136.7
Securities and indebtedness of related parties	20.1	17.7
Accrued investment income	91.3	86.1
Accounts and notes receivable	1,335.7	1,287.6
Federal income tax recoverable: Current	—	29.2
Deferred	16.8	37.0
Prepaid federal income taxes	53.5	45.7
Reinsurance balances and funds held	148.6	148.7
Reinsurance recoverable: Paid losses	55.0	66.9
Policy and claim reserves	3,375.0	3,355.6
Deferred policy acquisition costs	236.7	230.8
Sundry assets	469.5	476.8
Total Other Assets	5,953.0	5,919.3
Total Assets	\$17,201.3	\$16,988.1
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$9,132.8	\$9,122.0
Unearned premiums	1,673.4	1,627.7
Other policyholders' benefits and funds	203.9	205.0
Total policy liabilities and accruals	11,010.1	10,954.7
Commissions, expenses, fees, and taxes	452.0	454.6
Reinsurance balances and funds	514.3	473.8
Federal income tax payable: Current	18.7	—
Debt	961.7	965.0
Sundry liabilities	230.0	215.8
Commitments and contingent liabilities		
Total Liabilities	13,187.0	13,064.0
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	261.1	260.9
Additional paid-in capital	686.0	681.6
Retained earnings	2,762.3	2,706.7

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Accumulated other comprehensive income	320.8	292.3
Unallocated ESSOP shares (at cost)	(16.2	) (17.6
Total Common Shareholders' Equity	4,014.2	3,924.0
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$17,201.3	\$16,988.1

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At March 31, 2015 and December 31, 2014, 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 (1) stock, \$1.00 par value, authorized, of which 261,162,860 and 260,946,810 were issued as of March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, 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 March 31,	
	2015	2014
Revenues:		
Net premiums earned	\$1,103.0	\$1,057.2
Title, escrow, and other fees	91.4	75.4
Total premiums and fees	1,194.4	1,132.7
Net investment income	91.4	82.8
Other income	25.4	23.8
Total operating revenues	1,311.3	1,239.3
Realized investment gains (losses):		
From sales	18.8	191.2
From impairments	—	—
Total realized investment gains (losses)	18.8	191.2
Total revenues	1,330.2	1,430.6
Benefits, Claims and Expenses:		
Benefits, claims and settlement expenses	564.8	556.1
Dividends to policyholders	5.3	3.9
Underwriting, acquisition, and other expenses	595.7	567.8
Interest and other charges	10.5	5.7
Total expenses	1,176.4	1,133.6
Income before income taxes (credits)	153.7	296.9
Income Taxes (Credits):		
Current	48.9	106.0
Deferred	1.3	(3.4 )
Total	50.3	102.5
Net Income	\$103.4	\$194.4
Net Income Per Share:		
Basic	\$.40	\$.75
Diluted	\$.36	\$.67
Average shares outstanding: Basic	259,118,634	257,933,928
Diluted	295,547,223	294,513,903
Dividends Per Common Share:		
Cash	\$.1850	\$.1825

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended	
	March 31,	
	2015	2014
Net Income As Reported	\$103.4	\$194.4
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized gains (losses) on securities before reclassifications	73.8	106.3
Amounts reclassified as realized investment gains from sales in the statements of income	(18.8)	(191.2)
Pretax unrealized gains (losses) on securities	54.9	(84.9)
Deferred income taxes (credits)	19.0	(29.7)
Net unrealized gains (losses) on securities, net of tax	35.9	(55.1)
Defined benefit pension plans:		
Net pension adjustment before reclassifications	.1	—
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	.2	(.4)
Net adjustment related to defined benefit pension plans	.3	(.4)
Deferred income taxes (credits)	.1	(.1)
Net adjustment related to defined benefit pension plans, net of tax	.2	(.3)
Foreign currency translation and other adjustments	(7.7)	(3.2)
Net adjustments	28.4	(58.7)
Comprehensive Income (Loss)	\$131.8	\$135.7

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended	
	March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$103.4	\$194.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(5.2)	(12.2)
Premiums and other receivables	(48.2)	(97.7)
Unpaid claims and related items	23.5	45.9
Unearned premiums and other policyholders' liabilities	10.4	56.7
Income taxes	48.9	101.9
Prepaid federal income taxes	(7.7)	(20.1)
Reinsurance balances and funds	55.3	71.5
Realized investment (gains) losses	(18.8)	(191.2)
Accounts payable, accrued expenses and other	29.2	(13.7)
Total	190.8	135.4
Cash flows from investing activities:		
Fixed maturity securities:		
Maturities and early calls	168.3	201.8
Sales	49.5	498.2
Sales of:		
Equity securities	34.9	179.7
Other - net	4.4	4.3
Purchases of:		
Fixed maturity securities	(314.5)	(482.0)
Equity securities	(88.7)	(334.3)
Other - net	(8.7)	(9.5)
Net decrease (increase) in short-term investments	28.0	(166.8)
Other - net	—	—
Total	(126.7)	(108.5)
Cash flows from financing activities:		
Issuance of common shares	1.9	1.0
Redemption of debentures and notes	(3.3)	(3.0)
Dividends on common shares	(47.8)	(46.9)
Other - net	(1.2)	(1.0)
Total	(50.4)	(50.0)
Increase (decrease) in cash	13.6	(23.1)
Cash, beginning of period	136.7	153.3
Cash, end of period	\$150.4	\$130.2
Supplemental cash flow information:		
Cash paid (received) during the period for: Interest	\$20.5	\$10.4



Income taxes	\$1.7	\$ .6
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See accompanying Notes to Consolidated Financial Statements.

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

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). These interim financial statements should be read in conjunction with these notes and those included in the Company's 2014 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In May 2014, the FASB issued a comprehensive revenue recognition standard which applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. The Company is currently evaluating the guidance, which is expected to be effective in 2018, to determine the potential impact, if any, of its adoption on its consolidated financial statements.

The financial accounting and reporting process relies on estimates and on the exercise of judgment. In the opinion of management all adjustments consisting only of normal recurring accruals necessary for a fair presentation of the results have been recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

2. Common Share Data:

Earnings Per Share - Consolidated basic earnings per share excludes the dilutive effect of common stock equivalents and is computed by dividing income available to common stockholders by the weighted-average number of common shares actually outstanding for the quarterly and year-to-date periods. Diluted earnings per share are similarly calculated with the inclusion of dilutive common stock equivalents. The following table provides a reconciliation of net income and the number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended	
	March 31, 2015	2014
Numerator:		
Net income	\$ 103.4	\$ 194.4
Numerator for basic earnings per share - income available to common stockholders	103.4	194.4
Adjustment for interest expense incurred on assumed conversion of convertible notes	3.6	3.6
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$ 107.0	\$ 198.0

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Denominator:

Denominator for basic earnings per share -

weighted-average shares (a)	259,118,634	257,933,928
Effect of dilutive securities - stock based compensation awards	863,444	1,089,795
Effect of dilutive securities - convertible senior notes	35,565,145	35,490,180

Denominator for diluted earnings per share -

adjusted weighted-average shares and assumed conversion of convertible notes (a)

7/28/09	55,400	25.8457
7/27/09	2,100	25.4510
7/27/09	2,200	25.5718
7/24/09	300	25.5299
7/24/09	600	25.4800
7/24/09	9,460	25.4482
7/23/09	2,150	25.2726
7/23/09	1,000	25.5689
7/23/09	500	25.6007
7/23/09	2,000-	24.8750
7/23/09	6,000-	25.5575
7/22/09	2,200	24.7805
7/22/09	600	24.7500
7/22/09	3,000	24.7833
7/21/09	150	24.3000
7/21/09	1,000	24.1750
7/21/09	1,000-	24.1748
7/21/09	8,100	24.1842
7/21/09	1,000	24.1748
7/21/09	1,000	24.1100
7/20/09	2,000-	23.5945
7/17/09	2,200	23.9555
7/17/09	2,000-	23.8780
7/16/09	300	23.9967

GABELLI FUNDS, LLC.

GABELLI VALUE FUND

8/31/09	36,787-	*DO
8/31/09	59,213-	*DO

GABELLI EQUITY TRUST

9/10/09	5,000	27.4356
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GABELLI EQUITY INCOME FUND

9/02/09	10,000	25.5563
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GABELLI ASSET FUND

8/31/09	102-	*DO
8/31/09	150-	*DO
8/31/09	8,532-	*DO
8/31/09	6,217-	*DO

GABELLI CAPITAL ASSET FUND

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9/10/09	3,000	27.4356
8/14/09	2,000-	25.2455
7/17/09	2,000-	23.9065

(1) UNLESS OTHERWISE INDICATED, ALL TRANSACTIONS WERE EFFECTED ON THE NYSE.

(2) PRICE EXCLUDES COMMISSION.

(\*) RESULTS IN CHANGE OF DISPOSITIVE POWER AND BENEFICIAL OWNERSHIP.

