NAVIGATORS GROUP INC
Form 10-Q
November 05, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010
or

o **Transitional Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________
Commission file number 0-15886
The Navigators Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-3138397
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6 International Drive, Rye Brook, New York	10573
(Address of principal executive offices)	(Zip Code)

(914) 934-8999
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report.)

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 þ No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 the definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

The number of common shares outstanding as of October 27, 2010 was 17,263,630.

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
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Part I. Financial Information
Item 1. Financial Statements

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
($ in thousands, except share data)

	September 30, 2010 *(Unaudited)*	December 31, 2009
ASSETS		
Investments and cash:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2010, $1,727,551; 2009, $1,777,983)	$ 1,820,493	$ 1,816,669
Equity securities, available-for-sale, at fair value (cost: 2010, $66,986; 2009, $47,376)	86,447	62,610
Short-term investments, at cost which approximates fair value	260,564	176,799
Cash	31,073	509
Total investments and cash	2,198,577	2,056,587
Premiums receivable	204,180	193,460
Prepaid reinsurance premiums	156,047	162,344
Reinsurance recoverable on paid losses	60,889	76,505
Reinsurance recoverable on unpaid losses and loss adjustment expenses	787,795	807,352
Deferred policy acquisition costs	60,304	56,575
Accrued investment income	15,533	17,438
Goodwill and other intangible assets	6,935	7,057
Current income tax receivable, net	4,773	4,854
Deferred income tax, net		31,222
Other assets	25,960	40,600
Total assets	$ 3,520,993	$ 3,453,994
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	$ 1,924,317	$ 1,920,286
Unearned premiums	486,955	475,171
Reinsurance balances payable	97,239	98,555
Senior notes	114,105	114,010
Deferred income tax, net	4,833	
Accounts payable and other liabilities	39,531	44,453
Total liabilities	2,666,980	2,652,475
Stockholders equity:		

Preferred stock, $.10 par value, authorized 1,000,000 shares, none issued		
Common stock, $.10 par value, authorized 50,000,000 shares, issued 17,262,710 shares for 2010 and 17,212,814 shares for 2009	1,726	1,721
Additional paid-in capital	311,233	304,505
Treasury stock, at cost (1,496,707 shares for 2010 and 366,330 shares for 2009)	(63,227)	(18,296)
Retained earnings	522,174	469,934
Accumulated other comprehensive income	82,107	43,655
Total stockholders equity	854,013	801,519
Total liabilities and stockholders equity	$ 3,520,993	$ 3,453,994

The accompanying Notes to Interim Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
($ and shares in thousands, except net income per share)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Unaudited)		*(Unaudited)*	
Gross written premiums	$ 233,638	$ 245,191	$ 757,351	$ 793,179
Revenues:				
Net written premiums	$ 157,807	$ 156,001	$ 512,129	$ 539,660
Change in unearned premiums	10,426	15,270	(18,356)	(33,575)
Net earned premiums	168,233	171,271	493,773	506,085
Net investment income	17,839	19,110	53,664	56,509
Total other-than-temporary impairment losses	(1,034)	(22)	(1,774)	(28,769)
Portion of loss recognized in other comprehensive income (before tax)	365	(525)	870	17,053
Net other-than-temporary impairment losses recognized in earnings	(669)	(547)	(904)	(11,716)
Net realized gains	4,521	6,682	21,653	7,741
Other income (expense)	2,767	1,241	2,938	6,686
Total revenues	192,691	197,757	571,124	565,305
Expenses:				
Net loss and loss adjustment expenses	107,463	107,591	311,133	308,566
Commission expenses	25,185	22,852	76,178	71,578
Other operating expenses	34,682	35,018	103,781	98,572
Interest expense	2,045	2,042	6,133	6,411
Total expenses	169,375	167,503	497,225	485,127
Income before income taxes	23,316	30,254	73,899	80,178
Income tax expense	7,091	8,822	21,659	23,096
Net income	$ 16,225	$ 21,432	$ 52,240	$ 57,082
Net income per common share:				

Basic	$	1.03	$	1.26	$	3.23	$	3.37
Diluted	$	1.00	$	1.24	$	3.17	$	3.30
Average common shares outstanding:								
Basic		15,780		16,966		16,170		16,929
Diluted		16,149		17,334		16,503		17,277

The accompanying Notes to Interim Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
($ in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Unaudited)	
Preferred Stock		
Balance at beginning and end of period	$	$
Common stock		
Balance at beginning of year	$ 1,721	$ 1,708
Shares issued under stock plans	5	12
Balance at end of period	$ 1,726	$ 1,720
Additional paid-in capital		
Balance at beginning of year	$ 304,505	$ 298,872
Share-based compensation	6,728	5,128
Balance at end of period	$ 311,233	$ 304,000
Treasury stock, at cost		
Balance at beginning of year	$ (18,296)	$ (11,540)
Treasury stock acquired	(50,272)	
Issuance related to share-based compensation	5,341	
Balance at end of period	$ (63,227)	$ (11,540)
Retained earnings		
Balance at beginning of year	$ 469,934	$ 406,776
Net income	52,240	57,082
Balance at end of period	$ 522,174	$ 463,858
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on securities, net of tax		
Balance at beginning of year	$ 30,958	$ (15,062)
Change in period	40,844	52,037
Balance at end of period	71,802	36,975

Non-credit other-than-temporary impairment gains (losses), net of tax		
Balance at beginning of year	4,000	
Change in period	(2,520)	6,762
Balance at end of period	1,480	6,762
Cumulative translation adjustments, net of tax		
Balance at beginning of year	8,697	8,563
Net adjustment	128	617
Balance at end of period	8,825	9,180
Balance at end of period	$ 82,107	$ 52,917
Total stockholders equity at end of period	$ 854,013	$ 810,955

The accompanying Notes to Interim Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	Three Months Ended September 30, 2010 (Unaudited)	2009
Net income	$ 16,225	$ 21,432
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of tax expense (benefit) of $12,806 and $20,627 in 2010 and 2009, respectively [1]	24,104	39,046
Change in foreign currency translation gains (losses), net of tax expense (benefit) of $(165) and $884 in 2010 and 2009, respectively	(306)	1,641
Other comprehensive income (loss)	23,798	40,687
Comprehensive income	$ 40,023	$ 62,119
[1] Disclosure of reclassification amount, net of tax:		
Unrealized gains (losses) on investments arising during period	$ 26,588	$ 43,064
Less: reclassification adjustment for net realized gains (losses) included in net income	2,939	4,370
reclassification adjustment for other-than-temporary impairment losses recognized in net income	(455)	(352)
Change in net unrealized gains (losses) on investments, net of tax	$ 24,104	$ 39,046

	Nine Months Ended September 30, 2010 (Unaudited)	2009
Net income	$ 52,240	$ 57,082
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of tax expense (benefit) of $20,160 and $30,356 in 2010 and 2009, respectively [2]	38,324	58,799
Change in foreign currency translation gains (losses), net of tax expense (benefit) of $69 and $332 in 2010 and 2009, respectively	128	617
Other comprehensive income (loss)	38,452	59,416

Comprehensive income	$	90,692	$	116,498

[2] Disclosure of reclassification amount, net of tax:				
Unrealized gains (losses) on investments arising during period	$	51,784	$	56,006
Less: reclassification adjustment for net realized gains (losses) included in net income		14,075		4,933
reclassification adjustment for other-than-temporary impairment losses recognized in net income		(615)		(7,726)
Change in net unrealized gains (losses) on securities, net of tax	$	38,324	$	58,799

The accompanying Notes to Interim Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	Nine Months Ended September 30, 2010	2009
	(Unaudited)	
Operating activities:		
Net income	$ 52,240	$ 57,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	3,374	3,418
Deferred income taxes	15,789	(1,233)
Net realized (gains) losses	(20,749)	3,975
Changes in assets and liabilities:		
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	33,857	14,509
Reserves for losses and loss adjustment expenses	6,641	38,144
Prepaid reinsurance premiums	6,097	26,787
Unearned premiums	12,409	7,394
Premiums receivable	(11,331)	(16,406)
Deferred policy acquisition costs	(3,856)	(11,293)
Accrued investment income	1,909	832
Reinsurance balances payable	(1,141)	(29,870)
Current income taxes	855	(235)
Other	18,022	12,068
Net cash provided by operating activities	114,116	105,172
Investing activities:		
Fixed maturities		
Redemptions and maturities	157,330	106,210
Sales	372,971	295,524
Purchases	(467,704)	(565,886)
Equity securities		
Sales	3,069	17,202
Purchases	(22,537)	(18,544)
Change in payable for securities	11,137	(544)
Net change in short-term investments	(87,690)	88,215
Purchase of property and equipment	(1,076)	(1,782)
Net cash used in investing activities	(34,500)	(79,605)
Financing activities:		
Purchase of treasury stock	(50,272)	
Purchase of Senior notes		(7,000)
Proceeds of stock issued from employee stock purchase plan	868	727

Proceeds of stock issued from exercise of stock options		352		941
Net cash used in financing activities		(49,052)		(5,332)
Increase in cash		30,564		20,235
Cash at beginning of year		509		1,457
Cash at end of period	$	31,073	$	21,692
Supplemental cash information:				
Income taxes paid, net	$	5,596	$	23,906
Interest paid		4,025		4,330
Issuance of stock to directors		190		210

The accompanying Notes to Interim Consolidated Financial Statements are an integral part of these financial statements.

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THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
Notes to Interim Consolidated Financial Statements
(Unaudited)

Note 1. Accounting Policies

The accompanying interim consolidated financial statements are unaudited and reflect all adjustments which, in the opinion of management, are necessary to fairly present the results of The Navigators Group, Inc. and its subsidiaries for the interim periods presented on the basis of United States generally accepted accounting principles (GAAP or U.S. GAAP). All such adjustments are of a normal recurring nature. All significant intercompany transactions and balances have been eliminated. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting periods. The results of operations for any interim period are not necessarily indicative of results for the full year. The terms we , us , our and the Company as used herein are used to mean The Navigators Group, Inc. and its subsidiaries, unless the context otherwise requires. The term Parent or Parent Company are used to mean The Navigators Group, Inc. without its subsidiaries. These financial statements should be read in conjunction with the consolidated financial statements and notes contained in the Company s 2009 Annual Report on Form 10-K. Certain amounts for the prior year have been reclassified to conform to the current year s presentation. Commission income, previously disclosed as a separate line item in the Consolidated Statements of Income, is now included in Other income (expense).

Note 2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance (Accounting Standards Update (ASU) 2010-06) which improves disclosures about fair value measurements (Accounting Standards Codification (ASC or Codification) 820-10). This guidance adds additional disclosures regarding significant transfers in and out of Levels 1 and 2. This guidance also adds additional disclosures regarding Level 3 purchases, sales, issuances and settlements. In addition, this guidance also adds additional disclosures regarding fair value measurement disclosures for each class of assets and liabilities as well as disclosures about the valuation techniques and inputs used to measure fair value for items classified as Level 2 or Level 3. This guidance was effective as of January 1, 2010 for calendar year reporting entities with the exception of the additional disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements which is effective as of January 1, 2011 for calendar year reporting entities. Early adoption is permitted. We adopted this guidance in the first quarter of 2010 with the exception of the additional disclosures about purchases, sales, issuances and settlement in the roll forward of activity in Level 3 fair value measurements which we will adopt in the first quarter of 2011. Adoption of this guidance did not have a material effect on our consolidated financial condition, results of operations or cash flows.

In June 2009, the FASB issued accounting guidance for the transfer of financial assets (ASC 860-10), which was added to the Codification under ASU 2009-16. This guidance removes the concept of a qualifying special-purpose entity (QSPE) from existing GAAP as well as the removal of the exception from applying ASC 810-10, Consolidation, to QSPEs. This guidance also clarifies the unit of account eligible for sale accounting and requires that a transferor recognize and initially measure at fair value, all financial assets obtained and liabilities incurred as a result of a transfer of an entire financial asset (or group of entire financial assets) accounted for as a sale. Finally, this guidance requires enhanced disclosures to provide greater transparency about transfers of financial assets and a transferor s continuing involvement with transferred financial assets. This guidance was effective as of January 1, 2010 for calendar year reporting entities and early adoption was not permitted. We adopted this guidance in the first quarter of 2010. Adoption of this guidance did not have a material effect on our consolidated financial condition, results of operations or cash flows.

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Recent Accounting Developments

In October 2010, the FASB issued accounting guidance (ASU 2010-26) that clarifies which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral (ASC 944). In addition, this guidance specifies that only costs that are related directly to the successful acquisition of new or renewal insurance contracts can be capitalized. This guidance is effective as of January 1, 2012 for calendar year reporting entities. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial condition, results of operations and cash flows.

Note 3. Segment Information

We classify our business into two underwriting segments consisting of the Insurance Companies segment (Insurance Companies) and the Lloyd s Operations segment (Lloyd s Operations), which are separately managed, and a Corporate segment (Corporate). Segment data for each of the two underwriting segments include allocations of the operating expenses of the wholly-owned underwriting management companies and the Parent Company s operating expenses and related income tax amounts. The Corporate segment consists of the Parent Company s investment income, interest expense and the related tax effect.

We evaluate the performance of each underwriting segment based on its underwriting and GAAP results. The Insurance Companies and the Lloyd s Operations results are measured by taking into account net earned premiums, net losses and loss adjustment expenses (LAE), commission expenses, other operating expenses and other income (expense). Each segment maintains its own investments, on which it earns income and realizes capital gains or losses. Our underwriting performance is evaluated separately from the performance of our investment portfolios.

The Insurance Companies consist of Navigators Insurance Company, including its branch located in the United Kingdom (the U.K. Branch), and its wholly-owned subsidiary, Navigators Specialty Insurance Company. They are primarily engaged in underwriting marine insurance and related lines of business, professional liability insurance and specialty lines of business including contractors general liability insurance, commercial umbrella and primary and excess casualty businesses. Navigators Specialty Insurance Company underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty Insurance Company is 100% reinsured by Navigators Insurance Company.

The Lloyd s Operations primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverage for onshore energy business at Lloyd s of London (Lloyd s) through Lloyd s Syndicate 1221 (Syndicate 1221). Our Lloyd s Operations includes Navigators Underwriting Agency Ltd. (NUAL), a Lloyd s underwriting agency which manages Syndicate 1221. We controlled 100% of the stamp capacity of Syndicate 1221 through our wholly-owned Lloyd s corporate member in 2010 and 2009.

Navigators Management Company, Inc. (NMC) is a wholly-owned underwriting management company which produces, manages and underwrites insurance and reinsurance, and provides corporate services for the Company. The operating results for the underwriting management company are allocated to both the Insurance Companies and Lloyd s Operations.

The Insurance Companies and the Lloyd s Operations underwriting results are measured based on underwriting profit or loss and the related combined ratio, which are both non-GAAP measures of underwriting profitability. Underwriting profit or loss is calculated from net earned premiums, less the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense). The combined ratio is derived by dividing the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense) by net earned premiums. A combined ratio of less than 100% indicates an underwriting profit and over 100% indicates an underwriting loss.

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Financial data by segment for the three months and nine months ended September 30, 2010 and 2009 follows:

	Three Months Ended September 30, 2010			
	Insurance Companies	Lloyd s Operations	Corporate(1)	Total
	($ in thousands)			
Gross written premiums	$ 163,343	$ 70,295	$	$ 233,638
Net written premiums	107,916	49,891		157,807
Net earned premiums	112,198	56,035		168,233
Net loss and LAE	(72,306)	(35,157)		(107,463)
Commission expenses	(14,374)	(10,459)	(352)	(25,185)
Other operating expenses	(26,398)	(8,301)		(34,699)
Other income (expense)	1,380	1,052	352	2,784
Underwriting profit	500	3,170		3,670
Net investment income	15,736	1,982	121	17,839
Net realized gains (losses)	4,206	(354)		3,852
Other operating expenses			17	17
Other income (expense)			(17)	(17)
Interest expense			(2,045)	(2,045)
Income (loss) before income taxes	20,442	4,798	(1,924)	23,316
Income tax expense (benefit)	6,049	1,715	(673)	7,091
Net income (loss)	$ 14,393	$ 3,083	$ (1,251)	$ 16,225
Identifiable assets (2)	$ 2,579,392	$ 840,508	$ 83,164	$ 3,520,993
Loss and LAE ratio	64.4%	62.7%		63.9%
Commission expense ratio	12.8%	18.7%		15.0%
Other operating expense ratio (3)	22.4%	12.9%		18.9%
Combined ratio	99.6%	94.3%		97.8%

(1) Includes Corporate segment intercompany eliminations.

(2)

Includes inter-segment transactions causing the row not to cross foot.

(3) Includes *Other operating expenses* and *Other income (expense).*

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	Three Months Ended September 30, 2010		
	Insurance Companies	Lloyd s Operations	Total
	($ in thousands)		
Gross written premiums:			
Marine	$ 49,406	$ 32,788	$ 82,194
Property Casualty	81,351	27,687	109,038
Professional Liability	32,586	9,820	42,406
Total	$ 163,343	$ 70,295	$ 233,638
Net written premiums:			
Marine	$ 35,546	$ 27,142	$ 62,688
Property Casualty	52,677	17,414	70,091
Professional Liability	19,693	5,335	25,028
Total	$ 107,916	$ 49,891	$ 157,807
Net earned premiums:			
Marine	$ 41,091	$ 38,254	$ 79,345
Property Casualty	50,976	12,202	63,178
Professional Liability	20,131	5,579	25,710
Total	$ 112,198	$ 56,035	$ 168,233

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	Three Months Ended September 30, 2009			
	Insurance Companies	Lloyd s Operations	Corporate[1]	Total
	($ in thousands)			
Gross written premiums	$ 180,000	$ 65,191	$	$ 245,191
Net written premiums	116,033	39,968		156,001
Net earned premiums	122,804	48,467		171,271
Net losses and LAE	(75,838)	(31,753)		(107,591)
Commission expenses	(15,346)	(7,835)	329	(22,852)
Other operating expenses	(27,194)	(7,835)		(35,029)
Other income (expense)	1,301	280	(329)	1,252
Underwriting profit	5,727	1,324		7,051
Net investment income	16,597	2,361	152	19,110
Net realized gains (losses)	5,710	425		6,135
Other operating expenses			11	11
Other income (expense)			(11)	(11)
Interest expense			(2,042)	(2,042)
Income (loss) before income taxes	28,034	4,110	(1,890)	30,254
Income tax expense (benefit)	7,973	1,510	(661)	8,822
Net income (loss)	$ 20,061	$ 2,600	$ (1,229)	$ 21,432
Identifiable assets [2]	$ 2,566,163	$ 821,743	$ 87,061	$ 3,493,297
Loss and LAE ratio	61.8%	65.5%		62.8%
Commission expense ratio	12.5%	16.2%		13.3%
Other operating expense ratio [3]	21.1%	15.6%		19.8%
Combined ratio	95.4%	97.3%		95.9%

(1) Includes Corporate segment intercompany eliminations.

(2) Includes inter-segment

transactions causing the row not to cross foot.

(3) Includes *Other operating expenses* and *Other income (expense).*

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	Three Months Ended September 30, 2009		
	Insurance Companies	**Lloyd s Operations**	**Total**
		($ in thousands)	
Gross written premiums:			
Marine	$ 53,129	$ 33,960	$ 87,089
Property Casualty	93,302	20,024	113,326
Professional Liability	33,569	11,207	44,776
Total	$ 180,000	$ 65,191	$ 245,191
Net written premiums:			
Marine	$ 39,632	$ 23,816	$ 63,448
Property Casualty	57,567	11,116	68,683
Professional Liability	18,834	5,036	23,870
Total	$ 116,033	$ 39,968	$ 156,001
Net earned premiums:			
Marine	$ 42,620	$ 33,945	$ 76,565
Property Casualty	60,380	9,126	69,506
Professional Liability	19,804	5,396	25,200
Total	$ 122,804	$ 48,467	$ 171,271

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	Nine Months Ended September 30, 2010			
	Insurance Companies	Lloyd s Operations	Corporate[1]	Total
	($ in thousands)			
Gross written premiums	$ 511,822	$ 245,529	$	$ 757,351
Net written premiums	340,657	171,472		512,129
Net earned premiums	333,834	159,939		493,773
Net losses and LAE	(205,571)	(105,562)		(311,133)
Commission expenses	(43,351)	(32,827)		(76,178)
Other operating expenses	(79,658)	(24,161)		(103,819)
Other income (expense)	289	2,687		2,976
Underwriting profit	5,543	76		5,619
Net investment income	47,040	6,179	445	53,664
Net realized gains (losses)	20,140	378	231	20,749
Other operating expenses			38	38
Other income (expense)			(38)	(38)
Interest expense			(6,133)	(6,133)
Income (loss) before income taxes	72,723	6,633	(5,457)	73,899
Income tax expense (benefit)	21,166	2,403	(1,910)	21,659
Net income (loss)	$ 51,557	$ 4,230	$ (3,547)	$ 52,240
Identifiable assets [2]	$ 2,579,392	$ 840,508	$ 83,164	$ 3,520,993
Loss and LAE ratio	61.6%	66.0%		63.0%
Commission expense ratio	13.0%	20.5%		15.4%
Other operating expense ratio [3]	23.7%	13.5%		20.5%
Combined ratio	98.3%	100.0%		98.9%

(1) Includes Corporate segment intercompany eliminations.

(2) Includes inter-segment

transactions causing the row not to cross foot.

(3) Includes *Other operating expenses* and *Other income (expense).*

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	Nine Months Ended September 30, 2010		
	Insurance Companies	Lloyd s Operations	Total
		($ in thousands)	
Gross written premiums:			
Marine	$ 172,136	$ 133,758	$ 305,894
Property Casualty	242,494	76,768	319,262
Professional Liability	97,192	35,003	132,195
Total	$ 511,822	$ 245,529	$ 757,351
Net written premiums:			
Marine	$ 123,702	$ 111,205	$ 234,907
Property Casualty	156,674	43,049	199,723
Professional Liability	60,281	17,218	77,499
Total	$ 340,657	$ 171,472	$ 512,129
Net earned premiums:			
Marine	$ 122,739	$ 108,541	$ 231,280
Property Casualty	152,228	34,880	187,108
Professional Liability	58,867	16,518	75,385
Total	$ 333,834	$ 159,939	$ 493,773

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	Nine Months Ended September 30, 2009			
	Insurance Companies	Lloyd s Operations	Corporate[1]	Total
	($ in thousands)			
Gross written premiums	$ 561,368	$ 231,811	$	$ 793,179
Net written premiums	375,474	164,186		539,660
Net earned premiums	359,317	146,768		506,085
Net losses and LAE	(214,834)	(93,732)		(308,566)
Commission expenses	(45,374)	(26,533)	329	(71,578)
Other operating expenses	(78,660)	(19,933)		(98,593)
Other income (expense)	3,157	879	(329)	3,707
Underwriting profit	23,606	7,449		31,055
Net investment income	49,043	7,060	406	56,509
Net realized gains (losses)	(987)	(2,988)		(3,975)
Other operating expenses			21	21
Other income (expense)			2,979	2,979
Interest expense			(6,411)	(6,411)
Income (loss) before income taxes	71,662	11,521	(3,005)	80,178
Income tax expense (benefit)	19,677	4,470	(1,051)	23,096
Net income (loss)	$ 51,985	$ 7,051	$ (1,954)	$ 57,082
Identifiable assets [2]	$ 2,566,163	$ 821,743	$ 87,061	$ 3,493,297
Loss and LAE ratio	59.8%	63.9%		61.0%
Commission expense ratio	12.6%	18.1%		14.1%
Other operating expense ratio [3]	21.0%	13.0%		18.8%
Combined ratio	93.4%	95.0%		93.9%

(1) Includes Corporate segment intercompany eliminations.

(2) Includes inter-segment

transactions causing the row not to cross foot.

(3) Includes *Other operating expenses* and *Other income (expense).*

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	Nine Months Ended September 30, 2009		
	Insurance Companies	Lloyd s Operations	Total
	($ in thousands)		
Gross written premiums:			
Marine	$ 187,452	$ 140,256	$ 327,708
Property Casualty	272,127	59,058	331,185
Professional Liability	101,789	32,497	134,286
Total	$ 561,368	$ 231,811	$ 793,179
Net written premiums:			
Marine	$ 133,047	$ 113,867	$ 246,914
Property Casualty	183,247	33,781	217,028
Professional Liability	59,180	16,538	75,718
Total	$ 375,474	$ 164,186	$ 539,660
Net earned premiums:			
Marine	$ 114,459	$ 102,158	$ 216,617
Property Casualty	188,860	28,250	217,110
Professional Liability	55,998	16,360	72,358
Total	$ 359,317	$ 146,768	$ 506,085

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The Insurance Companies net earned premiums include $23.3 million and $22.3 million of net earned premiums from the U.K. Branch for the three months ended September 30, 2010 and 2009, respectively and $61.9 million and $62.5 million of net earned premiums from the U.K. Branch for the nine months ended September 30, 2010 and 2009, respectively.

Note 4. Reinsurance Ceded

Our ceded earned premiums were $81.6 million and $92.3 million for the three months ended September 30, 2010 and 2009, respectively and were $251.4 million and $280.6 million for the nine months ended September 30, 2010 and 2009, respectively. Our ceded incurred losses were $42.6 million and $31.1 million for the three months ended September 30, 2010 and 2009, respectively and were $156.0 million and $167.6 million for the nine months ended September 30, 2010 and 2009, respectively.

The following table lists our 20 largest reinsurers measured by the amount of reinsurance recoverable for ceded losses and loss adjustment expense and ceded unearned premium (constituting approximately 75.6% of our total recoverable), together with the reinsurance recoverable and collateral at September 30, 2010, and the reinsurers rating from the indicated rating agency:

	Reinsurance Recoverables					
Reinsurer	**Unearned Premium**	**Unpaid/Paid Losses**	**Total**	**Collateral Held[1]**	**Rating & Rating Agency[2]**	
		($ in millions)				
Swiss Reinsurance America Corporation	$ 7.0	$ 83.9	$ 90.9	$ 5.9	A	AMB
Munich Reinsurance America Inc.	19.4	68.1	87.5	5.2	A+	AMB
Transatlantic Reinsurance Company	20.2	53.8	74.0	8.7	A	AMB
Everest Reinsurance Company	17.8	54.2	72.0	8.1	A+	AMB
White Mountains Reinsurance of America	0.4	56.2	56.6	0.3	A-	AMB
General Reinsurance Corporation	1.6	51.8	53.4	1.8	A++	AMB
Munchener Ruckversicherungs-Gesellschaft	1.5	34.1	35.6	11.4	A+	AMB
National Indemnity Company	9.0	26.1	35.1	2.5	A++	AMB
Scor Holding (Switzerland) AG	9.4	24.9	34.3	9.9	A	AMB
Berkley Insurance Company	4.2	25.1	29.3	0.1	A+	AMB
Partner Reinsurance Europe	8.7	19.9	28.6	12.1	AA-	S&P
Platinum Underwriters Re	2.5	25.3	27.8	1.5	A	AMB
Partner Reinsurance Company of the U.S.	1.5	18.7	20.2	0.6	A+	AMB
Arch Reinsurance Company	0.3	19.1	19.4	0.4	A	AMB
Lloyd s Syndicate #2003	2.9	16.3	19.2	3.4	A	AMB
Ace Property and Casualty Insurance Company	4.7	13.9	18.6	1.9	A+	AMB
Swiss Re International SE	0.6	16.0	16.6	5.4	A	AMB
Hannover Ruckversicherung	0.6	13.5	14.1	1.8	A	AMB
AXIS Re Europe	3.8	10.1	13.9	3.8	A	AMB
Allied World Reinsurance	6.0	6.0	12.0	2.5	A	AMB

Top 20 Total	122.1	637.0	759.1	87.3
All Other	33.9	211.7	245.6	91.0
Total	$ 156.0	$ 848.7	$ 1,004.7	$ 178.3

(1) Collateral includes letters of credit, ceded balances payable and other balances held by our Insurance Companies and our Lloyd s Operations.

(2) A.M. Best Company (A.M. Best , AMB) and Standard and Poor s Rating Services (S&P)

Note 5. Stock-Based Compensation

Stock-based compensation granted under our stock plans is expensed in tranches over the vesting period. Options and non-performance based grants generally vest equally over a four year period and the options have a maximum term of ten years. Our performance based share grants vest over five years with one-third vesting in each of the third, fourth and fifth years and are dependent on the rolling three-year average return on beginning equity, with actual shares that vest ranging between 150% to 0% of the original award depending on results. We are currently accruing for these awards at the forecasted target.

The amounts charged to expense for stock-based compensation were $1.8 million and $3.0 million for the three months ended September 30, 2010 and 2009, respectively and were $4.5 million and $6.6 million for the nine months ended September 30, 2010 and 2009, respectively.

We expensed $61,000 and $64,000 for the three months ended September 30, 2010 and 2009, respectively and $158,000 and $132,000 for the nine months ended September 30, 2010 and 2009, respectively, related to our Employee Stock Purchase Plan. In addition, $45,000 and $30,000 were expensed for the three months ended September 30, 2010 and 2009, respectively and $135,000 was expensed for both the nine months ended September 30, 2010 and 2009, related to stock compensation to non-employee directors as part of their directors compensation for serving on the Parent Company s Board of Directors.

Note 6. Syndicate 1221

Our Lloyd s Operations included in the consolidated financial statements represents our participation in Syndicate 1221. Syndicate 1221 s stamp capacity is £168 million ($264 million) for the 2010 underwriting year compared to £123 million ($201.8 million) for the 2009 underwriting year. Stamp capacity is a measure of the amount of premiums a Lloyd s syndicate is authorized to write based on a business plan approved by the Council of Lloyd s. Syndicate 1221 s stamp capacity is expressed net of commission (as is standard at Lloyd s). The Syndicate 1221 premiums recorded in our financial statements are gross of commission. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010 and 2009 underwriting years through our wholly-owned Lloyd s corporate member.

We provide letters of credit and post cash to Lloyd s to support our participation in Syndicate 1221 s stamp capacity. As of September 30, 2010, we had provided letters of credit of $129.0 million and did not post cash collateral. If Syndicate 1221 increases its stamp capacity and we participate in the additional stamp capacity, or if Lloyd s changes the capital requirements, we may be required to supply additional collateral acceptable to Lloyd s. If we are unwilling or unable to provide additional acceptable collateral, we will be required to reduce our participation in the stamp capacity of Syndicate 1221. The letters of credit are provided through a credit facility with a consortium of banks that expires on March 31, 2011, see Note 11, *Credit Facility* for additional information. If the consortium of banks decides not to renew the credit facility, we will need to find internal and/or external sources to provide either letters of credit or other collateral in order to continue to participate in Syndicate 1221. The credit facility is collateralized by all of the common stock of Navigators Insurance Company.

Note 7. Income Taxes

We are subject to the tax laws and regulations of the United States (U.S.) and foreign countries in which we operate. We file a consolidated U.S. federal tax return, which includes all domestic subsidiaries and the U.K. Branch. The income from the foreign operations is designated as either U.S. connected income or non-U.S. connected income. Lloyd s is required to pay U.S. income tax on U.S. connected income written by Lloyd s syndicates. Lloyd s and the IRS have entered into an agreement whereby the amount of tax due on U.S. connected income is calculated by Lloyd s and remitted directly to the Internal Revenue Service (IRS). These amounts are then charged to the corporate members in proportion to their participation in the relevant syndicates. Our corporate members are subject to this agreement and will receive United Kingdom (U.K.) tax credits for any U.S. income tax incurred up to the U.K. income tax charged on the U.S. connected income. The non-U.S. connected insurance income would generally constitute taxable income under the Subpart F income section of the Internal Revenue Code (Subpart F) since less than 50% of Syndicate 1221 s premiums are derived within the U.K. and would therefore be subject to U.S. taxation when the Lloyd s year of account closes. Taxes are accrued at a 35% rate on our foreign source insurance income and foreign tax credits, where available, are utilized to offset U.S. tax as permitted. Our effective tax rate for Syndicate 1221 taxable income could substantially exceed 35% to the extent we are unable to offset U.S. taxes paid under Subpart F tax regulations with U.K. tax credits on future underwriting year distributions. U.S. taxes are not accrued on the earnings of our foreign agencies as these earnings are not includable as Subpart F income in the current year. These earnings are subject to taxes under U.K. tax regulations at a 28% rate. We have not provided for U.S. deferred income taxes on the undistributed earnings of our non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in our non-U.S. subsidiaries. A finance bill was enacted in the U.K. in July 2010 that reduces the U.K. corporate tax rate from 28% to 27% effective April 2011. The effect of such tax rate change was not material.

We have not provided for U.S. deferred income taxes on the undistributed earnings of approximately $62.0 million of our non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the foreign subsidiaries. However, in the future, if such earnings were distributed to us, taxes of approximately $4.3 million would be payable on such undistributed earnings and would be reflected in the tax provision for the year in which these earnings are no longer intended to be permanently reinvested in the foreign subsidiary, assuming all foreign tax credits are realized.

A tax benefit taken in the tax return but not in the financial statements is known as an unrecognized tax benefit. We have no unrecognized tax benefits at either September 30, 2010 or September 30, 2009. We did not incur any interest or penalties related to unrecognized tax benefits for the three months ended September 30, 2010 and 2009. We are currently not under examination by any major U.S. or foreign tax authority and are generally subject to U.S. Federal, state or local, or foreign tax examinations by tax authorities for years 2007 and subsequent.

We recorded an income tax expense of $7.1 million for the three months ended September 30, 2010 compared to an income tax expense of $8.8 million for the comparable period in 2009, resulting in effective tax rates of 30.4% and 29.2% respectively. Our effective tax rate is less than 35% due to permanent differences between book and tax return income, with the most significant item being tax exempt interest. The effective tax rate on net investment income was 26.7% for the 2010 nine month period compared to 25.1% for the same period in 2009. The net deferred tax liability at September 30, 2010 was $4.8 million and the net deferred tax asset at September 30, 2009 was $31.2 million.

We had state and local deferred tax assets amounting to potential future tax benefits of $2.1 million and $2.6 million at September 30, 2010 and December 31, 2009, respectively. Included in the deferred tax assets are state and local net operating loss carry-forwards of $1.4 million and $1.3 million at September 30, 2010 and December 31, 2009, respectively. A valuation allowance was established for the full amount of these potential future tax benefits due to the uncertainty associated with their realization. Our state and local tax carry-forwards at September 30, 2010 expire from 2023 to 2025.

Note 8. Senior Notes due May 1, 2016

On April 17, 2006, we completed a public debt offering of $125 million principal amount of 7% senior notes due May 1, 2016 (the Senior Notes) and received net proceeds of $123.5 million. The interest payment dates on the Senior Notes are each May 1 and November 1. The effective interest rate related to the Senior Notes, based on the proceeds net of discount and all issuance costs, approximates 7.17%. The interest expense on the Senior Notes was $2.0 million for the three months ended September 30, 2010 and 2009 and was $6.1 million and $6.4 million, respectively, for the nine months ended September 30, 2010 and 2009. The fair value of the Senior Notes, based on quoted market prices, was $121.8 million and $111.7 million at September 30, 2010 and December 31, 2009, respectively.

We may redeem the Senior Notes at any time and from time to time, in whole or in part, at a make-whole redemption price. The terms of the Senior Notes contain various restrictive business and financial covenants typical for debt obligations of this type, including limitations on mergers, liens and dispositions of the common stock of certain subsidiaries. As of September 30, 2010, we were in compliance with all such covenants.

In April 2009, we repurchased $10.0 million aggregate principal amount of the Senior Notes from an unaffiliated note holder on the open market for $7.0 million, which generated a $2.9 million pretax gain that was reflected in Other income. As a result of this transaction, approximately $115.0 million aggregate principal amount of the Senior Notes remains issued and outstanding as of September 30, 2010.

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Note 9. Commitments and Contingencies

In the ordinary course of conducting business, our subsidiaries are involved in various legal proceedings, either indirectly as insurers for parties or directly as defendants. Most the these proceedings are claims litigation involving our subsidiaries as either (a) liability insurers defending or providing indemnity for third party claims brought against insureds or (b) insurers defending first party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment reserves. Our management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and cost of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our subsidiaries are also from time-to-time involved with other legal actions, some of which assert claims for substantial amounts. These actions include claims asserting extra contractual obligations, such as claims involving allegations of bad faith in the handling of claims or the underwriting of policies. In general, we believe we have valid defenses to these cases. Our management expects that the ultimate liability if any, with respect to future extra-contractual matters will not be material to our consolidated financial position. Nonetheless, given the large or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of litigation, an adverse outcome in such matters could, from time-to-time, have a material adverse outcome on our consolidated results of operations or cash flows in a particular fiscal quarter or year.

In October 2010, Equitas represented by Resolute Management Services Limited (the Resolute) commenced litigation and arbitration proceedings (the Resolute Proceedings) against Navigators Management Company, Inc., a wholly-owned subsidiary of the Company (NMC). The arbitration demand and complaint in the Resolute Proceedings allege that NMC failed to make timely payments to Resolute under certain reinsurance agreements in connection with subrogation recoveries received by NMC with respect to several catastrophe losses that occurred in the late 1980 s and early 1990 s. Resolute alleges that it suffered damages of approximately $7.5 million as a result of the alleged delays in payment.

The Company believes that the claims of Resolute are without merit and it intends to vigorously contest the claims. While it is too early to predict with any certainty the outcome of the Resolute Proceedings, the Company believes that the ultimate outcome would not be expected to have a significant adverse effect on its results of operations, financial condition or liquidity, although an unexpected adverse resolution of the Resolute Proceedings could have a material adverse effect on the Company s results of operations in a particular fiscal quarter or year.

Note 10. Investments

The following tables set forth our cash and investments as of September 30, 2010. The table below includes other-than-temporarily impaired (OTTI) securities recognized within other comprehensive income (OCI).

September 30, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 421,540	$ 17,971	$ (2)	$ 403,571	$
States, municipalities and political subdivisions	405,584	25,255	(51)	380,380	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	414,335	19,325		395,010	
Residential mortgage obligations	20,785		(2,941)	23,726	(2,064)
Asset-backed securities	33,411	513	(9)	32,907	(8)
Commercial mortgage-backed securities	143,278	8,108	(67)	135,237	
Subtotal	611,809	27,946	(3,017)	586,880	(2,072)
Corporate bonds	381,560	24,853	(13)	356,720	
Total fixed maturities	1,820,493	96,025	(3,083)	1,727,551	(2,072)
Equity securities common stocks	86,447	19,546	(85)	66,986	
Cash	31,073			31,073	
Short-term investments	260,564			260,564	
Total	$ 2,198,577	$ 115,571	$ (3,168)	$ 2,086,174	$ (2,072)

The fair value of our investment portfolio may fluctuate significantly in response to various factors such as changes in interest rates, investment quality ratings, equity prices, foreign exchange rates and credit spreads. We do not have the intent to sell nor is it more likely than not that we will have to sell debt securities in unrealized loss positions that are not other-than temporarily impaired before recovery. We may realize investment losses to the extent its liquidity needs require the disposition of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments. Significant changes in the factors we consider when evaluating investment for impairment losses could result in a significant change in impairment losses reported in the consolidated financial statements.

The scheduled maturity dates for fixed maturity securities by the number of years until maturity at September 30, 2010 are shown in the following table:

Period from September 30, 2010 to Maturity	**Fair Value**	**Amortized Cost**
	($ in thousands)	
Due in one year or less	$ 79,681	$ 79,112
Due after one year through five years	461,006	438,952
Due after five years through ten years	405,380	373,574
Due after ten years	262,617	249,033
Mortgage- and asset-backed (including GNMAs)	611,809	586,880
Total	$ 1,820,493	$ 1,727,551

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The following table summarizes all securities in a gross unrealized loss position at September 30, 2010 and December 31, 2009, showing the aggregate fair value and gross unrealized loss by the length of time those securities had continuously been in a gross unrealized loss position as well as the number of securities.

	September 30, 2010			December 31, 2009		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
	($ in thousands except # of securities)					
Fixed Maturities:						
U.S. Government Treasury bonds, agency bonds and foreign government bonds						
0-6 Months	2	$ 10,598	$ 2	24	$ 116,566	$ 597
7-12 Months						
> 12 Months						
Subtotal	2	10,598	2	24	116,566	597
States, municipalities and political subdivisions						
0-6 Months	7	1,236	6	47	108,290	2,291
7-12 Months	1	1,004	22	4	3,534	112
> 12 Months	6	3,918	23	23	17,777	514
Subtotal	14	6,158	51	74	129,601	2,917
Agency mortgage-backed securities						
0-6 Months				5	18,385	98
7-12 Months						
> 12 Months						
Subtotal				5	18,385	98
Residential mortgage obligations						
0-6 Months						
7-12 Months						
> 12 Months	68	20,785	2,941	73	31,071	7,246
Subtotal	68	20,785	2,941	73	31,071	7,246

Asset-backed securities						
0-6 Months						
7-12 Months						
> 12 Months	2	140	9	4	637	34
Subtotal	2	140	9	4	637	34
Commercial mortgage-backed securities						
0-6 Months	3	12,164	25	11	28,103	324
7-12 Months						
> 12 Months	2	556	42	21	45,135	4,704
Subtotal	5	12,720	67	32	73,238	5,028
Corporate bonds						
0-6 Months	2	2,685	13	13	33,275	337
7-12 Months						
> 12 Months				8	6,325	422
Subtotal	2	2,685	13	21	39,600	759
Total fixed maturities	93	$ 53,086	$ 3,083	233	$ 409,098	$ 16,679
Equity securities common stocks						
0-6 Months	5	$ 2,532	$ 85		$	$
7-12 Months						
> 12 Months				1	872	10
Total equity securities	5	$ 2,532	$ 85	1	$ 872	$ 10

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To determine whether the unrealized loss on structured securities is other-than-temporary, we project an expected principal loss under a range of scenarios and utilize the most likely outcomes. The analysis relies on actual collateral performance measures such as default rate, prepayment rate and loss severity. These assumptions are applied throughout the remaining term of the deal, incorporating the transaction structure and priority of payments, to generate loss adjusted cash flows. Results of the analysis will indicate whether the security ultimately incurs a loss or whether there is a material impact on yield due to either a projected loss or a change in cash flow timing. A breakeven default rate is also calculated. A comparison to the break even default rate to the actual default rate provides an indication of the level of cushion or coverage to the first dollar principal loss. The analysis applies the stated assumptions throughout the remaining term of the transaction to forecast cash flows, which are then applied through the transaction structure to determine whether there is a loss to the security. For securities in which a tranche loss is present, and the net present value of loss adjusted cash flows is less than book value, impairment is recognized. The output data also includes a number of additional metrics such as average life remaining, original and current credit support, over 60 day delinquency and security rating.

For debt securities, when assessing whether the amortized cost basis of the security will be recovered, we compare the present value of cash flows expected to be collected in relation to the current book value. Any shortfalls of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered the credit loss portion of OTTI losses and is recognized in earnings. All non-credit losses are recognized as changes in OTTI losses within OCI.

For equity securities, in general, we focus our attention on those securities whose fair value was less than 80% of their cost for six or more consecutive months. If warranted as the result of conditions relating to a particular security, we will focus on a significant decline in fair value regardless of the time period involved. Factors considered in evaluating potential impairment include, but are not limited to, the current fair value as compared to cost of the security, the length of time the investment has been below cost and by how much. If an equity security is deemed to be other-than-temporarily impaired, the cost is written down to fair value with the loss recognized in earnings.

For equity securities, we consider our intent to hold securities as part of the process of evaluating whether a decline in fair value represents an other-than-temporary decline in value. For fixed maturity securities, we consider our intent to sell a security and whether it is more likely than not that we will be required to sell a security before the anticipated recovery as part of the process of evaluating whether a security s unrealized loss represents an other-than-temporary decline. Our ability to hold such securities is supported by sufficient cash flow from its operations and from maturities within its investment portfolio in order to meet its claims payment and other disbursement obligations arising from its underwriting operations without selling such investments. With respect to securities where the decline in value is determined to be temporary and the security s value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information and market conditions.

The significant inputs used to measure the amount of credit loss recognized in earnings were actual delinquency rates, default probability assumptions, severity assumptions and prepayment assumptions. Projected losses are a function of both loss severity and probability of default. Default probability and severity assumptions differ based on property type, vintage and the stress of the collateral. We do not intend to sell any of these securities and it is more likely than not that we will not be required sell these securities before the recovery of the amortized cost basis.

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The table below summarizes our activity related to OTTI losses for the periods indicated:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2010		**2009**		**2010**		**2009**	
($ in thousands except # of securities)	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**
Total other-than-temporary impairment losses								
Corporate and other bonds		$		$		$	2	$ 564
Commercial mortgage-backed securities								
Residential mortgage-backed securities	10	674			12	1,387	38	19,344
Asset-backed securities							1	142
Equities	1	360	6	22	2	387	56	8,719
Total	**11**	**$ 1,034**	**6**	**$ 22**	**14**	**$ 1,774**	**97**	**$ 28,769**
Portion of loss in accumulated other comprehensive income (loss)								
Corporate and other bonds		$		$		$		$
Commercial mortgage-backed securities								
Residential mortgage-backed securities		365		(516)		870		16,990
Asset-backed securities				(9)				63
Equities								
Total		**$ 365**		**$ (525)**		**$ 870**		**$ 17,053**
Impairment losses recognized in earnings								
Corporate and other bonds		$		$		$		$ 564
Commercial mortgage-backed securities								
Residential mortgage-backed securities		309		516		517		2,354
Asset-backed securities				9				79
Equities		360		22		387		8,719
Total		**$ 669**		**$ 547**		**$ 904**		**$ 11,716**

The following table summarizes the cumulative amounts related to our credit loss portion of the OTTI losses on debt securities held as of September 30, 2010 that we do not intend to sell and it is not more likely than not that we will be required to sell the security prior to recovery of the amortized cost basis and for which the non-credit loss portion is included in other comprehensive income:

($ in thousands)

Beginning balance at January 1, 2010	$	2,523
Credit losses on securities not previously impaired as of January 1, 2010		904
Reductions for securities sold during the period		(935)
Ending balance at September 30, 2010	$	2,492

For the three and nine months ended September 30, 2010, OTTI losses within OCI decreased $1.8 million and $3.7 million, respectively, primarily as a result of increases in the fair value of securities previously impaired. For the three and nine months ended September 30, 2009, OTTI losses within OCI were $7.7 million and $9.9 million, respectively.

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The following table summarizes the cumulative amounts related to our non-credit loss portion of the other-than-temporary impairment losses on debt securities held within other comprehensive income for the periods indicated:

($ in thousands except for # of securities)	Nine Months Ended September 30, 2010 Number of Securities	Pre-Tax Amount	After-Tax Amount	Nine Months Ended September 30, 2009 Number of Securities	Pre-Tax Amount	After-Tax Amount
Beginning balance at January 1						
Residential mortgage-backed securities	34	$ 5,723	$ 3,984		$	$
Asset-backed securities	1	23	16			
Total		**$ 5,746**	**$ 4,000**		**$**	**$**
Portion of loss in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	12	$ 870	$ 566	38	$ 16,990	$ 11,044
Asset-backed securities				1	63	41
Total		**$ 870**	**$ 566**		**$ 17,053**	**$ 11,085**
Subsequent net unrealized losses (gains) related to securities in which an OTTI loss was recorded in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	35	$ (3,262)	$ (2,237)	38	$ (7,172)	$ (4,317)
Asset-backed securities	1	(15)	(10)	1	(15)	(6)
Total		**$ (3,277)**	**$ (2,247)**		**$ (7,187)**	**$ (4,323)**
Subsequent sale of securities in which an OTTI loss was recorded in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	4	$ (1,267)	$ (839)		$	$
Asset-backed securities						
Total		**$ (1,267)**	**$ (839)**		**$**	**$**
Ending balance at September 30						
Residential mortgage-backed securities	35	$ 2,064	$ 1,474	38	$ 9,818	$ 6,727
Asset-backed securities	1	8	6	1	48	35
Total		**$ 2,072**	**$ 1,480**		**$ 9,866**	**$ 6,762**

The contractual maturity by the number of years until maturity for fixed maturity securities with a gross unrealized loss at September 30, 2010 are shown in the following table:

	Gross Unrealized Loss		Fair Value	
	Amount	Percent of Total	Amount	Percent of Total
	($ in thousands)			
Due in one year or less	$ 3	0%	$ 2,854	5%
Due after one year through five years	27	1%	11,170	21%
Due after five years through ten years	20	1%	3,400	6%
Due after ten years	16	1%	2,017	4%
Mortgage- and asset-backed securities	3,017	97%	33,645	64%
Total fixed maturity securities	$ 3,083	100%	$ 53,086	100%

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The change in net unrealized gains/ (losses) consisted of:

($ in thousands)	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Fixed maturities	$ 54,257	$ 75,663
Equity securities	4,227	13,492
	58,484	89,155
Deferred income tax (charged) credited	(20,160)	(30,356)
Change in unrealized gains (losses), net	$ 38,324	$ 58,799

Our realized gains and losses for the periods indicated were as follows:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	($ in thousands)			
Fixed maturities:				
Gains	$ 4,790	$ 8,739	$ 22,440	$ 13,264
(Losses)	(1,036)	(2,057)	(1,319)	(5,555)
	3,754	6,682	21,121	7,709
Equity securities:				
Gains	773		773	1,562
(Losses)	(6)		(241)	(1,530)
	767		532	32
Net realized gains (losses)	$ 4,521	$ 6,682	$ 21,653	$ 7,741

The following table presents, for each of the fair value hierarchy levels as defined in ASC 820, *Fair Value Measurements*, our fixed maturities and equity securities by asset class that are measured at fair value at September 30, 2010:

	Level 1	Level 2	Level 3	Total
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 266,978	$ 154,562	$	$ 421,540
States, municipalities and political subdivisions		405,584		405,584
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		414,335		414,335
Residential mortgage obligations		20,785		20,785
Asset-backed securities		33,411		33,411
Commercial mortgage-backed securities		143,278		143,278
Subtotal		611,809		611,809
Corporate bonds		381,560		381,560
Total fixed maturities	266,978	1,553,515		1,820,493
Equity securities common stocks	86,447			86,447
Total	$ 353,425	$ 1,553,515	$	$ 1,906,940

The fair value of financial instruments is determined based on the following fair value hierarchy. The fair value measurement inputs and valuation techniques are similar across all asset classes within the levels outlined below.

Level 1 Quoted prices for identical instruments in active markets. Examples are listed equity and fixed income securities traded on an exchange. Treasury securities would generally be considered Level 1.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Examples are asset-backed and mortgage-backed securities which are similar to other asset-backed or mortgage-backed securities observed in the market.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. An example would be a private placement with minimal liquidity.

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We did not have any significant transfers between Level 1 and 2 for the nine months ended September 30, 2010. We did not have any Level 3 securities activity for the nine months ended September 30, 2010. The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value using Level 3 inputs during the nine months ended September 30, 2009:

	Nine Months Ended September 30, 2009	
	($ in thousands)	
Level 3 investments as of January 1	$	156
Unrealized net gains included in other comprehensive income (loss)		23
Purchases, sales, paydowns and amortization		(23)
Transfer from Level 3		(156)
Transfer to Level 3		
Level 3 investments as of September 30, 2009	$	

Note 11. Credit Facility

On April 1, 2010, we entered into a $140 million credit facility agreement entitled Fifth Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and amends and replaces the $75 million credit facility that expired by its terms on April 2, 2010. We may request that the facility be increased by an amount not to exceed $25 million. The credit facility, which is denominated in U.S. dollars, is utilized primarily by Navigators Corporate Underwriters Ltd. and Millennium Underwriting Ltd. to fund our participation in Syndicate 1221 through letters of credit. The letters of credit issued under the facility are denominated in British pounds and their aggregate face amount will fluctuate based on exchange rates. The credit facility expires on March 31, 2011. At September 30, 2010, letters of credit with an aggregate face amount of $129.0 million were outstanding under the credit facility.

This credit facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, dividends and the sale of assets, and requirements as to maintaining certain consolidated tangible net worth, statutory surplus and other financial ratios. The credit facility also provides for customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, any representation or warranty made by the Company being false in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. The letter of credit facility is secured by a pledge of the stock of certain insurance subsidiaries of the Company. To the extent the aggregate face amount issued under the credit facility exceeds the commitment amount, we are required to post collateral with the lead bank of the consortium. We were in compliance with all covenants under the credit facility at September 30, 2010.

As a result of the April 1, 2010 amendment of the credit facility, the applicable margin and applicable fee rate payable under the letter of credit facility are now based on a tiered schedule that is based on the Company s status as determined from its then-current ratings issued by S&P and Moody s Investors Service (Moody s) with respect to the Company s senior unsecured long-term debt securities without third-party credit enhancement.

Note 12. Share Repurchases

In November 2009, the Parent Company s Board of Directors adopted a share repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2010. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations.

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The following presents our share repurchases under the aforementioned programs for the periods indicated:

	Total Number of Shares Purchased	Average Cost Paid Per Share	Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
	($ in thousands, except per share)		
October 2009			$ 35,000
November 2009	29,021	$ 47.30	$ 33,627
December 2009	112,555	$ 47.83	$ 28,243
Subtotal fourth quarter	141,576	$ 47.72	
Total 2009 activity	141,576	$ 47.72	
January 2010	171,500	$ 44.32	$ 20,642
February 2010	128,500	$ 41.79	$ 15,272
March 2010	273,600	$ 39.10	$ 69,573
Subtotal first quarter	573,600	$ 41.27	
April 2010	149,912	$ 40.92	$ 63,439
May 2010	248,430	$ 39.92	$ 53,522
June 2010	159,661	$ 40.38	$ 47,075
Subtotal second quarter	558,003	$ 40.32	
July 2010	57,177	$ 42.10	$ 44,668
August 2010	32,556	$ 42.49	$ 43,284
September 2010	7,382	$ 42.29	$ 42,972
Subtotal third quarter	97,115	$ 42.25	
Total 2010 activity	1,228,718	$ 40.91	
Total share repurchase activity	1,370,294	$ 41.62	$ 42,972

(1) Balance as of the end of the month indicated.

From October 1, 2010 through November 3, 2010, the Parent Company purchased an additional 1,500 shares of its common stock in the open market at an average cost of $42.85 per share for a total of approximately sixty four thousand dollars under the aforementioned $65 million share repurchase program.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Note on Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q for The Navigators Group, Inc. and its subsidiaries (the Company , we , us , and our) are forward-looking statements as defined in the Private Securities Litigation Reform of 1995. All statements other than statements of historical fact included in or incorporated by reference in this Quarterly Report are forward looking statements. Whenever used in this report, the words estimate, expect, believe o similar expressions or their negative are intended to identify such forward-looking statements. Forward-looking statements are derived from information that we currently have and assumptions that we make. We cannot assure that anticipated results will be achieved, since actual results may differ materially because of both known and unknown risks and uncertainties which we face. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to, the factors discussed in the Risk Factors section of our 2009 Annual Report on Form 10-K as well as:

- continued volatility in the financial markets and the current recession;
- risks arising from the concentration of our business in marine and energy, general liability and professional liability insurance, including the risk that market conditions for these lines could change adversely or that we could experience large losses in these lines;
- cyclicality in the property/casualty insurance business generally, and the marine insurance business specifically;
- risks that we face in entering new markets and diversifying the products and services that we offer, including risks arising from the development of our new specialty lines or our ability to manage effectively the rapid growth in our lines of business;
- changing legal, social and economic trends and inherent uncertainties in the loss estimation process, which could adversely impact the adequacy of loss reserves and the allowance for reinsurance recoverables;
- risks inherent in the preparation of our financial statements, which requires us to make many estimates and judgments;
- our ability to continue to obtain reinsurance covering our exposures at appropriate prices and/or in sufficient amounts;
- the counterparty credit risk of our reinsurers, including the other participants in the marine pool, and other risks associated with the collection of reinsurance recoverable amounts from our reinsurers, who may not pay on losses in a timely fashion, or at all;
- the effects of competition from other insurers;
- unexpected turnover of our professional staff and our ability to attract and retain qualified employees;
- increases in interest rates during periods in which we must sell fixed-income securities to satisfy liquidity needs may result in realized investment losses;

our investment portfolio is exposed to market-wide risks and fluctuations, as well as to risks inherent in particular types of securities;

exposure to significant capital market risks related to changes in interest rates, credit spreads, equity prices and foreign exchange rates which may adversely affect our results of operations, financial condition or cash flows;

capital may not be available in the future, or may not be available on favorable terms;

our ability to maintain or improve our ratings to avoid the possibility of downgrades in our claims-paying and financial strength ratings significantly adversely affecting us, including reducing the number of insurance policies we write generally, or causing clients who require an insurer with a certain rating level to use higher-rated insurers;

risks associated with continued or increased premium levies by Lloyd s of London (Lloyd s) for the Lloyd s Central Fund and cash calls for trust fund deposits, or a significant downgrade of Lloyd s rating by A.M. Best Company;

changes in the laws, rules and regulations that apply to our insurance companies;

the inability of our subsidiaries to pay dividends to us in sufficient amounts, which would harm our ability to meet our obligations;

weather-related events and other catastrophes (including acts of terrorism) impacting our insureds and/or reinsurers, including, without limitation, the impact of Hurricanes Katrina, Rita and Wilma in 2005 and Hurricanes Gustav and Ike in 2008 and the possibility that our estimates of losses from such hurricanes will prove to be materially inaccurate;

volatility in the market price of our common stock; and

other risks that we identify in current and future filings with the Securities and Exchange Commission (SEC).

In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this Form 10-Q may not occur. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of their respective dates.

Overview

The discussion and analysis of our financial condition and results of operations contained herein should be read in conjunction with our consolidated financial statements and accompanying notes which appear elsewhere in this Form 10-Q. It contains forward-looking statements that involve risks and uncertainties. Please see Note on Forward-Looking Statements for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Form 10-Q.

We are an international insurance company focusing on specialty products for niches within the overall property/casualty insurance market. Our largest product line and most long-standing area of specialization is ocean marine insurance. We have also developed specialty niches in professional liability insurance and in specialty liability insurance primarily consisting of contractors liability and primary and excess liability coverages.

Our underwriting segments consist of insurance company operations (Insurance Companies) and operations at Lloyd s of London (Lloyd s) through Lloyd s Syndicate 1221 (Syndicate 1221) (Lloyd s Operations). The Insurance Comp consist of Navigators Insurance Company, which includes our branch located in the United Kingdom (the U.K. Branch), and Navigators Specialty Insurance Company, which underwrites specialty and professional liability insurance on an excess and surplus lines basis. All of the insurance business written by Navigators Specialty Insurance Company is fully reinsured by Navigators Insurance Company pursuant to a 100% quota share reinsurance agreement.

Our Lloyd s Operations include Navigators Underwriting Agency Ltd. (NUAL), a wholly-owned Lloyd s underwriting agency which manages Syndicate 1221. Our Lloyd s Operations primarily underwrite marine and related lines of business along with offshore energy, professional liability insurance and construction coverages for onshore energy business through Syndicate 1221. We controlled 100% of Syndicate 1221 s stamp capacity for the 2010 and 2009 underwriting years through our wholly-owned subsidiary, Navigators Corporate Underwriters Ltd., which is referred to as a corporate name in the Lloyd s market. We have also established underwriting agencies in Antwerp, Belgium, Stockholm, Sweden and Copenhagen, Denmark which underwrite risks pursuant to binding authorities within NUAL into Syndicate 1221. We also maintain an underwriting presence in Brazil and China through our involvement with Lloyd s.

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Catastrophe Risk Management

Our Insurance Companies and Lloyd s Operations have exposure to losses caused by natural and man-made catastrophic events. The frequency and severity of catastrophes are unpredictable.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in an area affected by the event and the severity of the event. We continually assess our concentration of underwriting exposures in catastrophe exposed areas globally and manage this exposure through individual risk selection and through the purchase of reinsurance. We also use modeling and concentration management tools that allow us to better monitor and control our accumulations of potential losses from catastrophe events. Despite these efforts, there remains uncertainty about the characteristics, timing and extent of insured losses given the unpredictable nature of catastrophes. The occurrence of one or more catastrophic events could have a material adverse effect on our results of operations, financial condition and/or liquidity.

We have significant natural catastrophe exposures throughout the world. We estimate that our current largest exposure to loss from a single natural catastrophe event comes from an earthquake on the west coast of the United States. As of September 30, 2010, we estimate that our probable maximum pre-tax gross and net loss exposure from such an earthquake event would be approximately $150 million and $27 million, respectively, including the cost of reinsurance reinstatement premiums.

Like all catastrophe exposure estimates, the foregoing estimate of our probable maximum loss is inherently uncertain. This estimate is highly dependent upon numerous assumptions and subjective underwriting judgments. Examples of significant assumptions and judgments related to such an estimate include the intensity, depth and location of the earthquake, the various types of the insured risks exposed to the event at the time the event occurs and the estimated costs or damages incurred for each insured risk. The composition of our portfolio also makes such estimates challenging due to the non-static nature of the exposures covered under our policies in lines of business such as cargo and hull. There can be no assurances that the gross and net loss amounts that we could incur in such an event or in any natural catastrophe event would not be materially higher than the estimates discussed above given the significant uncertainties with respect to such an estimate. Moreover, our portfolio of insured risks changes dynamically over time and there can be no assurance that our probable maximum loss will not change materially over time.

The occurrence of large loss events could reduce the reinsurance coverage that is available to us and could weaken the financial condition of our reinsurers, which could have a material adverse effect on our results of operations. Although the reinsurance agreements make the reinsurers liable to us to the extent the risk is transferred or ceded to the reinsurer, ceded reinsurance arrangements do not eliminate our obligation to pay claims to our policyholders as we are required to pay the losses if a reinsurer fails to meet its obligations under the reinsurance agreement. Accordingly, we bear credit risk with respect to our reinsurers. Specifically, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business.

Critical Accounting Policies

The Company s Annual Report on Form 10-K for the year ended December 31, 2009 discloses our critical accounting policies (see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies). Certain of these policies are critical to the portrayal of our financial condition and results since they require management to establish estimates based on complex and subjective judgments, including those related to our estimates for loss and loss adjustment expenses (LAE) (including losses that have occurred but were not reported to us by the financial reporting date), reinsurance recoverables, written and unearned premium, the recoverability of deferred tax assets, the impairment of investment securities and accounting for Lloyd s results. For additional information regarding our critical accounting policies, refer to our 2009 Annual Report on Form 10-K for the year ended December 31, 2009, pages 42 through 51.

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Recent Accounting Pronouncements

Refer to Note 2: Recent Accounting Pronouncements in the Notes to Interim Consolidated Financial Statements for a discussion about accounting standards recently adopted by the Company, as well as recent accounting developments relating to standards not yet adopted by the Company.

Results of Operations

The following is a discussion and analysis of our consolidated and segment results of operations for the three and nine months ended September 30, 2010 and 2009. Earnings per share data is presented on a per diluted share basis. In presenting our financial results, we have discussed our performance with reference to underwriting profit or loss and the related combined ratio, both of which are non-GAAP measures of underwriting profitability. We consider such measures, which may be defined differently by other companies, to be important in the understanding of our overall results of operations. Underwriting profit or loss is calculated from net earned premium, less the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense). The combined ratio is derived by dividing the sum of net losses and LAE, commission expenses, other operating expenses and other income (expense) by net earned premiums. A combined ratio of less than 100% indicates an underwriting profit and over 100% indicates an underwriting loss.

Net income for the three months ended September 30, 2010 was $16.2 million or $1.00 per diluted share compared to $21.4 million or $1.24 per diluted share for the three months ended September 30, 2009. Included in these results were net realized gains of $2.9 million and $4.3 million after-tax for the three months ended September 30, 2010 and 2009, respectively. Our net realized gains in the third quarter 2010 resulted from the normal ongoing management of our investment portfolio. In addition, our net income included net other-than-temporary impairment losses recognized in earnings of $0.5 million and $0.4 million after-tax for the three months ended September 30, 2010 and 2009, respectively.

The combined ratio for the three months ended September 30, 2010 was 97.8% compared to 95.9% for the comparable period in 2009. The loss ratios were 63.9% and 62.8% for the three months ended September 30, 2010 and 2009, respectively. The increase in the loss ratio was primarily due to intense competition and a weaker pricing environment in the face of higher loss trends in 2010 compared to the prior year which led to a deterioration in the current accident year loss ratio. See *Net Losses and Loss Adjustment Expenses* section below. There was favorable prior year reserve development of $4.2 million and $10.7 million for the three and nine months ended September 30, 2010 compared to prior year favorable development of $3.9 million and $19.1 million for the comparable periods in 2009. The net paid loss and LAE ratio for the three months ended September 30, 2010 was 53.5% compared to 52.5% for the comparable period in 2009.

Cash flow from operations was $49.8 million and $114.1 million for the three and nine months ended September 30, 2010 compared to $35.7 million and $105.2 million for the comparable periods in 2009. The increases in cash flow from operations for both the three and nine month periods were primarily due to improved collections on reinsurance recoverables as well as a decline in income taxes paid. Partially offsetting these aforementioned items was an increase in paid losses as well as an overall decline in the operating results.

Consolidated stockholders equity increased 6.5% to $854.0 million or $54.17 per share at September 30, 2010 compared to $801.5 million or $47.58 per share at December 31, 2009. The increase in stockholder s equity was primarily due to net income and unrealized investment portfolio gains.

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REVENUES

Gross written premiums decreased to $233.6 million and $757.4 million in the three months and nine months ended September 30, 2010, respectively compared to $245.2 million and $793.2 million in the 2009 comparable periods. The decrease in the 2010 third quarter and nine month gross written premiums compared to 2009 was primarily due to the run-off of our personal umbrella lines, continued weakness in our construction lines as well as a decline in our D&O lines due to a planned shift toward underwriting excess layers. These declines were partially offset by an increase in our NavTech lines due to the improved pricing environment in the wake of the Deepwater Horizon event.

Our Marine division saw increases in the average renewal premium rates in our Lloyd s and Inland Marine lines of approximately 3% and 2%, respectively, for the nine months ended September 30, 2010 compared to the same period in 2009. U.S. Marine premiums remained flat for the period. For our Property Casualty division, we experienced average renewal premium rate increases in our NavTech and NavPac lines of approximately 3% and 4%, respectively, which were offset by declines in our primary and excess casualty lines of 3% and 2%, respectively. The Insurance Companies and Lloyd s professional liability division overall experienced an approximately 3% decrease in average renewal premium rates for the nine months ended September 30, 2010 compared to 2009.

The average premium rate increases or decreases as noted above for the marine, property casualty and professional liability businesses are calculated primarily by comparing premium amounts on policies that have renewed. The premiums are judgmentally adjusted for exposure factors when deemed significant and sometimes represent an aggregation of several lines of business. The rate change calculations provide an indicated pricing trend and are not meant to be a precise analysis of the numerous factors that affect premium rates or the adequacy of such rates to cover all underwriting costs and generate an underwriting profit. The calculation can also be affected quarter by quarter depending on the particular policies and the number of policies that renew during that period. Due to market conditions, these rate changes may or may not apply to new business that generally would be more competitively priced compared to renewal business. The calculation does not reflect the rate on business that we are unwilling or unable to renew due to loss experience or competition.

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The following tables set forth our gross and net written premiums and net earned premiums by segment and line of business for the periods indicated:

	Three Months Ended September 30,							
	2010				2009			
	Gross Written Premiums	**%**	**Net Written Premiums**	**Net Earned Premiums**	**Gross Written Premiums**	**%**	**Net Written Premiums**	**Net Earned Premiums**
	($ in thousands)							
Insurance Companies:								
Marine	$ 49,406	21%	$ 35,546	$ 41,091	$ 53,129	22%	$ 39,632	$ 42,620
Property Casualty	81,351	35%	52,677	50,976	93,302	38%	57,567	60,380
Professional Liability	32,586	14%	19,693	20,131	33,569	13%	18,834	19,804
Insurance Companies Total	163,343	70%	107,916	112,198	180,000	73%	116,033	122,804
Lloyd s Operations:								
Marine	32,788	14%	27,142	38,254	33,960	14%	23,816	33,945
Property Casualty	27,687	12%	17,414	12,202	20,024	8%	11,116	9,126
Professional Liability	9,820	4%	5,335	5,579	11,207	5%	5,036	5,396
Lloyd s Operations Total	70,295	30%	49,891	56,035	65,191	27%	39,968	48,467
Total	$ 233,638	100%	$ 157,807	$ 168,233	$ 245,191	100%	$ 156,001	$ 171,271

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	Nine Months Ended September 30,							
	2010				2009			
	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums
	($ in thousands)							
Insurance Companies:								
Marine	$ 172,136	23%	$ 123,702	$ 122,739	$ 187,452	24%	$ 133,047	$ 114,459
Property Casualty	242,494	32%	156,674	152,228	272,127	34%	183,247	188,860
Professional Liability	97,192	13%	60,281	58,867	101,789	13%	59,180	55,998
Insurance Companies Total	511,822	68%	340,657	333,834	561,368	71%	375,474	359,317
Lloyd s Operations:								
Marine	133,758	17%	111,205	108,541	140,256	18%	113,867	102,158
Property Casualty	76,768	10%	43,049	34,880	59,058	7%	33,781	28,250
Professional Liability	35,003	5%	17,218	16,518	32,497	4%	16,538	16,360
Lloyd s Operations Total	245,529	32%	171,472	159,939	231,811	29%	164,186	146,768
Total	$ 757,351	100%	$ 512,129	$ 493,773	$ 793,179	100%	$ 539,660	$ 506,085

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Gross Written Premiums

Insurance Companies Gross Written Premiums

Marine Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

($ in thousands)	Three Months Ended September 30, 2010		2009		Change
Marine liability	$ 13,592	29%	$ 17,152	32%	-21%
Inland marine	6,793	14%	6,262	12%	8%
P&I	3,797	8%	2,611	5%	45%
Other	3,531	6%	3,701	7%	-5%
Cargo	6,661	13%	6,423	12%	4%
Craft/Fishing vessel	4,308	9%	5,442	10%	-21%
Bluewater hull	4,679	9%	4,308	8%	9%
Transport	6,045	12%	7,230	14%	-16%
Total	$ 49,406	100%	$ 53,129	100%	-7%

The Insurance Companies marine gross written premiums for the 2010 third quarter decreased 7.0% compared to the same period in 2009. The competition in this sector remains significant and excess capacity continues to exist. The weak economy has also led to reduced exposure bases which reduced premiums. The marine liability premium decreased 21% for the three months ended September 30, 2010 due mostly to timing of several large premium writings as well as the transfer of a block of business to our Lloyd s Syndicate. The Marine business experienced an overall average renewal premium increase of 1%.

($ in thousands)	Nine Months Ended September 30, 2010		2009		Change
Marine liability	$ 59,338	34%	$ 65,965	35%	-10%
Inland marine	23,310	14%	22,107	12%	5%
P&I	14,037	8%	20,559	11%	-32%
Other	15,264	9%	13,033	7%	17%
Cargo	17,317	10%	20,833	11%	-17%
Craft/Fishing vessel	15,240	9%	14,803	8%	3%
Bluewater hull	14,838	9%	15,238	8%	-3%
Transport	12,792	7%	14,914	8%	-14%
Total	$ 172,136	100%	$ 187,452	100%	-8%

The Insurance Companies marine gross written premiums for the 2010 nine month period decreased 8.2% compared to the same period in 2009 due primarily to the competitive factors and economic conditions described above. For the nine months ended September 30, 2010, the average renewal premium rates for the marine business increased approximately 1%.

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Property Casualty Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

	Three Months Ended September 30,				
($ in thousands)	2010		2009		Change
Construction liability	$ 21,799	27%	$ 29,349	32%	-26%
Commercial umbrella	23,159	29%	19,998	21%	16%
Offshore energy	20,632	25%	14,776	16%	40%
Primary E&S	4,333	5%	2,221	2%	95%
NavPac	10,548	13%	10,795	12%	-2%
Other (Run-off)	880	1%	16,163	17%	-95%
Total	$ 81,351	100%	$ 93,302	100%	-13%

The property casualty gross written premiums for the three months ended September 30, 2010 decreased 12.8% compared to the same period in 2009, due primarily to the run-off of our personal umbrella line as well as continuing weak economic conditions that have reduced demand for construction liability insurance. Our Offshore energy line increased by 40% in the quarter due to greater demand as well as an improved pricing environment resulting from the Deepwater Horizon incident. Our commercial umbrella business line experienced growth in 2010 due to the investments we made in 2008 and 2009 in new underwriters. Finally, our Primary E&S line increased 95% primarily due to significant growth in our Environmental business.

For the three months ended September 30, 2010, the average renewal premium rates for most of our casualty lines including construction liability declined modestly. Our NavTech lines saw average renewal rate increases of approximately 6%.

	Nine Months Ended September 30,				
($ in thousands)	2010		2009		Change
Construction liability	$ 67,892	28%	$ 86,121	32%	-21%
Commercial umbrella	67,506	28%	58,361	21%	16%
Offshore energy	44,256	18%	38,100	14%	16%
Primary E&S	19,764	8%	12,753	5%	55%
NavPac	30,391	13%	31,288	11%	-3%
Other (Run-off)	12,685	5%	45,504	17%	-72%
Total	$ 242,494	100%	$ 272,127	100%	-11%

The property casualty gross written premiums for the nine months ended September 30, 2010 decreased 10.9% compared to the same period in 2009 due primarily to the reasons described in the three month change above. For the nine months ended September 30, 2010, the average renewal premium rates for most of our casualty lines including construction liability declined modestly. Our NavTech lines saw average renewal rate decreases that occurred earlier in the year reverse following the Deepwater Horizon event, resulting in a year to date increase of approximately 4%.

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Professional Liability Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

	Three Months Ended September 30,				
($ in thousands)	2010		2009		Change
D&O (public and private)	$ 17,284	53%	$ 24,693	74%	-30%
Errors and omissions	13,830	42%	7,367	22%	88%
Architects and engineers	1,472	5%	1,509	4%	-2%
Total	$ 32,586	100%	$ 33,569	100%	-3%

The professional liability gross written premiums for the three months ended September 30, 2010 decreased 2.9% compared to the same period in 2009. The decline in D&O gross written premiums was due to a shift in underwriting strategy toward excess layers. The increase in the E&O gross written premiums was due to growth in our program for smaller law firms. For the three months ended September 30, 2010, the average renewal premium rates for the professional liability business decreased approximately 6% compared to the same period in 2009.

	Nine Months Ended September 30,				
($ in thousands)	2010		2009		Change
D&O (public and private)	$ 54,180	56%	$ 72,427	72%	-25%
Errors and omissions	39,797	41%	25,808	25%	54%
Architects and engineers	3,215	3%	3,554	3%	-10%
Total	$ 97,192	100%	$ 101,789	100%	-5%

The professional liability gross written premiums for the nine months ended September 30, 2010 decreased 4.5% compared to the same period in 2009 due primarily to the reasons described in the three month change above. For the nine months ended September 30, 2010, the average renewal premium rates for the professional liability business decreased approximately 4% compared to the same period in 2009.

Lloyd s Operations Gross Written Premiums

We have controlled 100% of Syndicate 1221 s stamp capacity since 2006. Stamp capacity is a measure of the amount of premium a Lloyd s syndicate is authorized to write based on a business plan approved by the Council of Lloyd s. Syndicate 1221 s stamp capacity is £168 million ($264 million) in 2010 compared to £123 million ($201.8 million) in 2009.

The Lloyd s Operations gross written premiums for the three and nine months ended September 30, 2010 increased 7.8% and 5.9% compared to the same periods in 2009. The increase in the year to date gross written premiums was attributable to higher property casualty and professional liability premiums which are described in detail below.

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Marine Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

($ in thousands)	Three Months Ended September 30, 2010			2009			Change
Marine liability	$	9,774	30%	$	7,585	22%	29%
Cargo and specie		15,384	47%		15,799	46%	-3%
Assumed reinsurance		1,713	5%		2,284	7%	-25%
Hull		3,524	11%		4,707	14%	-25%
Other		2,393	7%		3,585	11%	-33%
Total	$	32,788	100%	$	33,960	100%	-3%

The marine gross written premium for the three months ended September 30, 2010 declined 3.5% compared to the same period in 2009. Our assumed reinsurance business line declined as we exited the U.S. property catastrophe business. Our marine liability line increased 29% resulting from an increase in energy liability activity. For the three months ended September 30, 2010, average renewal premium rates increased approximately 2% compared to the same period in 2009, with larger increases on our energy liability policies within marine liability.

($ in thousands)	Nine Months Ended September 30, 2010			2009			Change
Marine liability	$	48,886	37%	$	40,412	29%	21%
Cargo and specie		50,594	38%		58,836	41%	-14%
Assumed reinsurance		12,243	9%		18,043	13%	-32%
Hull		14,985	11%		15,134	11%	-1%
Other		7,050	5%		7,831	6%	-10%
Total	$	133,758	100%	$	140,256	100%	-5%

The marine gross written premium for the nine months ended September 30, 2010 declined 4.6% compared to the same period in 2009 due primarily to the reasons described in the three month change above. Our Cargo and specie line declined 14% as a result of the global economic slowdown. For the nine months ended September 30, 2010, average renewal premium rates increased approximately 3% compared to the same period in 2009.

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Property Casualty Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

	Three Months Ended September 30,						
($ in thousands)	2010			2009			Change
Offshore energy	$	12,846	47%	$	9,447	47%	36%
Engineering and construction		6,686	24%		4,917	25%	36%
Onshore energy		3,913	14%		2,663	13%	47%
US Property casualty		922	3%		454	2%	103%
Bloodstock		3,320	12%		2,550	13%	30%
Property			0%		(7)	0%	-100%
Total	$	27,687	100%	$	20,024	100%	38%

The Property Casualty gross written premiums for the three months ended September 30, 2010 increased 38.3% compared to the same period in 2009 primarily due to an increase in our Offshore energy business line due to an increase in demand as well as an improved pricing environment resulting from the Deepwater Horizon incident. The U.S. property casualty business is primarily comprised of non-admitted risks in the state of New York. The average renewal premium rates for the three months ended September 30, 2010 for our offshore energy lines increased approximately 21% and our onshore energy and engineering lines both decreased approximately 3% compared to the same period in 2009.

	Nine Months Ended September 30,						
($ in thousands)	2010			2009			Change
Offshore energy	$	36,701	48%	$	27,778	48%	32%
Engineering and construction		17,859	23%		13,281	22%	34%
Onshore energy		14,584	19%		11,947	20%	22%
US Property casualty		2,276	3%		3,174	5%	-28%
Bloodstock		5,387	7%		2,965	5%	82%
Property		(39)	0%		(87)	0%	-55%
Total	$	76,768	100%	$	59,058	100%	30%

The Property Casualty gross written premiums for the nine months ended September 30, 2010 increased 30.0% compared to the same period in 2009 due primarily to the reasons described in the three month change above. For the nine months ended September 30, 2010, the average renewal premium rates for our offshore energy and engineering lines increased approximately 8% and were flat, respectively, and our onshore energy lines decreased approximately 8% compared to the same period in 2009. Our NavTech lines saw average renewal rate decreases that occurred earlier in the year reverse following the Deepwater Horizon event.

Professional Liability Premiums. The gross written premiums for the three and nine months ended September 30, 2010 and 2009 consisted of the following:

	Three Months Ended September 30,				
($ in thousands)	2010		2009		Change
D&O (public and private)	$ 7,137	73%	$ 9,243	82%	-23%
E&O	2,683	27%	1,964	18%	37%
Total	$ 9,820	100%	$ 11,207	100%	-12%

The professional liability gross written premiums for the three months ended September 30, 2010 decreased 12.4% compared to the same period in 2009 due to competitive market conditions in the D&O lines. The average renewal premiums rates remained flat for the three months ended September 30, 2010 compared to the same period in 2009, respectively.

	Nine Months Ended September 30,				
($ in thousands)	2010		2009		Change
D&O (public and private)	$ 23,175	66%	$ 19,838	61%	17%
E&O	11,828	34%	12,659	39%	-7%
Total	$ 35,003	100%	$ 32,497	100%	8%

The professional liability gross written premiums for the nine months ended September 30, 2010 increased 7.7% compared to the same period in 2009 due primarily to higher excess D&O premiums being generated from an underwriting team that was hired at the end of 2008. The average renewal premiums rates were flat for the nine months ended September 30, 2010 compared to the same period in 2009.

Ceded Written Premiums

In the ordinary course of business, we reinsure certain insurance risks with unaffiliated insurance companies for the purpose of limiting our maximum loss exposure, protecting against catastrophic losses, and maintaining desired ratios of net premiums written to statutory surplus. The relationship of ceded to written premium varies based upon the types of business written and whether the business is written by the Insurance Companies or the Lloyd s Operations.

The following tables set forth our ceded written premiums by segment and major line of business for the periods indicated:

	Three Months Ended September 30, 2010		2009	
	Ceded Written Premiums	% of Gross Written Premiums	Ceded Written Premiums	% of Gross Written Premiums
	($ in thousands)			
Insurance Companies:				
Marine	$ 13,860	28%	$ 13,497	25%
Property Casualty	28,674	35%	35,735	38%
Professional Liability	12,893	40%	14,735	44%
Subtotal	55,427	34%	63,967	36%
Lloyd s Operations:				
Marine	5,646	17%	10,144	30%
Property Casualty	10,273	37%	8,908	44%
Professional Liability	4,485	46%	6,171	55%
Subtotal	20,404	29%	25,223	39%
Total	$ 75,831	32%	$ 89,190	36%

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	Nine Months Ended September 30,			
	2010		2009	
	Ceded Written Premiums	% of Gross Written Premiums	Ceded Written Premiums	% of Gross Written Premiums
	($ in thousands)			
Insurance Companies:				
Marine	$ 48,434	28%	$ 54,405	29%
Property Casualty	85,820	35%	88,880	33%
Professional Liability	36,911	38%	42,609	42%
Subtotal	171,165	33%	185,894	33%
Lloyd s Operations:				
Marine	22,553	17%	26,389	19%
Property Casualty	33,719	44%	25,277	43%
Professional Liability	17,785	51%	15,959	49%
Subtotal	74,057	30%	67,625	29%
Total	$ 245,222	32%	$ 253,519	32%

The decrease in the percentage of total ceded written premiums to total gross written premiums for the three months ended September 30, 2010 compared to the same period in 2009 was primarily due to increased writings in the third quarter 2010 for our offshore and small lawyer s lines which have lower cessions. For the nine months ended September 30, 2010, the shift in business mix toward lines with lower cessions was offset by the impact of reinstatement costs recorded in the second quarter of 2010 resulting from both the Deepwater Horizon and West Atlas losses ($7.9 million).

Net Written Premiums

Net written premiums increased 1.2% and decreased 5.1% for the three and nine months ended September 30, 2010 compared to the same periods in 2009. The impact of lower gross written premiums for the three and nine months ended September 30, 2010 was offset by the decline in ceded written premiums for the third quarter 2010 as described above.

Net Earned Premiums

Net earned premiums decreased 1.8% and 2.4% for the three and nine months ended September 30, 2010 compared to the same periods in 2009.

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Net Investment Income

Our net investment income was derived from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)			
Fixed maturities	$ 17,506	$ 18,955	$ 52,701	$ 55,919
Equity securities	675	446	1,904	1,700
Short-term investments	233	83	726	833
	18,414	19,484	55,331	58,452
Investment expenses	(575)	(374)	(1,667)	(1,943)
Net investment income	$ 17,839	$ 19,110	$ 53,664	$ 56,509

Net investment income decreased 6.7% and 5.0% for the 2010 three and nine months periods compared to the same periods in 2009 due to lower investment yields.

Net Other-Than-Temporary Impairment Losses Recognized In Earnings

Our net other-than-temporary impairment losses recognized in earnings for the periods indicated were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)			
Fixed maturities	$ (309)	$ (525)	$ (517)	$ (2,997)
Equity securities	(360)	(22)	(387)	(8,719)
Net other-than-temporary impairment losses recognized in earnings	$ (669)	$ (547)	$ (904)	$ (11,716)

For the three and nine months ended September 30, 2010, we recorded net other-than-temporary impairment losses recognized in earnings of $0.7 million and $0.9 million, respectively, relating primarily to residential mortgage-backed securities and a small number of equity securities. For the comparable periods in the prior year, we recorded $0.5 million and $11.7 million of net other-than-temporary impairment losses recognized in earnings primarily related to equity securities and residential mortgage-backed securities.

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Net Realized Gains and Losses

Our realized gains and losses for the periods indicated were as follows:

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	($ in thousands)			
Fixed maturities:				
Gains	$ 4,790	$ 8,739	$ 22,440	$ 13,264
(Losses)	(1,036)	(2,057)	(1,319)	(5,555)
	3,754	6,682	21,121	7,709
Equity securities:				
Gains	773		773	1,562
(Losses)	(6)		(241)	(1,530)
	767		532	32
Net realized gains (losses)	$ 4,521	$ 6,682	$ 21,653	$ 7,741

For the three and nine months ended September 30, 2010, we recorded $4.5 million and $21.7 million of net realized gains compared to net realized gains of $6.7 million and $7.7 million losses for the comparable periods in 2009. On an after-tax basis, the net realized gains for the three and nine months ended were $2.9 million and $14.1 million compared with net realized gains of $4.3 million and $4.9 million for the 2009 comparable periods. We typically generate realized gains and losses as part of the normal ongoing management of our investment portfolio. Our net realized gains for the nine months ended September 30, 2010 included the sale of the majority of our general obligation municipal obligations in the second quarter of 2010, the proceeds of which were reinvested in corporate bonds and agency mortgage-backed securities.

Other Income/(Expense)

Other income/(expense) primarily includes foreign exchange gains and losses from our Lloyd s Operations, commission income and inspection fees related to our specialty insurance business. However, the second quarter of 2009 also included a $2.9 million gain related to the repurchase of $10 million aggregate principal amount of our issued and outstanding 7.0% Senior notes from an unaffiliated note-holder on the open market for $7 million.

EXPENSES

Net Losses and Loss Adjustment Expenses

The ratios of net losses and LAE to net earned premiums (loss ratios) for the three and nine months ended September 30, 2010 were 63.9% and 63.0%, respectively, and were 62.8% and 61.0%, respectively for the comparable periods in 2009. The increase in the loss ratios for the 2010 periods was primarily attributable to intense competition and a weaker pricing environment in 2010 compared to the prior year which led to a deterioration in the current accident year loss ratio as well as the Deepwater Horizon and West Atlas oil rig losses in the second quarter. There was favorable prior year reserve development of $4.2 million and $10.7 million for the three and nine months ended September 30, 2010 compared to prior year favorable development of $3.9 million and $19.1 million for the comparable periods in 2009, which are explained in more detail below.

Our insurance subsidiaries provided property reinsurance and liability insurance covering the Deepwater Horizon oil drilling rig that exploded in the Gulf of Mexico on April 20th, 2010 and subsequently sank. During the second quarter, we incurred gross loss and loss adjustment expenses of $19.5 million relating to the Deepwater Horizon incident. We ceded $13.5 million of this gross loss to our reinsurance program, which triggered reinsurance reinstatement premiums of $4.7 million. The remaining net loss of $6.0 million was within our loss expectations and the net loss was absorbed within the reserves for incurred but not reported losses established with respect to the current accident year in the impacted lines of business. During the third quarter we recorded an additional $1.9 million of gross losses and $0.2 million of net reinsurance reinstatement premiums.

We participated in various excess layers of the marine liability, directors and officer, excess liability insurance programs purchased by entities with potential liability exposures related to the Deepwater Horizon incident. We are still unable to accurately estimate the ultimate potential liability arising from the Deepwater Horizon incident, the allocation of that liability amongst the various participants, or what recoveries would be available to the participants from other applicable insurance coverage. If losses were incurred in the various excess insurance programs in which we participate, we believe our exposure would be mitigated by the substantial reinsurance coverage we maintain. Our management expects that the ultimate liability, if any, for the Deepwater Horizon loss will not be material to our consolidated financial position, but if a significant portion of the insurance programs in which we participate were to be exhausted, the loss, including related reinstatement premiums, could potentially have a material adverse effect on our consolidated results of operations or cash flows in a particular fiscal quarter or year.

The year-to-date was also impacted by additional gross losses of $9.0 million arising from the West Atlas oil rig loss, which occurred in late 2009, due to unexpectedly high costs incurred in the removal of the damaged wreck. This additional gross loss was fully ceded to our reinsurance program, but the cession triggered additional reinsurance reinstatement premiums of $3.2 million.

The following table presents our reinsurance recoverable amounts as of the dates indicated:

	September 30, 2010	December 31, 2009	Change
		($ in thousands)	
Reinsurance recoverables:			
Paid losses	$ 60,889	$ 76,505	$ (15,616)
Unpaid losses and LAE reserves	787,795	807,352	(19,557)
Total	$ 848,684	$ 883,857	$ (35,173)

The following table sets forth gross reserves for losses and LAE, reinsurance recoverable on such amounts and net losses and LAE reserves (a non-GAAP measure reconciled in the following table) as of the dates indicated:

	September 30, 2010	December 31, 2009	Change
		($ in thousands)	
Gross reserves for losses and LAE	$ 1,924,317	$ 1,920,286	$ 4,031
Less: Reinsurance recoverable on unpaid losses and LAE reserves	787,795	807,352	(19,557)
Net loss and LAE reserves	$ 1,136,522	$ 1,112,934	$ 23,588

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The following tables set forth our net reported losses and LAE reserves and net incurred but not reported (IBNR) reserves (non-GAAP measures reconciled below) by segment and line of business as of the dates indicated:

	September 30, 2010			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
		($ in thousands)		
Insurance Companies:				
Marine	$ 111,945	$ 103,307	$ 215,252	48%
Property Casualty	138,089	342,170	480,259	71%
Professional Liability	46,645	62,576	109,221	57%
Total Insurance Companies	296,679	508,053	804,732	63%
Lloyd s Operations:				
Marine	114,002	108,477	222,479	49%
Property Casualty	29,860	29,768	59,628	50%
Professional Liability	12,321	37,362	49,683	75%
Total Lloyd s Operations	156,183	175,607	331,790	53%
Total	$ 452,862	$ 683,660	$ 1,136,522	60%

	December 31, 2009			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
		($ in thousands)		
Insurance Companies:				
Marine	$ 113,604	$ 100,042	$ 213,646	47%
Property Casualty	134,427	351,985	486,412	72%
Professional Liability	38,410	68,807	107,217	64%
Total Insurance Companies	286,441	520,834	807,275	65%
Lloyd s Operations:				
Marine	107,800	101,851	209,651	49%
Property Casualty	27,148	25,175	52,323	48%

Professional Liability	7,442	36,243	43,685	83%
Total Lloyd s Operations	142,390	163,269	305,659	53%
Total	$ 428,831	$ 684,103	$ 1,112,934	61%

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The increase in net loss reserves is generally a reflection of the growth in net premium volume over the last three years coupled with a changing mix of business to longer-tail lines of business such as the specialty lines of business (construction defect, commercial excess, primary excess), professional liability lines of business and marine liability and transport business in ocean marine. These lines of business, which typically have a longer settlement period compared to the mix of business we have historically written, are becoming larger components of our overall business. Our reserving practices and the establishment of any particular reserve reflect management s judgment and do not represent any admission of liability with respect to any claims made against us. No assurance can be given that actual claims made and related payments will not be in excess of the amounts reserved. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Even after such adjustments, ultimate liability may exceed or be less than the revised estimates. The process of establishing loss reserves is complex and imprecise as it must take into account many variables that are subject to the outcome of future events. As a result, informed subjective judgments as to our ultimate exposure to losses are an integral component of our loss reserving process. Our actuaries generally calculate the IBNR loss reserves for each line of business by underwriting year for major products using standard actuarial methodologies. This process requires the substantial use of informed judgment and is inherently uncertain.

There are instances in which facts and circumstances require a deviation from the general process described above. Three such instances relate to the IBNR loss reserve processes for our 2008 Hurricane losses, our 2005 Hurricanes losses and our asbestos exposures, where extrapolation techniques are not applied, except in a limited way, given the unique nature of hurricane losses and limited population of marine excess policies with potential asbestos exposures. In such circumstances, inventories of the policy limits exposed to losses coupled with reported losses are analyzed and evaluated principally by claims personnel and underwriters to establish IBNR loss reserves.

For additional information regarding our accounting policies regarding net losses and loss adjustment expenses, please see our Critical Accounting Policies in our 2009 Annual Report on Form 10-K for the year ended December 31, 2009, pages 42 to 49.

Hurricanes Gustav and Ike

For the year ended December 31, 2008, we incurred gross and net losses and LAE of $114.0 million and $17.2 million, respectively, exclusive of $12.2 million for the cost of excess of loss reinstatement premiums, related to Hurricanes Gustav and Ike.

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The following table sets forth our gross and net loss and LAE reserves, incurred losses and LAE and payments for Hurricanes Gustav and Ike for the periods indicated:

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
	($ in thousands)	
Gross of Reinsurance		
Beginning gross reserves	$ 59,509	$ 107,399
Incurred loss & LAE	(2,005)	1,039
Calendar year payments	14,769	48,929
Ending gross reserves	$ 42,735	$ 59,509
Gross case loss reserves	$ 21,623	$ 34,015
Gross IBNR loss reserves	21,112	25,494
Ending gross reserves	$ 42,735	$ 59,509
Net of Reinsurance		
Beginning net reserves	$ 2,683	$ 12,923
Incurred loss & LAE	(77)	978
Calendar year payments	2,403	11,218
Ending net reserves	$ 203	$ 2,683
Net case loss reserves	$ 458	$ 1,793
Net IBNR loss reserves	(255)	890
Ending net reserves	$ 203	$ 2,683

Approximately $47.9 million and $69.7 million of paid and unpaid losses at September 30, 2010 and December 31, 2009, respectively, were due from reinsurers as a result of the losses from Hurricanes Gustav and Ike.

Hurricanes Katrina and Rita

During the 2005 third quarter, we incurred gross and net losses and LAE of $471.0 million and $22.3 million, respectively, exclusive of $14.5 million for the cost of excess of loss reinstatement premiums, related to Hurricanes Katrina and Rita.

The following table sets forth our gross and net loss and LAE reserves, incurred losses and LAE and payments for Hurricanes Katrina and Rita for the periods indicated:

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
	($ in thousands)	
Gross of Reinsurance		
Beginning gross reserves	$ 67,038	$ 97,732
Incurred loss & LAE	36	671
Calendar year payments	26,618	31,365
Ending gross reserves	$ 40,456	$ 67,038
Gross case loss reserves	$ 32,145	$ 49,291
Gross IBNR loss reserves	8,311	17,747
Ending gross reserves	$ 40,456	$ 67,038
Net of Reinsurance		
Beginning net reserves	$ 3,536	$ 3,667
Incurred loss & LAE	(89)	114
Calendar year payments	57	245
Ending net reserves	$ 3,390	$ 3,536
Net case loss reserves	$ 52	$ 183
Net IBNR loss reserves	3,338	3,353
Ending net reserves	$ 3,390	$ 3,536

Approximately $39.8 million and $68.5 million of paid and unpaid losses at September 30, 2010 and December 31, 2009, respectively, were due from reinsurers as a result of the losses from Hurricanes Katrina and Rita.

Prior Year Reserve Redundancies/Deficiencies

The relevant factors that may have a significant impact on the establishment and adjustment of loss and LAE reserves can vary by line of business and from period to period. As part of our regular review of prior reserves, management, in consultation with our actuaries, may determine, based on their judgment that certain assumptions made in the reserving process in prior periods may need to be revised to reflect various factors, likely including the availability of additional information. Based on their reserve analyses, management may make corresponding reserve adjustments.

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The segment and line of business breakdowns of prior period net reserve deficiencies (redundancies) were as follows:

	Three Months Ended Sept. 30, 2010	2009
	($ in thousands)	
Insurance Companies:		
Marine	$ (558)	$ 3,898
Property Casualty	348	(14,950)
Professional Liability	53	7,832
Subtotal Insurance Companies	(157)	(3,220)
Lloyd s Operations	(4,002)	(630)
Total	$ (4,159)	$ (3,850)

	Nine Months Ended Sept. 30, 2010	2009
	($ in thousands)	
Insurance Companies:		
Marine	$ 951	$ 8,025
Property Casualty	(8,430)	(39,467)
Professional Liability	1,825	18,200
Subtotal Insurance Companies	(5,654)	(13,242)
Lloyd s Operations	(5,001)	(5,853)
Total	$ (10,655)	$ (19,095)

Following is a discussion of relevant factors related to the $4.2 million prior period net reserve redundancy recorded in the 2010 third quarter:

The Insurance Companies recorded $0.2 million of prior period net reserve redundancies which was comprised of favorable development of $0.6 million from the Marine division offset by $0.4 million of unfavorable development from runoff lines. The favorable Marine development was mostly on the 2007 and prior underwriting years driven by Cargo, Hull and Marine Liability with some offsetting adverse development in the 2009 underwriting year primarily from Transport and P&I. The unfavorable development from runoff lines was mostly from UK property business. While there was prior year loss activity on several other lines, none of the activity was noteworthy.

The Lloyd s Operations recorded $4.0 million of prior period net reserve redundancies resulting from favorable development in the Marine and NavTech lines, partially offset by unfavorable development in the Professional Liability lines. The favorable development from Marine and NavTech was from underwriting years 2008 and prior with some offset from the 2009 underwriting year for NavTech. The unfavorable development from Professional Liability was driven by underwriting year 2007 for the E&O line.

Following is a discussion of relevant factors related to the $5.3 million prior period net reserve redundancy recorded in the 2010 second quarter:

The Insurance Companies recorded $0.8 million of prior period net reserve deficiencies for marine business resulting primarily from $0.8 million of increased liability reserves on the 2007 underwriting year. While there was prior year loss activity on several other lines, none of the activity was significant.

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The Insurance Companies recorded $5.8 million of prior period net savings for property casualty business primarily comprised of $4.2 million of favorable development on the 2007 underwriting year for our construction liability business due to lower reported claims than expected. In addition, there was $0.9 million of favorable development in our NavTech offshore lines also due to favorable development on the 2007 underwriting year resulting from lower reported claims than expected. Partially offsetting the above were prior period net reserve deficiencies of $0.8 million in our personal umbrella lines and $0.2 million for our liquor liability lines, both of which are in run-off.

The Lloyd s Operations recorded $0.4 million of prior period net savings.

Following is a discussion of relevant factors related to the $1.2 million prior period net reserve redundancy recorded in the 2010 first quarter:

The Insurance Companies recorded $0.7 million of prior period net reserve deficiencies for marine business resulting primarily from $1.2 million of increased liability reserves on reported losses from two older underwriting years, partially offset by favorable loss activity on several other lines, none of which was significant.

The Insurance Companies recorded $1.5 million of prior period net savings for property casualty business comprised mostly of favorable loss development of $2.5 million on two run-off books of business and $1.4 million in on our offshore business due to favorable loss emergence, partially offset by $1.8 million of reported loss activity in excess of our expectation on a run-off liquor liability book of business.

The Insurance Companies recorded $0.2 million of net prior period deficiencies for directors and officers business due to an increase in our loss ratio assumption of the 2009 underwriting year mostly offset by the favorable settlement of a large lawyers claim and favorable loss emergence on a run-off book of lawyers business emanating from the United Kingdom.

The Lloyd s Operations recorded $0.6 million of prior period net savings that included $0.7 million across several marine lines due to favorable loss activity, none of which was significant.

Following is a discussion of relevant factors related to the $3.9 million prior period net reserve redundancy recorded in the 2009 third quarter:

The Insurance Companies recorded $3.9 million of prior period net reserve deficiencies for marine business resulting primarily from $2.9 million of increased liability reserves due to loss activity that exceeded our expectations, including a large loss from the 2004 underwriting year. The remaining activity nets to $0.9 million of prior period net reserve deficiencies and included $0.6 million of loss development on transport business due to loss activity in the 2006 underwriting year that exceeded our expectations.

The Insurance Companies recorded $15.0 million of prior period net savings for property casualty business comprised mostly of $13.3 million of net favorable development in construction liability business primarily the result of a continuation of lower than expected reported construction liability losses which was supported by an internal actuarial study for the 2006 and prior underwriting years, and $4.1 million of favorable development on primary excess and surplus business written from 2006 to 2007 due to reported losses less than our expectations. These redundancies were partially offset by prior period net reserve deficiencies in the middle markets, specialty program and personal umbrella lines of $1.7 million, $0.8 million and $0.7 million, respectively, due to loss activity in excess of expectations.

The Insurance Companies recorded $7.8 million of net prior period deficiencies for professional liability business that included three large 2006 public directors and officers case reserve increases that accounted for $7.2 million of the total.

The Lloyd s Operations recorded $0.6 million of prior period net savings that included $1.9 million for marine business due to favorable loss activity in the specie, reinsurance and transport lines and $0.6 million of favorable development on our NavTech book. The NavTech savings was the net result of favorable development on the energy book of $1.9 million due to lower than expected losses on the 2007 underwriting year, mostly offset by additional development on a 2006 engineering loss These redundancies were partially offset by deficiencies of $1.4 million in our run-off property book due to continued claims development in the quarter emanating from two delegated underwriting authorities and $0.6 million in the international Errors and Omissions (E&O) line due to higher reported loss activity.

Following is a discussion of relevant factors related to the $9.5 million prior period net reserve redundancy recorded in the 2009 second quarter:

The Insurance Companies recorded $2.2 million of prior period net reserve deficiencies for marine business resulting from $2.1 million of increased liability reserves due to loss activity that exceeded our expectations and an update of the loss development factors for this business. The remaining activity nets to $0.1 million of prior period net reserve deficiencies and included a $1.9 million marine liability case reserve for a Hurricane Gustav claim that was offset by a reduction in IBNR within the offshore line of business in our property casualty business, and savings of $1.0 million for craft and $0.9 million in the protection and indemnity (P&I) line of business both due to favorable loss trends for the 2007 and 2008 underwriting years.

The Insurance Companies recorded $12.8 million of prior period net savings for property casualty business comprised mostly of $15.6 million of net favorable development in construction liability business due to favorable loss trends for business written from 2006 and prior, a $1.9 million reduction in Hurricane Gustav IBNR that was offset by a case reserve in our marine liability line of business, $3.7 million of favorable development on commercial umbrella business on business written from 2004 to 2006 due to reported losses less than our expectations, $2.3 million of favorable development on primary excess and surplus business written from 2006 to 2007 due to reported losses less than our expectations and $1.2 million in the offshore energy lines of business due to generally lower claim activity than expected. These redundancies were partially offset by prior period net reserve deficiencies in the middle markets, liquor liability, personal umbrella and specialty run-off lines of $5.2 million, $3.7 million, $2.5 million and $1.4 million, respectively, due to loss activity in excess of expectations. The middle markets development occurred in the 2005 to 2008 underwriting years resulting from reported loss activity and a detailed study that documented a shift in the mix of business to lines with a higher loss ratio and a longer development pattern.

The Insurance Companies recorded $5.7 million of net prior period deficiencies for professional liability business that included $2.7 million of reserve strengthening in our large lawyers book of business written from 2006 to 2008 due to reported losses being greater than expectations and the incorporation of a reserve study which resulted in higher loss ratio assumptions for those years. Our large lawyers book is in the process of being re-underwritten due to the adverse trends we have observed in the last several quarters and the current economic weakness. We also incurred large loss activity in our D&O book in underwriting years 2005 and 2007 that resulted in $2.7 million of adverse development.

The Lloyd s Operations recorded $4.6 million of prior period net savings comprised of $5.3 million for marine business due to favorable loss activity in the liability, reinsurance and cargo lines, partially offset by deficiencies of $0.6 million in the international E&O line due to higher reported loss activity. Within the property casualty account, reserves in our run-off property book were strengthened by $1.1 million due to worse than expected claims development in the quarter although this adverse development was partially absorbed by reserve releases of $0.9 million within the rest of the property casualty account.

Following is a discussion of relevant factors related to the $5.8 million prior period net reserve redundancy recorded in the 2009 first quarter:

The Insurance Companies recorded $2.0 million of prior period net reserve deficiencies for marine business which included $1.4 million for increased liability reserves due to large loss activity, and $1.0 million for hull and $0.9 million for transport business due reported claims activity, partially offset by $1.8 million of savings in the protection and indemnity (P&I) line of business due to reductions in our loss assumptions for the more recent underwriting years.

The Insurance Companies recorded $11.7 million of prior period net savings for property casualty business comprised mostly of $8.5 million of net favorable development in construction liability business due to favorable loss trends for business written from 2005 to 2007, $2.7 million of favorable development on primary casualty business on business written from 2005 to 2006 due to reported losses less than our expectations, $1.4 million of favorable development on commercial umbrella business on business written from 2004 to 2006 due to reported losses less than our expectations, and $4.9 million in the offshore energy lines of business due to a reduction in the estimate for a large reported claim and generally lower claim activity than expected. These redundancies were partially offset by prior period net reserve deficiencies in the middle markets and specialty run-off lines of $1.6 million and $1.2 million, respectively, due to loss activity in excess of expectations.

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The Insurance Companies recorded $4.6 million of net prior period deficiencies for professional liability business mostly emanating from E&O business written in 2006 and 2007 due to reported losses being greater than expectations.

The Lloyd s Operations recorded $0.6 million of prior period net savings comprised of savings of $3.1 million for marine business due to favorable loss activity in the liability and cargo lines, partially offset by deficiencies of $1.1 million in the international E&O line due to higher reported loss activity and $0.5 million in our engineering book due to a large reported loss. Reserves for the run off Property book were strengthened by an additional $0.5 million after worse than expected claims development in the quarter.

Our management believes that the estimates for the reserves for losses and LAE are adequate to cover the ultimate cost of losses and loss adjustment expenses on reported and unreported claims. However, it is possible that the ultimate liability may exceed or be less than such estimates. To the extent that reserves are deficient or redundant, the amount of such deficiency or redundancy is treated as a charge or credit to earnings in the period in which the deficiency or redundancy is identified. We continue to review all of our loss reserves, including our asbestos reserves and hurricane reserves, on a regular basis.

Commission Expenses

Commission expenses paid to brokers and agents are generally based on a percentage of gross written premiums and are partially offset by ceding commissions we may receive on ceded written premiums. Commissions are generally deferred and recorded as deferred policy acquisition costs to the extent that they relate to unearned premium. The percentage of commission expenses to net earned premiums for the 2010 third quarter and nine month period were 15.0% and 15.4% compared to 13.3% and 14.1% for the comparable periods in 2009. The increase in the net commission ratios for the three and nine month periods of 2010 when compared to the same periods in 2009 were mostly attributable to greater retentions for net premiums earned in 2010 for the 2009 underwriting year, particularly on our marine quota share treaties, which have reduced the ceding commission benefit. In addition, reinstatement costs of $7.9 million recorded in the second quarter of 2010 resulting from both the Deepwater Horizon and West Atlas losses resulted in lower net earned premiums which in turn increased the net commission ratios.

Other Operating Expenses

Other operating expenses decreased $0.3 million and increased $5.2 million for the 2010 three and nine month periods compared to the same periods in 2009. The increase in other operating expenses in the first nine months of 2010 compared to 2009 was due primarily to investments in new underwriting teams, additional letter of credit fees due to the increased size of our facility, higher Lloyd s charges due to greater capacity and higher compliance costs, particularly Solvency II. For the nine months ended September 30, 2010, our operating expense ratios increased due to the explanations above as well as the impact of the reinstatement costs of $7.9 million recorded in the second quarter of 2010 resulting from both the Deepwater Horizon and West Atlas losses, resulting in lower net earned premiums which increased the operating expense ratios. Our total staff count at September 30, 2010 has declined 4% compared to our staff count at December 31, 2009.

INCOME TAXES

We recorded an income tax expense of $7.1 million and $21.7 million for the three and nine months ended September 30, 2010 compared to an income tax expense of $8.8 million and $23.1 million for the comparable periods in 2009, respectively. Our effective tax rates were 30.4% and 29.3% for the third quarter and nine month periods in 2010 compared to 29.2% and 28.8% for the comparable periods in 2009, respectively. Our effective tax rate is typically less than 35% due to permanent differences between book and tax return income, with the most significant item being tax exempt interest. The sale of a significant portion of our general obligation municipal obligations in the second quarter of 2010 resulted in the increase in the effective tax rate compared to prior periods. The effective tax rate on net investment income was 26.7% for the 2010 nine month period compared to 25.1% for the same period in 2009. As of September 30, 2010 and December 31, 2009 the net deferred federal, foreign, state and local tax liabilities and assets were $4.8 million and $31.2 million, respectively.

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We had net state and local deferred tax assets amounting to potential future tax benefits of $2.1 million and $2.6 million at September 30, 2010 and December 31, 2009, respectively. Included in the deferred tax assets are state and local net operating loss carry-forwards of $1.4 million and $1.3 million at September 30, 2010 and December 31, 2009, respectively. A valuation allowance was established for the full amount of these potential future tax benefits due to uncertainty associated with their realization. Our state and local tax carry-forwards at September 30, 2010 expire from 2023 to 2025.

Segment Information

We classify our business into two underwriting segments consisting of the Insurance Companies and the Lloyd s Operations, which are separately managed, and a Corporate segment. Segment data for each of the two underwriting segments include allocations of the operating expenses of the wholly-owned underwriting management companies and The Navigator s Group, Inc. s (the Parent Company s) operating expenses and related income tax amounts. The Corporate segment consists of the Parent Company s investment income, interest expense and the related tax effect.

We evaluate the performance of each segment based on its underwriting and GAAP results. The Insurance Companies and the Lloyd s Operations results are measured by taking into account net earned premium, net loss and loss adjustment expenses, commission expenses, other operating expenses and other income (expense). The Corporate segment consists of the Parent Company s investment income, interest expense and the related tax effect. Each segment also maintains its own investments, on which it earns income and realizes capital gains or losses. Our underwriting performance is evaluated separately from the performance of our investment portfolios.

Following are the financial results of our two underwriting segments.

Insurance Companies

The Insurance Companies consist of Navigators Insurance Company, including its U.K. Branch, and its wholly-owned subsidiary, Navigators Specialty Insurance Company. They are primarily engaged in underwriting marine insurance and related lines of business, professional liability insurance and specialty lines of business including contractors general liability insurance, commercial umbrella and primary and excess casualty businesses. Navigators Specialty Insurance Company underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty Insurance Company is 100% reinsured by Navigators Insurance Company.

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The following table sets forth the results of operations for the Insurance Companies for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)			
Gross written premiums	$ 163,343	$ 180,000	$ 511,822	$ 561,368
Net written premiums	107,916	116,033	340,657	375,474
Net earned premiums	112,198	122,804	333,834	359,317
Net losses and LAE	(72,306)	(75,838)	(205,571)	(214,834)
Commission expenses	(14,374)	(15,346)	(43,351)	(45,374)
Other operating expenses	(26,398)	(27,194)	(79,658)	(78,660)
Other income (expense)	1,380	1,301	289	3,157
Underwriting profit	500	5,727	5,543	23,606
Net investment income	15,736	16,597	47,040	49,043
Net realized gains (losses)	4,206	5,710	20,140	(987)
Income before income taxes	20,442	28,034	72,723	71,662
Income tax expense	6,049	7,973	21,166	19,677
Net income	$ 14,393	$ 20,061	$ 51,557	$ 51,985
Loss and LAE ratio	64.4%	61.8%	61.6%	59.8%
Commission expense ratio	12.8%	12.5%	13.0%	12.6%
Other operating expense ratio (1)	22.4%	21.1%	23.7%	21.0%
Combined ratio	99.6%	95.4%	98.3%	93.4%

(1) Includes *Other operating expenses* and *Other income (expense)*.

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	Three Months Ended September 30, 2010 ($ in thousands)						
	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 41,091	$ 26,257	$ 13,467	$ 1,367	63.9%	32.8%	96.7%
Property Casualty	50,976	32,575	18,350	51	63.9%	36.0%	99.9%
Professional Liability	20,131	13,474	7,575	(918)	66.9%	37.7%	104.6%
Total	$ 112,198	$ 72,306	$ 39,392	$ 500	64.4%	35.2%	99.6%

	Three Months Ended September 30, 2009 ($ in thousands)						
	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 42,620	$ 31,611	$ 13,259	$ (2,250)	74.2%	31.1%	105.3%
Property Casualty	60,380	23,881	21,330	15,169	39.6%	35.3%	74.9%
Professional Liability	19,804	20,346	6,650	(7,192)	102.7%	33.6%	136.3%
Total	$ 122,804	$ 75,838	$ 41,239	$ 5,727	61.8%	33.6%	95.4%

	Nine Months Ended September 30, 2010 ($ in thousands)						
	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 122,739	$ 77,911	$ 42,566	$ 2,262	63.5%	34.7%	98.2%
Property Casualty	152,228	89,637	57,858	4,733	58.9%	38.0%	96.9%
Professional Liability	58,867	38,023	22,296	(1,452)	64.6%	37.9%	102.5%
Total	$ 333,834	$ 205,571	$ 122,720	$ 5,543	61.6%	36.7%	98.3%

	Nine Months Ended September 30, 2009 ($ in thousands)						
	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio

Marine	$ 114,459	$ 83,239	$ 35,453	$ (4,233)	72.7%	31.0%	103.7%
Property Casualty	188,860	80,331	65,642	42,887	42.5%	34.8%	77.3%
Professional Liability	55,998	51,264	19,782	(15,048)	91.5%	35.3%	126.8%
Total	$ 359,317	$ 214,834	$ 120,877	$ 23,606	59.8%	33.6%	93.4%

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Net earned premiums of the Insurance Companies decreased 8.6% and 7.1% respectively for the 2010 third quarter and nine month periods compared to the same periods in 2009. The decrease was primarily due to the reduction in net written premiums, primarily in our construction liability and D&O business lines. In addition, there was a total of $1.7 million of reinstatement premiums related to both the Deepwater Horizon loss that occurred in April 2010 and further gross development on the West Atlas loss which occurred in 2009.

The loss ratios for the 2010 nine month period included favorable prior year development of $5.7 million or 1.7 loss ratio points and $13.2 million or 3.7 loss ratio points recorded in the comparable periods in 2009, respectively. Partially offsetting the impact of favorable prior year development, the loss ratio for the 2010 nine month period included the impact of the aforementioned reinstatement premiums. Generally, while the Insurance Companies segment has experienced favorable prior period redundancies, the ultimate loss ratios for the most recent underwriting years of 2009 and 2008 have been increasing due to softening market conditions for the business written during those periods.

The annualized pre-tax yields on the Insurance Companies investment portfolio, excluding net realized gains and losses and net other-than-temporary impairment losses recognized in earnings, were 3.7% and 3.8% for the 2010 three and nine month periods compared to 4.1% and 4.2% for the comparable 2009 periods. The average duration of the Insurance Companies invested assets was 4.6 years at September 30, 2010 and 4.8 years at September 30, 2009. Net investment income decreased in the three months ended September 30, 2010 compared to the same period in 2009 primarily due to a decrease in yields on investments.

Lloyd s Operations

The Lloyd s Operations primarily underwrite marine and related lines of business along with professional liability insurance, and construction coverages for onshore energy business at Lloyd s through Syndicate 1221. Our Lloyd s Operations includes NUAL, a Lloyd s underwriting agency which manages Syndicate 1221.

The following table sets forth the results of operations of the Lloyd s Operations for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	($ in thousands)			
Gross written premiums	$ 70,295	$ 65,191	$ 245,529	$ 231,811
Net written premiums	49,891	39,968	171,472	164,186
Net earned premiums	56,035	48,467	159,939	146,768
Net losses and LAE	(35,157)	(31,753)	(105,562)	(93,732)
Commission expenses	(10,459)	(7,835)	(32,827)	(26,533)
Other operating expenses	(8,301)	(7,835)	(24,161)	(19,933)
Other income (expense)	1,052	280	2,687	879
Underwriting profit	3,170	1,324	76	7,449
Net investment income	1,982	2,361	6,179	7,060
Net realized gains (losses)	(354)	425	378	(2,988)
Income before income taxes	4,798	4,110	6,633	11,521
Income tax expense	1,715	1,510	2,403	4,470
Net income (loss)	$ 3,083	$ 2,600	$ 4,230	$ 7,051
Loss and LAE ratio	62.7%	65.5%	66.0%	63.9%
Commission expense ratio	18.7%	16.2%	20.5%	18.1%
Other operating expense ratio (1)	12.9%	15.6%	13.5%	13.0%
Combined ratio	94.3%	97.3%	100.0%	95.0%

(1) Includes *Other operating expenses* and *Other income (expense).*

Net earned premiums of the Lloyd s Operations increased 15.6% and 9.0% for the 2010 three and nine month periods compared to the same periods in 2009. The increase was primarily due to greater net written premiums during 2010, particularly in the Offshore Energy and Engineering and Construction lines, and was partially offset by reinstatement premiums related to Deepwater Horizon and West Atlas that reduced net earned premiums $6.2 million in the second quarter.

The loss ratios of 62.7% and 66.0% for the three and nine months ended September 30, 2010 were negatively impacted by the aforementioned reinstatement premiums. The Lloyd s Operations realized prior year reserve redundancies of $5.0 million, or 3.1 loss ratio points in the first nine months of 2010 compared to $5.9 million, or 4.0 loss ratio points in the comparable period in 2009. Generally, while the Lloyd s Operations have experienced favorable prior period net redundancies in calendar years 2009 and 2008, ultimate loss ratios for the more recent underwriting years of 2009 and 2008 have been increasing due to softening market conditions for the business written during those periods.

The annualized pre-tax yields on the Lloyd s Operations investment portfolio, excluding net realized gains and losses and net other-than-temporary impairment losses recognized in earnings, were 2.1% and 2.3% respectively, for the 2010 three and nine month periods compared to 2.6% and 2.7% respectively, for the comparable periods in 2009. The average duration of the Lloyd s Operations invested assets at September 30, 2010 was 1.8 years compared to 1.7 years at September 30, 2009. Net investment income decreased in the nine months ended September 30, 2010 compared to the same period in 2009 primarily due to a decrease in yields on investments. Such yields are net of interest credits to certain reinsurers for funds withheld by our Lloyd s Operations.

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Investments

The following tables set forth our cash and investments as of September 30, 2010 and December 31, 2009:

September 30, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 421,540	$ 17,971	$ (2)	$ 403,571	$
States, municipalities and political subdivisions	405,584	25,255	(51)	380,380	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	414,335	19,325		395,010	
Residential mortgage obligations	20,785		(2,941)	23,726	(2,064)
Asset-backed securities	33,411	513	(9)	32,907	(8)
Commercial mortgage-backed securities	143,278	8,108	(67)	135,237	
Subtotal	611,809	27,946	(3,017)	586,880	(2,072)
Corporate bonds	381,560	24,853	(13)	356,720	
Total fixed maturities	1,820,493	96,025	(3,083)	1,727,551	(2,072)
Equity securities common stocks	86,447	19,546	(85)	66,986	
Cash	31,073			31,073	
Short-term investments	260,564			260,564	
Total	$ 2,198,577	$ 115,571	$ (3,168)	$ 2,086,174	$ (2,072)

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December 31, 2009	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 471,598	$ 7,397	$ (597)	$ 464,798	$
States, municipalities and political subdivisions	676,699	25,044	(2,917)	654,572	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	283,578	12,607	(98)	271,069	
Residential mortgage obligations	31,071		(7,246)	38,317	(5,723)
Asset-backed securities	16,469	612	(34)	15,891	(23)
Commercial mortgage-backed securities	100,393	594	(5,028)	104,827	
Subtotal	431,511	13,813	(12,406)	430,104	(5,746)
Corporate bonds	236,861	9,111	(759)	228,509	
Total fixed maturities	1,816,669	55,365	(16,679)	1,777,983	(5,746)
Equity securities common stocks	62,610	15,244	(10)	47,376	
Cash	509			509	
Short-term investments	176,799			176,799	
Total	$ 2,056,587	$ 70,609	$ (16,689)	$ 2,002,667	$ (5,746)

Invested assets increased in the first nine months of 2010 primarily due to available cash flow from operations, partially offset by the funding of share repurchases of $50.3 million. The annualized pre-tax yields of our investment portfolio, excluding net realized gains and losses and net other-than-temporary impairment losses recognized in earnings, were 3.4% and 3.5% for the 2010 three and nine month periods compared to 3.8% for both of the comparable 2009 periods.

The tax exempt securities portion of our investment portfolio has decreased by $275.7 million to approximately 20.1% of the fixed maturities investment portfolio at September 30, 2010 compared to September 30, 2009. As a result, the effective tax rate on net investment income was 28.4% for the three months ended September 30, 2010 compared to 25.2% for the comparable 2009 period.

All fixed maturities and equity securities are carried at fair value. All prices for our fixed maturities and equity securities categorized as Level 1 or Level 2 in the fair value hierarchy, as defined in the Financial Accounts Standards Board Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements*, are received from independent pricing services utilized by one of our outside investment managers whom we employ to assist us with investment accounting services. This manager utilizes a pricing committee which approves the use of one or more independent pricing service vendors. The pricing committee consists of five or more members, one from senior management and one from the accounting group with the remainder from the asset class specialists and client strategists. The pricing source of each security is determined in accordance with the pricing source procedures approved by the pricing committee. The investment manager uses supporting documentation received from the independent pricing service vendor detailing the inputs, models and processes used in the independent pricing service vendors evaluation process to determine the appropriate fair value hierarchy. Any pricing where the input is based solely on a broker price is deemed to be a Level 3 price.

Management has reviewed this process by which the manager determines the prices and has obtained alternative pricing to validate a sampling of the pricing and assess their reasonableness.

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The following table presents, for each of the fair value hierarchy levels, the fair value of our fixed maturities and equity securities by asset class at September 30, 2010:

	Level 1	Level 2	Level 3	Total
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 266,978	$ 154,562	$	$ 421,540
States, municipalities and political subdivisions		405,584		405,584
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		414,335		414,335
Residential mortgage obligations		20,785		20,785
Asset-backed securities		33,411		33,411
Commercial mortgage-backed securities		143,278		143,278
Subtotal		611,809		611,809
Corporate bonds		381,560		381,560
Total fixed maturities	266,978	1,553,515		1,820,493
Equity securities common stocks	86,447			86,447
Total	$ 353,425	$ 1,553,515	$	$ 1,906,940

There were no significant judgments made in classifying instruments in the fair value hierarchy.

The scheduled maturity dates for fixed maturity securities by the number of years until maturity at September 30, 2010 are shown in the following table:

Period from September 30, 2010 to Maturity	**Fair Value**	**Amortized Cost**
	($ in thousands)	
Due in one year or less	$ 79,681	$ 79,112
Due after one year through five years	461,006	438,952
Due after five years through ten years	405,380	373,574
Due after ten years	262,617	249,033
Mortgage- and asset-backed (including GNMAs)	611,809	586,880
Total	$ 1,820,493	$ 1,727,551

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The following tables set forth our U.S. Treasury bonds, Agency bonds and Foreign government bonds as of September 30, 2010 and December 31, 2009:

September 30, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
	($ in thousands)			
U.S. Treasury bonds	$ 276,666	$ 14,520	$ (2)	$ 262,148
Agency bonds	121,613	2,912		118,701
Foreign government bonds	23,261	539		22,722
Total	$ 421,540	$ 17,971	$ (2)	$ 403,571

December 31, 2009	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
	($ in thousands)			
U.S. Treasury bonds	$ 362,614	$ 5,549	$ (560)	$ 357,625
Agency bonds	82,739	1,489		81,250
Foreign government bonds	26,245	359	(37)	25,923
Total	$ 471,598	$ 7,397	$ (597)	$ 464,798

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The following table sets forth the fifteen largest holdings categorized as state, municipalities and political subdivisions by counterparty as of September 30, 2010:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost	S&P Rating
		($ in thousands)		
Issuers:				
Texas State Transportation Commission	$ 16,016	$ 431	$ 15,585	AAA
University of Pittsburgh	14,651	1,229	13,422	AA
Virginia Resources Authority	11,946	1,438	10,508	AAA
City of San Antonio	11,692	1,161	10,531	AA
Salt River Project Agricultural Improvement	10,256	535	9,721	AA
Illinois Finance Authority	8,286	158	8,128	BBB+
County of Hamilton	8,285	495	7,790	A+
Ohio State University	7,401	151	7,250	AA
Missouri Highway and Transportation Comm	7,160	478	6,682	AA+
New York Local Government Assistance	7,122	604	6,518	AA
Delaware Transportation Authority	7,054	771	6,283	AA
New York City Transitional Finance Authority	7,043	481	6,562	AA+
Virginia College Building Authority	6,946	629	6,317	AA+
Purdue University	6,490	195	6,295	AA
Pennsylvania Turnpike Commission	6,302	257	6,045	A+
Subtotal	136,650	9,013	127,637	
All Other	268,934	16,191	252,743	
Total	$ 405,584	$ 25,204	$ 380,380	

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The following table sets forth the composition of the investments categorized as states, municipalities and political subdivisions in our portfolio by generally equivalent S&P and Moody s ratings (not all securities in our portfolio are rated by both S&P and Moody s) as of September 30, 2010. The securities that are not rated in the table below are primarily state bonds.

Equivalent S&P Rating	Equivalent Moody s Rating	Fair Value	Book Value	Net Unrealized Gain/(Loss)
			($ in thousands)	
AAA/AA/A	Aaa/Aa/A	$ 385,043	$ 360,281	$ 24,762
BBB	Baa	13,284	12,972	312
BB	Ba	2,002	2,003	(1)
B	B			
CCC or lower	Caa or lower			
NR	NR	5,255	5,124	131
Total		$ 405,584	$ 380,380	$ 25,204

We own $150 million of municipal securities which are credit enhanced by various financial guarantors. As of September 30, 2010, the average underlying credit rating for these securities is A+. There has been no material adverse impact to our investment portfolio or results of operations as a result of downgrades of the credit ratings for several of the financial guarantors.

We analyze our mortgage-backed and asset-backed securities by credit quality of the underlying collateral distinguishing between the securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) which are Federal government sponsored entities, and the non-FNMA and non-FHLMC securities broken out by prime, Alt-A and subprime collateral. The securities issued by FNMA and FHLMC are the obligations of each respective entity. Legislation has provided for guarantees by the U.S. Government of up to $100 billion each for FNMA and FHLMC.

Prime collateral consists of mortgages or other collateral from the most creditworthy borrowers. Alt-A collateral consists of mortgages or other collateral from borrowers which have a risk potential that is greater than prime but less than subprime. The subprime collateral consists of mortgages or other collateral from borrowers with low credit ratings. Such subprime and Alt-A categories are as defined by S&P.

The following tables set forth our agency mortgage-backed securities, residential mortgage obligations and asset-backed securities by those issued by the Government National Mortgage Association (GNMA), FNMA, FHLMC, and the quality category (prime, Alt-A and subprime) for all other such investments at September 30, 2010:

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Agency mortgage-backed securities:				
GNMA	$ 208,594	$ 6,320	$	$ 202,274
FNMA	146,771	9,890		136,881
FHLMC	58,970	3,115		55,855
Total	$ 414,335	$ 19,325	$	$ 395,010

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Residential mortgage obligations:				
Prime	$ 19,408	$	$ (2,667)	$ 22,075
Alt-A	1,377		(274)	1,651
Subprime				
Total	$ 20,785	$	$ (2,941)	$ 23,726

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Asset-backed securities:				
Prime	$ 33,272	$ 513	$	$ 32,759
Alt-A				
Subprime	139		(9)	148
Total	$ 33,411	$ 513	$ (9)	$ 32,907

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The following table sets forth the fifteen largest residential mortgage obligations as of September 30, 2010:

Security Description	Issue Date	Fair Value	Book Value	Unrealized (Loss)	S&P Rating	Moody s Rating
		($ in thousands)				
Wells Fargo Mtg Bkd Secs Tr 05 Ar4 2A2	2005	$ 862	$ 944	$ (82)	NR	Ba2
Bear Stearns Adjustable Rate 06 1A1	2006	627	699	(72)	NR	B2
JP Morgan Mortgage Trust 06 A4 1A1	2006	626	774	(148)	NR	Caa2
JP Morgan Mortgage Trust 07-A3 1A1	2007	613	777	(164)	CCC	NR
GSR Mortgage Loan Trust 06 Ar1 2A1	2006	601	732	(131)	B+	NR
Citigroup Mtg Ln Tr Inc 04 Hyb3 1A	2004	593	644	(51)	AA-	A1
Wells Fargo Mtg Backed Secs Trust 06 AR6 3A	2006	592	677	(85)	NR	B3
Banc Of America Fdg Corp 05 F 4A1	2005	559	624	(65)	CCC	Caa2
Wells Fargo Mtg Bkd Secs Tr 06 Ar14 2	2006	557	607	(50)	NR	Caa2
Bear Stearns Adjustable Rate 05 3 2A1	2005	554	591	(37)	CCC	Caa2
Banc Of America Fdg Corp 06 D 3A1	2006	545	702	(157)	CCC	NR
Mortgageit Trust 05 1 2A	2005	530	591	(61)	AAA	Ba3
GMAC Mtg Corp Ln Tr 06 AR1 1A	2006	504	610	(106)	B-	Caa3
Wells Fargo Mtg Bkd Secs Tr 05 Ar1 1A1	2005	499	549	(50)	AAA	B2
JP Morgan Mortgage Trust 07-A4 1A1	2007	497	601	(104)	CCC	NR
Subtotal		8,759	10,122	(1,363)		
All Other		12,026	13,604	(1,578)		
Total		$ 20,785	$ 23,726	$ (2,941)		

Details of the collateral of our asset-backed securities portfolio as of September 30, 2010 are presented below:

	AAA	AA	A	BBB	BB	CC	Total Fair Value	Total Amortized Cost	Unrealized Gain/(Loss)
				($ in thousands)					
Auto Loans	$ 1,664	$ 7,653	$	$ 4,353	$	$	$ 13,670	$ 13,445	$ 225
Credit Cards	5,506				15		5,521	5,513	8
Miscellaneous	2,277		11,803	2		138	14,220	13,949	271
Total	$ 9,447	$ 7,653	$ 11,803	$ 4,355	$ 15	$ 138	$ 33,411	$ 32,907	$ 504

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The commercial mortgage-backed securities are all rated investment grade by S&P or Moody s. The following table sets forth the fifteen largest commercial mortgage backed securities as of September 30, 2010:

Security Description	Issue Date	Fair Value	Book Value	Average Underlying LTV %	Delinq. Rate	Subord. Level	S&P Rating	Moody s Rating
				($ in thousands)				
Banc Of America Comm Mtg Inc 06 2 A4	2006	$ 12,065	$ 12,089	74.30%	12.33%	30.80%	AAA	NR
Four Times Square Tr 06-4TS A	2006	7,693	7,027	39.40%	0.00%	8.02%	AAA	Aa1
Wachovia Bk Comm Mtg Tr 05 C18-A4	2005	7,574	6,876	77.91%	13.04%	33.89%	AAA	Aaa
GSMS 2010- C1 A2	2010	7,477	7,208	53.29%	0.00%	18.52%	NR	Aaa
Citigroup Comm Mtg Tr 06 C5 A4	2006	7,298	6,987	73.29%	6.09%	30.09%	NR	Aaa
GS MTG Secs Corp II 05 GG4 A4A	2005	7,204	6,619	75.69%	17.40%	32.24%	AAA	Aaa
LB-UBS Comm Mtg TR 06 C7 A3	2006	6,741	6,327	67.88%	7.90%	29.99%	AAA	NR
Citigroup/Deutsche Bk Comm Mtg 05 CD1 A4	2005	6,441	5,885	73.20%	10.32%	31.51%	AAA	Aaa
GS Mortgage Securities Corp 10-C1 B	2010	6,374	6,178	53.29%	0.00%	15.02%	NR	Aa2
Bear Stearns Comm Mtg Secs 06 T22 A4	2006	5,451	4,898	58.23%	0.59%	30.25%	NR	Aaa
Bear Stearns Comm Mtg Secs 07 PW15 A4	2007	5,263	5,132	71.75%	19.72%	30.42%	A+	Aaa
Banc Of America Comm Mtg Inc 07 1 A4	2007	4,981	4,776	83.96%	17.48%	30.54%	NR	Aaa
Morgan Stanley Capital I 07 HQ11 A4	2007	4,955	4,783	73.74%	12.42%	30.20%	A	Aaa
Morgan Stanley Capital I 06 HQ10 A4	2006	4,821	4,760	72.57%	10.54%	30.69%	NR	Aaa
Commercial Mtg Pt Cert 05 C6 A5A	2005	4,421	4,052	75.35%	8.96%	31.35%	AAA	Aaa
Subtotal		98,759	93,597					
All Other		44,519	41,640					
Total		$ 143,278	$ 135,237					

The following table shows the amount and percentage of our fixed maturities and short-term investments at September 30, 2010 by S&P credit rating or, if an S&P rating is not available, the equivalent Moody s rating. The table includes fixed maturities and short-term investments at fair value, and the total rating is the weighted average quality rating.

Percent

Rating Description	Rating	Fair Value	of Total
		($ in thousands)	
Extremely Strong	AAA	$ 1,298,592	63%
Very Strong	AA	316,335	15%
Strong	A	383,967	18%
Adequate	BBB	57,165	3%
Speculative	BB & below	19,743	1%
Not Rated	NR	5,255	0%
Total	AA	$ 2,081,057	100%

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Following is a list of the top fifteen corporate bond holdings for fixed maturities at fair value at September 30, 2010. All such fixed maturities are rated investment grade by S&P and Moody s. These holdings represent direct obligations of the issuer or its subsidiaries and exclude any government guaranteed or government sponsored organizations, securitized, credit enhanced or collateralized asset-backed or mortgage-backed securities.

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost	S&P Rating
		($ in thousands)		
Issuers:				
General Electric	$ 24,782	$ 2,587	$ 22,195	AA
Goldman Sachs Group Inc	18,859	651	18,208	A-
Barclays PLC	18,015	903	17,112	AA-
Wells Fargo & Co	17,166	488	16,678	A+
Bank of America Corp	16,621	732	15,889	A-
Credit Suisse Group AG	13,728	304	13,424	A+
Citigroup Inc	13,327	589	12,738	BBB+
Morgan Stanley	13,173	441	12,732	A-
Southern Co	12,887	1,078	11,809	A-
J.P. Morgan Chase & Co	11,884	577	11,307	A
Baker Hughes Inc	11,167	688	10,479	A
Deutsche Bank AG	10,546	611	9,935	A+
Conocophillips	10,196	1,063	9,133	A
BP Plc	9,328	79	9,249	A
Transcanada Corp	9,067	1,035	8,032	A-
Subtotal	210,746	11,826	198,920	
All Other	170,814	13,014	157,800	
Total	$ 381,560	$ 24,840	$ 356,720	

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The following table sets forth the fifteen largest equity securities holdings as of September 30, 2010:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost
		($ in thousands)	
Issuers:			
Vanguard Total Stock Market Index	$ 4,887	$ 1,525	$ 3,362
Vanguard Emerging Market Stock Index	4,657	2,221	2,436
Vanguard Pacific Stock Index	4,172	1,246	2,926
Vanguard European Stock Index	3,888	1,297	2,591
EI Du Pont De Nemours & Co	2,700	1,059	1,641
Conocophillips	2,435	585	1,850
Philip Morris International Inc	2,434	730	1,704
American Safety Insurance Holdings, Ltd	2,322	68	2,254
Astrazeneca Plc	2,363	617	1,746
Altria Group Inc	2,356	736	1,620
AT&T Inc	2,262	308	1,954
Chevron Corp	2,249	505	1,744
Bristol-Myers Squibb Co	2,228	448	1,780
Johnson & Johnson	2,197	134	2,063
HJ Heinz Co	2,177	308	1,869
Subtotal	43,327	11,787	31,540
All Other	43,120	7,674	35,446
Total	$ 86,447	$ 19,461	$ 66,986

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The following table summarizes all securities in a gross unrealized loss position at September 30, 2010 and December 31, 2009, showing the aggregate fair value and gross unrealized loss by the length of time those securities had continuously been in a gross unrealized loss position as well as the number of securities:

	September 30, 2010			December 31, 2009		
($ in thousands except # of securities)	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
Fixed Maturities:						
U.S. Government Treasury bonds, agency bonds and foreign government bonds						
0-6 Months	2	$ 10,598	$ 2	24	$ 116,566	$ 597
7-12 Months						
> 12 Months						
Subtotal	2	10,598	2	24	116,566	597
States, municipalities and political subdivisions						
0-6 Months	7	1,236	6	47	108,290	2,291
7-12 Months	1	1,004	22	4	3,534	112
> 12 Months	6	3,918	23	23	17,777	514
Subtotal	14	6,158	51	74	129,601	2,917
Agency mortgage-backed securities						
0-6 Months				5	18,385	98
7-12 Months						
> 12 Months						
Subtotal				5	18,385	98
Residential mortgage obligations						
0-6 Months						
7-12 Months						
> 12 Months	68	20,785	2,941	73	31,071	7,246
Subtotal	68	20,785	2,941	73	31,071	7,246

Asset-backed securities						
0-6 Months						
7-12 Months						
> 12 Months	2	140	9	4	637	34
Subtotal	2	140	9	4	637	34
Commercial mortgage-backed securities						
0-6 Months	3	12,164	25	11	28,103	324
7-12 Months						
> 12 Months	2	556	42	21	45,135	4,704
Subtotal	5	12,720	67	32	73,238	5,028
Corporate bonds						
0-6 Months	2	2,685	13	13	33,275	337
7-12 Months						
> 12 Months				8	6,325	422
Subtotal	2	2,685	13	21	39,600	759
Total fixed maturities	93	$ 53,086	$ 3,083	233	$ 409,098	$ 16,679
Equity securities common stocks						
0-6 Months	5	$ 2,532	$ 85		$	$
7-12 Months						
> 12 Months				1	872	10
Total equity securities	5	$ 2,532	$ 85	1	$ 872	$ 10

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We analyze the unrealized losses quarterly to determine if any are other-than-temporary. The above unrealized losses have been determined to be temporary based on our policies. See *Critical Accounting Estimates Impairment of Invested Assets* in our 2009 Annual Report on Form 10-K for additional information on our policies.

To determine whether the unrealized loss on structured securities is other-than-temporary, we project an expected principal loss under a range of scenarios and utilize the most likely outcomes. The analysis relies on actual collateral performance measures such as default rate, prepayment rate and loss severity. These assumptions are applied throughout the remaining term of the deal, incorporating the transaction structure and priority of payments, to generate loss adjusted cash flows. Results of the analysis will indicate whether the security ultimately incurs a loss or whether there is a material impact on yield due to either a projected loss or a change in cash flow timing. A breakeven default rate is also calculated. A comparison to the break even default rate to the actual default rate provides an indication of the level of cushion or coverage to the first dollar principal loss. The analysis applies the stated assumptions throughout the remaining term of the transaction to forecast cash flows, which are then applied through the transaction structure to determine whether there is a loss to the security. For securities in which a tranche loss is present, and the net present value of loss adjusted cash flows is less than book value, an impairment is recognized. The output data also includes a number of additional metrics such as average life remaining, original and current credit support, over 60 day delinquency and security rating.

As of September 30, 2010, the largest single unrealized loss by issuer in the fixed maturities was $0.2 million.

The following table summarizes the gross unrealized investment losses by length of time where the fair value is less than 80% of amortized cost as of September 30, 2010.

Period for Which Fair Value is Less than 80% of Amortized Cost

	Less than 3 months	Longer than 3 months, less than 6 months	6 months or longer, less than 12 months	12 months or longer	Total
			($ in thousands)		
Fixed maturities	$	$	$	$ (648)	$ (648)
Equity securities					
Total	$	$	$	$ (648)	$ (648)

The fair value of our investment portfolio may fluctuate significantly in response to various factors such as changes in interest rates, investment quality ratings, equity prices, foreign exchange rates and credit spreads. We do not have the intent to sell nor is it more likely than not that we will have to sell debt securities in unrealized loss positions that are not other-than temporarily impaired before recovery. We may realize investment losses to the extent our liquidity needs require the disposition of fixed maturity securities in unfavorable interest rate, liquidity or credit spread environments. Significant changes in the factors we consider when evaluating investment for impairment losses could result in a significant change in impairment losses reported in the consolidated financial statements.

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The following table shows the S&P ratings and equivalent Moody s ratings of the fixed maturity securities in our portfolio with gross unrealized losses at September 30, 2010. Not all of the securities are rated by S&P and/or Moody s.

NAIC Rating	Equivalent S&P Rating	Equivalent Moody s Rating	Gross Unrealized Loss Amount	Gross Unrealized Loss Percent of Total	Fair Value Amount	Fair Value Percent of Total
			($ in thousands)			
1	AAA/AA/A	Aaa/Aa/A	$ 556	18%	$ 32,873	61%
2	BBB	Baa	28	1%	474	1%
3	BB	Ba	248	8%	4,586	9%
4	B	B	524	17%	4,214	8%
5	CCC or lower	Caa or lower	1,720	56%	10,511	20%
6	NR	NR	7	0%	428	1%
	Total		$ 3,083	100%	$ 53,086	100%

At September 30, 2010, the gross unrealized losses in the table directly above are related to fixed maturity securities that are rated investment grade, which is defined as a security having an S&P rating of BBB or higher, or a Moody s rating of Baa3 or higher, except for $2.5 million which is rated below investment grade. The non-rated securities primarily consist of municipal bonds. Unrealized losses on investment grade securities principally relate to changes in interest rates or changes in sector-related credit spreads since the securities were acquired.

The contractual maturity by the number of years until maturity for fixed maturity securities with unrealized losses at September 30, 2010 are shown in the following table:

	Gross Unrealized Loss Amount	Gross Unrealized Loss Percent of Total	Fair Value Amount	Fair Value Percent of Total
	($ in thousands)			
Due in one year or less	$ 3	0%	$ 2,854	5%
Due after one year through five years	27	1%	11,170	21%
Due after five years through ten years	20	1%	3,400	6%
Due after ten years	16	1%	2,017	4%
Mortgage- and asset-backed securities	3,017	97%	33,645	64%
Total fixed maturity securities	$ 3,083	100%	$ 53,086	100%

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to the periodic repayment of principal, the aggregate amount of mortgage-backed and asset-backed securities is estimated to have an effective maturity of approximately 2.8 years.

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The table below summarizes our activity related to other-than-temporary impairment (OTTI) losses for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
($ in thousands except # of securities)	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**	**Number of Securities**	**Amount**
Total other-than-temporary impairment losses								
Corporate and other bonds		$		$		$	2	$ 564
Commercial mortgage-backed securities								
Residential mortgage-backed securities	10	674			12	1,387	38	19,344
Asset-backed securities							1	142
Equities	1	360	6	22	2	387	56	8,719
Total	**11**	**$ 1,034**	**6**	**$ 22**	**14**	**$ 1,774**	**97**	**$ 28,769**
Portion of loss in accumulated other comprehensive income (loss)								
Corporate and other bonds		$		$		$		$
Commercial mortgage-backed securities								
Residential mortgage-backed securities		365		(516)		870		16,990
Asset-backed securities				(9)				63
Equities								
Total		**$ 365**		**$ (525)**		**$ 870**		**$ 17,053**
Impairment losses recognized in earnings								
Corporate and other bonds		$		$		$		$ 564
Commercial mortgage-backed securities								
Residential mortgage-backed securities		309		516		517		2,354
Asset-backed securities				9				79
Equities		360		22		387		8,719
Total		**$ 669**		**$ 547**		**$ 904**		**$ 11,716**

During the 2010 three and nine month periods, we recognized in earnings OTTI losses of $0.7 million and $0.9 million related to non-agency mortgage-backed securities and several equity securities. During the comparable periods in 2009, we recognized in earnings OTTI losses of $0.5 million and $11.7 million related to non-agency mortgage-backed securities, asset-backed securities and equity securities. The significant inputs used to measure the amount of credit loss recognized in earnings were actual delinquency rates, default probability assumptions, severity assumptions and prepayment assumptions. Projected losses are a function of both loss severity and probability of default. Default probability and severity assumptions differ based on property type, vintage and the stress of the collateral. We do not intend to sell any of these securities and it is more likely than not that we will not be required sell these securities before the recovery of the amortized cost basis.

For the 2010 three and nine month periods, OTTI losses within OCI decreased $1.8 million and $3.7 million, respectively, primarily as a result of increases in the fair value of securities previously impaired. For the comparable periods in 2009, OTTI losses within OCI decreased $7.7 million and increased $9.9 million, respectively.

The following table summarizes the cumulative amounts related to our credit loss portion of the OTTI losses on debt securities held as of September 30, 2010 that we do not intend to sell and it is not more likely than not that we will be required to sell the security prior to recovery of the amortized cost basis and for which the non-credit portion is included in other comprehensive income:

($ in thousands)		
Beginning balance at January 1, 2010	$	2,523
Credit losses on securities not previously impaired as of January 1, 2010		904
Reductions for securities sold during the period		(935)
Ending balance at September 30, 2010	$	2,492

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Liquidity and Capital Resources

Net cash provided by operating activities was $49.8 million and $114.1 million for the three and nine months ended September 30, 2010 compared to $35.7 million and $105.2 million for the comparable periods in 2009. The increases in cash flow from operations for both the three and nine month periods were primarily due to improved collections on reinsurance recoverables as well as a decline in income taxes paid. Partially offsetting these aforementioned items was an increase in paid losses as well as an overall decline in the operating results.

Net cash used by investing activities was $34.5 million for the nine months ended September 30, 2010 compared to net cash used in investing activities of $79.6 million for the comparable period in 2009. This change is primarily due to sale of securities to fund our share repurchase program.

Net cash used in financing activities was $49.1 million for the nine months ended September 30, 2010 compared to net cash provided by financing activities of $5.3 million for the comparable period in 2009. These uses of cash primarily related to the repurchase of $50.3 million of the Company s common stock under our share repurchase program.

At September 30, 2010, the weighted average rating of our fixed maturity investments was AA by S&P and Aa by Moody s. The entire fixed maturity investment portfolio, except for $25.0 million, consists of investment grade bonds. At September 30, 2010, our portfolio had a duration of 4.1 years. Management periodically projects cash flow of the investment portfolio and other sources in order to maintain the appropriate levels of liquidity in an effort to ensure our ability to satisfy claims. As of September 30, 2010 and December 31, 2009, all fixed maturity securities and equity securities held by us were classified as available-for-sale.

On April 1, 2010, we entered into a $140 million credit facility agreement entitled Fifth Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and amends and replaces the $75 million credit facility that expired by its terms on April 2, 2010. We may request that the facility be increased by an amount not to exceed $25 million. The credit facility, which is denominated in U.S. dollars, is utilized primarily by Navigators Corporate Underwriters Ltd. and Millennium Underwriting Ltd. to fund our participation in Syndicate 1221 through letters of credit. The letters of credit issued under the facility are denominated in British pounds and their aggregate face amount will fluctuate based on exchange rates. The credit facility expires on March 31, 2011. At September 30, 2010, letters of credit with an aggregate face amount of $129.0 million were outstanding under the credit facility.

The above mentioned credit facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, dividends and the sale of assets, and requirements as to maintaining certain consolidated tangible net worth, statutory surplus and other financial ratios. The credit facility also provides for customary events of default, including failure to pay principal, interest or fees when due, failure to comply with covenants, any representation or warranty made by the Company being false in any material respect, default under certain other indebtedness, certain insolvency or receivership events affecting the Company and its subsidiaries, the occurrence of certain material judgments, or a change in control of the Company. The letter of credit facility is secured by a pledge of the stock of certain insurance subsidiaries of the Company. To the extent the aggregate face amount issued under the credit facility exceeds the commitment amount, we are required to post collateral with the lead bank of the consortium. We were in compliance with all covenants under the credit facility at September 30, 2010.

As a result of the April 1, 2010 amendment of the credit facility, the applicable margin and applicable fee rate payable under the letter of credit facility are now based on a schedule that is decided based on the Company s status as determined from its then-current ratings issued by S&P and Moody s with respect to the Company s senior unsecured long-term debt securities without third-party credit enhancement.

Pursuant to the implementation of Lloyd s Plan of Reconstruction and Renewal, a portion of our recoverables are now reinsured by Resolute Management Services Limited (a separate U.K. authorized reinsurance company established to reinsure outstanding liabilities of all Lloyd s members for all risks written in the 1992 or prior years of account, previously known as Equitas).

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Time lags do occur in the normal course of business between the time gross loss reserves are paid by the Company and the time such gross paid losses are billed and collected from reinsurers. Reinsurance recoverable amounts related to those gross loss reserves at September 30, 2010 are anticipated to be billed and collected over the next several years as the gross loss reserves are paid by the Company.

Generally, for pro rata or quota share reinsurers, including pool participants, we issue quarterly settlement statements for premiums less commissions and paid loss activity, which are expected to be settled by the end of the subsequent quarter. We have the ability to issue cash calls requiring such reinsurers to pay losses whenever paid loss activity for a claim ceded to a particular reinsurance treaty exceeds a predetermined amount (generally $1.0 million) as set forth in the pro rata treaty. For the Insurance Companies, cash calls must generally be paid within 30 calendar days. There is generally no specific settlement period for the Lloyd s Operations cash call provisions, but such billings have historically on average been paid within 45 calendar days.

Generally, for excess of loss reinsurers we pay monthly or quarterly deposit premiums based on the estimated subject premiums over the contract period (usually one year) that are subsequently adjusted based on actual premiums determined after the expiration of the applicable reinsurance treaty. Paid losses subject to excess of loss recoveries are generally billed as they occur and are usually settled by reinsurers within 30 calendar days for the Insurance Companies and 30 business days for the Lloyd s Operations.

We sometimes withhold funds from reinsurers and may apply ceded loss billings against such funds in accordance with the applicable reinsurance agreements.

At September 30, 2010 and December 31, 2009, ceded asbestos paid and unpaid recoverables were $8.7 million and $8.9 million, respectively. Of such amounts at September 30, 2010, $4.3 million was due from Resolute Management Services Limited. We generally experience significant collection delays for a large portion of reinsurance recoverable amounts for asbestos losses given that certain reinsurers are in run-off or otherwise no longer active in the reinsurance business. Such circumstances are considered in our ongoing assessment of such reinsurance recoverables.

We believe that we have adequately managed our cash flow requirements related to reinsurance recoveries from its positive cash flows and the use of available short-term funds when applicable. However, there can be no assurances that we will be able to continue to adequately manage such recoveries in the future or that collection disputes or reinsurer insolvencies will not arise that could materially increase the collection time lags or result in recoverable write-offs causing additional incurred losses and liquidity constraints to the Company. The payment of gross claims and related collections from reinsurers with respect to Hurricanes Gustav, Ike, Katrina and Rita could significantly impact our liquidity needs. However, we expect to continue to pay these hurricane losses over a period of years from cash flow and, if needed, short-term investments. We expect to collect our paid reinsurance recoverables generally under the terms described above.

We believe that the cash flow generated by the operating activities of our subsidiaries will provide sufficient funds for us to meet our liquidity needs over the next twelve months. Beyond the next twelve months, cash flow available to us may be influenced by a variety of factors, including general economic conditions and conditions in the insurance and reinsurance markets, as well as fluctuations from year to year in claims experience.

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Our capital resources consist of funds deployed or available to be deployed to support our business operations. At September 30, 2010 and December 31, 2009, our capital resources were as follows:

	September 30, 2010	December 31, 2009
	($ in thousands)	
Senior debt	$ 114,105	$ 114,010
Stockholders equity	854,013	801,519
Total capitalization	$ 968,118	$ 915,529
Ratio of debt to total capitalization	11.8%	12.5%

We monitor our capital adequacy to support our business on a regular basis. The future capital requirements of our business will depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. In particular, we require (1) sufficient capital to maintain our financial strength ratings, as issued by several ratings agencies, at a level considered necessary by management to enable our Insurance Companies to compete, (2) sufficient capital to enable our Insurance Companies to meet the capital adequacy tests performed by statutory agencies in the United States and the United Kingdom and (3) letters of credit and other forms of collateral that are necessary to support the business plan of our Lloyd s Operations.

As part of our capital management program, we may seek to raise additional capital or may seek to return capital to our stockholders through share repurchases, cash dividends or other methods (or a combination of such methods). Any such determination will be at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal restrictions, rating agency requirements, credit facility limitations and such other factors as our board of directors deems relevant.

In November 2009, the Parent Company s Board of Directors adopted a share repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2010. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations.

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The following presents our share repurchases under the current program for the periods indicated:

	Total Number of Shares Purchased	Average Cost Paid Per Share	Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
	($ in thousands, except per share)		
October 2009			$ 35,000
November 2009	29,021	$ 47.30	$ 33,627
December 2009	112,555	$ 47.83	$ 28,243
Subtotal fourth quarter	141,576	$ 47.72	
Total 2009 activity	141,576	$ 47.72	
January 2010	171,500	$ 44.32	$ 20,642
February 2010	128,500	$ 41.79	$ 15,272
March 2010	273,600	$ 39.10	$ 69,573
Subtotal first quarter	573,600	$ 41.27	
April 2010	149,912	$ 40.92	$ 63,439
May 2010	248,430	$ 39.92	$ 53,522
June 2010	159,661	$ 40.38	$ 47,075
Subtotal second quarter	558,003	$ 40.32	
July 2010	57,177	$ 42.10	$ 44,668
August 2010	32,556	$ 42.49	$ 43,284
September 2010	7,382	$ 42.29	$ 42,972
Subtotal third quarter	97,115	$ 42.25	
Total 2010 activity	1,228,718	$ 40.91	
Total share repurchase activity	1,370,294	$ 41.62	$ 42,972

(1)

Balance as of the end of the month indicated.

From October 1, 2010 through November 3, 2010, the Parent Company purchased an additional 1,500 shares of its common stock in the open market at an average cost of $42.85 per share for a total of approximately sixty four thousand dollars under the share repurchase programs.

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We primarily rely upon dividends from our subsidiaries to meet our Parent Company s obligations. Since the issuance of the senior debt in April 2006, the Parent Company s cash obligations primarily consist of semi-annual interest payments which are now $4.0 million. Going forward, the interest payments and any share repurchases may be made from funds currently at the Parent Company or dividends from its subsidiaries. The dividends have historically been paid by Navigators Insurance Company. Based on the December 31, 2009 surplus of Navigators Insurance Company, the approximate remaining maximum amount available for the payment of dividends by Navigators Insurance Company during 2010 without prior regulatory approval was $64.6 million. Navigators Insurance Company declared and paid $40.0 million of dividends to the Parent Company in the first nine months of 2010, leaving $24.6 million of remaining dividend capacity for 2010.

Condensed Parent Company balance sheets as of September 30, 2010 (unaudited) and December 31, 2009 are shown in the table below:

	September 30, 2010	December 31, 2009
	($ in thousands)	
Cash and investments	$ 67,937	$ 63,676
Investments in subsidiaries	901,025	846,295
Goodwill and other intangible assets	2,534	2,534
Other assets	10,347	5,213
Total assets	$ 981,843	$ 917,718
7% Senior Notes	$ 114,105	$ 114,010
Accounts payable and other liabilities	10,371	847
Accrued interest payable	3,354	1,342
Total liabilities	127,830	116,199
Stockholders equity	854,013	801,519
Total liabilities and stockholders equity	$ 981,843	$ 917,718

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The following updates our disclosure regarding foreign currency exchange rate risk as previously stated in the Company s 2009 Annual Report on Form 10-K.

Foreign Currency Exchange Rate Risk

Our Lloyd s Operations are exposed to foreign currency exchange rate risk primarily related to foreign-denominated cash, cash equivalents and marketable securities (foreign funds), premiums receivable, reinsurance recoverables on paid and unpaid losses and loss adjustment expenses as well as reserves for losses and loss adjustment expenses. The principal currencies creating foreign currency exchange risk for the Lloyd s Operations are the British pound, the Euro and the Canadian dollar. The Lloyd s Operations manages its foreign currency exchange rate risk primarily through asset-liability matching.

Based on the primary foreign-denominated balances within the Lloyd s Operations at September 30, 2010, an assumed 5%, 10% and 15% negative currency movement would result in changes as follows:

(amounts in millions)	USD equivalent as of September 30, 2010	Negative currency movement of 5%	10%	15%
Cash, cash equivalents and marketable securities at fair value	$ 102.1	$ (5.1)	$ (10.2)	$ (15.3)
Premiums receivable	$ 27.1	$ (1.4)	$ (2.7)	$ (4.1)
Reinsurance recoverables on paid, unpaid losses and loss adjustment expenses	$ 77.4	$ (3.9)	$ (7.7)	$ (11.6)
Reserves for losses and loss adjustment expenses	$ (179.8)	$ 9.0	$ 18.0	$ 27.0

Item 4. Controls and Procedures

(a) The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that as of the end of such period the Company s disclosure controls and procedures are effective in identifying, on a timely basis, material information required to be disclosed in our reports filed or submitted under the Exchange Act.

(b) There have been no changes during our third fiscal quarter in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

In the ordinary course of conducting business, our subsidiaries are involved in various legal proceedings, either indirectly as insurers for parties or directly as defendants. Most the these proceedings are claims litigation involving our subsidiaries as either (a) liability insurers defending or providing indemnity for third party claims brought against insureds or (b) insurers defending first party coverage claims brought against them. We account for such activity through the establishment of unpaid loss and loss adjustment reserves. Our management believes that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and cost of defense, will not be material to our consolidated financial condition, results of operations, or cash flows.

Our subsidiaries are also from time-to-time involved with other legal actions, some of which assert claims for substantial amounts. These actions include claims asserting extra contractual obligations, such as claims involving allegations of bad faith in the handling of claims or the underwriting of policies. In general, we believe we have valid defenses to these cases. Our management expects that the ultimate liability if any, with respect to such extra-contractual matters will not be material to our consolidated financial position. Nonetheless, given the large or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of litigation, an adverse outcome in such matters could, from time-to-time, have a material adverse outcome on our consolidated results of operations or cash flows in a particular fiscal quarter or year.

In October 2010, Equitas represented by Resolute Management Services Limited (the Resolute) commenced litigation and arbitration proceedings (the Resolute Proceedings) against Navigators Management Company, Inc., a wholly-owned subsidiary of the Company (NMC). The arbitration demand and complaint in the Resolute Proceedings allege that NMC failed to make timely payments to Resolute under certain reinsurance agreements in connection with subrogation recoveries received by NMC with respect to several catastrophe losses that occurred in the late 1980 s and early 1990 s. Resolute alleges that it suffered damages of approximately $7.5 million as a result of the alleged delays in payment.

The Company believes that the claims of Resolute are without merit and it intends to vigorously contest the claims. While it is too early to predict with any certainty the outcome of the Resolute Proceedings, the Company believes that the ultimate outcome would not be expected to have a significant adverse effect on its results of operations, financial condition or liquidity, although an unexpected adverse resolution of the Resolute Proceedings could have a material adverse effect on the Company s results of operations in a particular fiscal quarter or year.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in the Company s 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In November 2009, the Parent Company s Board of Directors adopted a share repurchase program for up to $35 million of the Parent Company s common stock. In March 2010, the Parent Company s Board of Directors adopted a share repurchase program for up to an additional $65 million of the Parent Company s common stock. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2010. The timing and amount of purchases under the program depend on a variety of factors, including the trading price of the stock, market conditions and corporate and regulatory considerations.

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The following presents our share repurchases under the current program for the periods indicated:

	Total Number of Shares Purchased	Average Cost Paid Per Share	Number of Shares Purchased Under Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
	($ in thousands, except per share)			
January 2010	171,500	$ 44.32	171,500	$ 20,642
February 2010	128,500	$ 41.79	128,500	$ 15,272
March 2010	273,600	$ 39.10	273,600	$ 69,573
Subtotal first quarter	573,600	$ 41.27	573,600	
April 2010	149,912	$ 40.92	149,912	$ 63,439
May 2010	248,430	$ 39.92	248,430	$ 53,522
June 2010	159,661	$ 40.38	159,661	$ 47,075
Subtotal second quarter	558,003	$ 40.32	558,003	
July 2010	57,177	$ 42.10	57,177	$ 44,668
August 2010	32,556	$ 42.49	32,556	$ 43,284
September 2010	7,382	$ 42.29	7,382	$ 42,972
Subtotal third quarter	97,115	$ 42.25	97,115	
Total 2010 activity	1,228,718	$ 40.91	1,228,718	

(1) Balance as of the end of the month indicated.

From October 1, 2010 through November 3, 2010, the Parent Company purchased an additional 1,500 shares of its common stock in the open market at an average cost of $42.85 per share for a total of approximately sixty four thousand dollars under the share repurchase programs.

Item 3. Defaults Upon Senior Securities

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description of Exhibit	
11-1	Statement re Computation of Per Share Earnings	*
31-1	Certification of CEO per Section 302 of the Sarbanes-Oxley Act	*
31-2	Certification of CFO per Section 302 of the Sarbanes-Oxley Act	*
32-1	Certification of CEO per Section 906 of the Sarbanes-Oxley Act (This exhibit is intended to be furnished in accordance with Regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference).	*
32-2	Certification of CFO per Section 906 of the Sarbanes-Oxley Act (This exhibit is intended to be furnished in accordance with Regulation S-K item 601(b)(32)(ii) and shall not be deemed to be filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference).	*

* *Included herein.*

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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.

	The Navigators Group, Inc. (Registrant)
Date: November 5, 2010	/s/ Francis W. McDonnell Francis W. McDonnell Senior Vice President and Chief Financial Officer

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