NAVIGATORS GROUP INC
Form 10-Q
May 09, 2011

Table of Contents

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 March 31, 2011
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 (State or other jurisdiction of incorporation or organization)	13-3138397 (IRS Employer Identification No.)
6 International Drive, Rye Brook, New York (Address of principal executive offices)	10573 (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 April 28, 2011 was 17,377,335.

THE NAVIGATORS GROUP, INC. AND SUBSIDIARIES
INDEX

Table of Contents

Part I. Financial Information
Item 1. Financial Statements

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

	March 31, 2011 *(Unaudited)*	December 31, 2010
ASSETS		
Investments and cash:		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2011, $1,821,971; 2010, $1,855,598)	$ 1,844,978	$ 1,882,245
Equity securities, available-for-sale, at fair value (cost: 2011, $64,586; 2010, $64,793)	90,912	87,258
Short-term investments, at cost which approximates fair value	169,510	153,057
Cash	39,284	31,768
Total investments and cash	2,144,684	2,154,328
Premiums receivable	251,577	188,368
Prepaid reinsurance premiums	163,564	156,869
Reinsurance recoverable on paid losses	57,920	56,658
Reinsurance recoverable on unpaid losses and loss adjustment expenses	865,212	843,296
Deferred policy acquisition costs	63,992	55,201
Accrued investment income	16,055	15,590
Goodwill and other intangible assets	7,009	6,925
Current income tax receivable, net	6,205	1,054
Deferred income tax, net	15,852	15,141
Other assets	45,040	38,029
Total assets	$ 3,637,110	$ 3,531,459
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	$ 2,034,263	$ 1,985,838
Unearned premiums	511,294	463,515
Reinsurance balances payable	131,803	105,904
Senior notes	114,171	114,138
Accounts payable and other liabilities	30,407	32,710
Total liabilities	2,821,938	2,702,105
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 17,377,022 shares for 2011 and 17,274,440 shares for 2010	1,829	1,728
Additional paid-in capital	318,281	312,588
Treasury stock, at cost (1,788,367 shares for 2011 and 1,532,273 shares for 2010)	(77,987)	(64,935)
Retained earnings	531,619	539,512
Accumulated other comprehensive income	41,430	40,461
Total stockholders equity	815,172	829,354
Total liabilities and stockholders equity	$ 3,637,110	$ 3,531,459

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(Unaudited)	
Gross written premiums	$ 296,283	$ 270,145
Revenues:		
Net written premiums	$ 193,076	$ 189,317
Change in unearned premiums	(40,598)	(25,248)
Net earned premiums	152,478	164,069
Net investment income	17,384	17,972
Total other-than-temporary impairment losses	(263)	(251)
Portion of loss recognized in other comprehensive income (before tax)	22	170
Net other-than-temporary impairment losses recognized in earnings	(241)	(81)
Net realized gains (losses)	(1,389)	6,113
Other income	991	1,070
Total revenues	169,223	189,143
Expenses:		
Net losses and loss adjustment expenses	116,788	103,807
Commission expenses	26,200	25,316
Other operating expenses	36,575	34,586
Interest expense	2,046	2,044
Total expenses	181,609	165,753
Income before income taxes	(12,386)	23,390
Income tax expense (benefit)	(4,493)	6,345
Net income (loss)	$ (7,893)	$ 17,045
Net income per common share:		
Basic	$ (0.50)	$ 1.02
Diluted	$ (0.50)	$ 1.00

Average common shares outstanding:		
Basic	15,739	16,641
Diluted	15,739	16,979

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

Table of Contents

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(Unaudited)	
Preferred Stock		
Balance at beginning and end of period	$	$
Common stock		
Balance at beginning of year	$ 1,728	$ 1,721
Shares issued under stock plans	101	2
Balance at end of period	$ 1,829	$ 1,723
Additional paid-in capital		
Balance at beginning of year	$ 312,588	$ 304,505
Share-based compensation	2,022	3,012
Issuance related to share-based compensation	3,671	
Balance at end of period	$ 318,281	$ 307,517
Treasury stock, at cost		
Balance at beginning of year	$ (64,935)	$ (18,296)
Treasury stock acquired	(13,052)	(23,671)
Issuance related to share-based compensation		4,677
Balance at end of period	$ (77,987)	$ (37,290)
Retained earnings		
Balance at beginning of year	$ 539,512	$ 469,934
Net income	(7,893)	17,045
Balance at end of period	$ 531,619	$ 486,979
Accumulated other comprehensive income, net of tax		
Balance at beginning of year	$ 40,461	$ 43,655
Change in net unrealized gains on securities	311	6,710
Change in net non-credit other-than-temporary impairment losses	(273)	(712)
Change in net cumulative translation adjustments	931	1,462

Balance at end of period	$	41,430	$	51,115
Total stockholders equity at end of period	$	815,172	$	810,044

Table of Contents

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

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	(Unaudited)			
Net income	$	(7,893)	$	17,045
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of tax expense of $183 and $3,192 in 2011 and 2010, respectively [1]		38		5,998
Change in foreign currency translation gains (losses), net of tax expense of $363 and $788 in 2011 and 2010, respectively		931		1,462
Other comprehensive income (loss)		969		7,460
Comprehensive income	$	(6,924)	$	24,505
[1] Disclosure of reclassification amount, net of tax:				
Unrealized gains (losses) on investments arising during period	$	(1,119)	$	9,915
Reclassification adjustment for net realized (gains) losses included in net income		1,000		(3,973)
Reclassification adjustment for other-than-temporary impairment losses recognized in net income		157		56
Change in net unrealized gains (losses) on investments, net of tax	$	38	$	5,998

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

Table of Contents

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(Unaudited)	
Operating activities:		
Net income	$ (7,893)	$ 17,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	976	1,246
Deferred income taxes	(1,253)	1,777
Net realized (gains) losses	1,630	(6,032)
Changes in assets and liabilities:		
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	(21,796)	8,969
Reserves for losses and loss adjustment expenses	45,092	1,376
Prepaid reinsurance premiums	(6,483)	4,610
Unearned premiums	47,076	20,788
Premiums receivable	(62,762)	(33,117)
Deferred policy acquisition costs	(8,666)	(6,982)
Accrued investment income	(460)	677
Reinsurance balances payable	25,720	(11,763)
Current income taxes	(3,240)	366
Other	5,351	5,164
Net cash provided by operating activities	13,292	4,124
Investing activities:		
Fixed maturities		
Redemptions and maturities	56,672	34,771
Sales	42,106	165,405
Purchases	(67,478)	(180,252)
Equity securities		
Sales		
Purchases	(24)	(7,274)
Change in payable for securities	(8,378)	7,451
Net change in short-term investments	(14,713)	1,514
Purchase of property and equipment	(1,326)	(491)
Net cash provided by investing activities	6,859	21,124
Financing activities:		
Purchase of treasury stock	(13,052)	(23,671)
Proceeds of stock issued from employee stock purchase plan	124	415
Proceeds of stock issued from exercise of stock options	293	198

Net cash used in financing activities		(12,635)		(23,058)
Increase in cash		7,516		2,190
Cash at beginning of year		31,768		509
Cash at end of period	$	39,284	$	2,699
Supplemental cash information:				
Income taxes paid, net		476	$	3,806
Interest paid				
Issuance of stock to directors		210		180

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

Table of Contents

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 term the Company as used herein is 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 2010 Annual Report on Form 10-K. Certain amounts for the prior year have been reclassified to conform to the current year s presentation.

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 requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 and additional disclosures regarding Level 3 purchases, sales, issuances and settlements. In addition, this guidance also requires 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 became effective as of January 1, 2011 for calendar year reporting entities. Early adoption is permitted. The Company 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 the Company adopted in the first quarter of 2011. Adoption of this guidance did not have a material effect on the Company s consolidated financial condition, results of operations or cash flows.

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 with early adoption as of January 1, 2011 permitted. The Company did not early adopt this guidance and it is currently evaluating the potential impact of adoption on its consolidated financial condition, results of operations and cash flows.

Table of Contents

Note 3. Segment Information

The Company classifies its 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.

The Company evaluates 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. The Company s underwriting performance is evaluated separately from the performance of its 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 (Navigators Specialty). 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 underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty 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). The Company s Lloyd s Operations includes Navigators Underwriting Agency Ltd. (NUAL), a Lloyd s underwriting agency that manages Syndicate 1221. The Company controlled 100% of the stamp capacity of Syndicate 1221 through its wholly-owned Lloyd s corporate member in 2011 and 2010.

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.

Financial data by segment for the three months ended March 31, 2011 and 2010 follows:

	Three Months Ended March 31, 2011			
	Insurance Companies	Lloyd s Operations	Corporate[1]	Total
	($ in thousands)			
Gross written premiums	$ 206,776	$ 89,507	$	$ 296,283
Net written premiums	130,740	62,336		193,076
Net earned premiums	98,820	53,658		152,478
Net losses and loss adjustment expenses	(74,797)	(41,991)		(116,788)
Commission expenses	(12,340)	(14,407)	547	(26,200)
Other operating expenses	(26,799)	(9,776)		(36,575)
Other income (expense)	1,691	(153)	(547)	991
Underwriting profit (loss)	(13,425)	(12,669)	0	(26,094)
Net investment income	14,983	2,255	146	17,384
Net realized gains (losses)	(245)	(1,385)		(1,630)
Interest expense			(2,046)	(2,046)
Income (loss) before income taxes	1,313	(11,799)	(1,900)	(12,386)
Income tax expense (benefit)	228	(4,056)	(665)	(4,493)
Net income (loss)	$ 1,085	$ (7,743)	$ (1,235)	$ (7,893)
Identifiable assets [2]	$ 2,648,459	$ 881,463	$ 951,506	$ 3,623,806
Losses and loss adjustment expenses ratio	75.7%	78.3%		76.6%
Commission expense ratio	12.5%	26.8%		17.2%
Other operating expense ratio [3]	25.4%	18.5%		23.3%
Combined ratio	113.6%	123.6%		117.1%

(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.

Table of Contents

	Three Months Ended March 31, 2011		
	Insurance Companies	Lloyd s Operations	Total
		($ in thousands)	
Gross written premiums:			
Marine	$ 70,348	$ 61,155	$ 131,503
Property Casualty	112,888	19,302	132,190
Professional Liability	23,540	9,050	32,590
Total	$ 206,776	$ 89,507	$ 296,283
Net written premiums:			
Marine	$ 54,218	$ 49,671	$ 103,889
Property Casualty	62,907	8,386	71,293
Professional Liability	13,615	4,279	17,894
Total	$ 130,740	$ 62,336	$ 193,076
Net earned premiums:			
Marine	$ 40,559	$ 36,978	$ 77,537
Property Casualty	42,935	11,894	54,829
Professional Liability	15,326	4,786	20,112
Total	$ 98,820	$ 53,658	$ 152,478

	Three Months Ended March 31, 2010			
	Insurance Companies	**Lloyd s Operations**	**Corporate[1]**	**Total**
		($ in thousands)		
Gross written premiums	$ 177,838	$ 92,307	$	$ 270,145
Net written premiums	121,340	67,977		189,317
Net earned premiums	111,211	52,858		164,069
Net losses and loss adjustment expenses	(68,403)	(35,404)		(103,807)
Commission expenses	(14,362)	(10,966)	12	(25,316)
Other operating expenses	(27,353)	(7,243)		(34,596)
Other income (expense)	(977)	2,069	(12)	1,080
Underwriting profit	116	1,314		1,430
Net investment income	15,748	2,069	155	17,972
Net realized gains (losses)	5,205	713	114	6,032
Interest expense			(2,044)	(2,044)
Income (loss) before income taxes	21,069	4,096	(1,775)	23,390
Income tax expense (benefit)	5,463	1,503	(621)	6,345
Net income (loss)	$ 15,606	$ 2,593	$ (1,154)	$ 17,045
Identifiable assets [2]	$ 2,546,248	$ 815,946	$ 86,046	$ 3,460,731
Losses and loss adjustment expenses ratio	61.5%	67.0%		63.3%
Commission expense ratio	12.9%	20.7%		15.4%
Other operating expense ratio [3]	25.5%	9.8%		20.4%
Combined ratio	99.9%	97.5%		99.1%

(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.

Table of Contents

	Three Months Ended March 31, 2010 Insurance Companies	Lloyd s Operations	Total
	($ in thousands)		
Gross written premiums:			
Marine	$ 67,526	$ 59,141	$ 126,667
Property Casualty	79,346	19,959	99,305
Professional Liability	30,966	13,207	44,173
Total	$ 177,838	$ 92,307	$ 270,145
Net written premiums:			
Marine	$ 51,003	$ 49,642	$ 100,645
Property Casualty	49,697	11,711	61,408
Professional Liability	20,640	6,624	27,264
Total	$ 121,340	$ 67,977	$ 189,317
Net earned premiums:			
Marine	$ 41,094	$ 35,560	$ 76,654
Property Casualty	51,081	11,915	62,996
Professional Liability	19,036	5,383	24,419
Total	$ 111,211	$ 52,858	$ 164,069

The Insurance Companies net earned premiums include $17.4 million and $19.9 million of net earned premiums from the U.K. Branch for the three months ended March 31, 2011 and 2010, respectively.

Note 4. Reinsurance Ceded

The Company ceded earned premiums were $96.0 million and $85.5 million for the three months ended March 31, 2011 and 2010, respectively. The Company ceded incurred losses were $74.7 million and $52.2 million for the three months ended March 31, 2011 and 2010.

Table of Contents

The following table lists the Company s 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 the total recoverable), together with the reinsurance recoverable and collateral at March 31, 2011, and the reinsurers rating from the indicated rating agency:

Reinsurer	Reinsurance Recoverables Unearned Premium	Unpaid/Paid Losses	Total	Collateral Held[(1)]	Rating & Rating Agency[(2)]	
	($ in millions)					
Swiss Reinsurance America Corporation	$ 7.8	$ 94.3	$ 102.1	$ 7.5	A	AMB
Munich Reinsurance America Inc.	15.4	82.1	97.5	7.6	A+	AMB
Everest Reinsurance Company	17.5	68.9	86.4	9.0	A+	AMB
Transatlantic Reinsurance Company	20.0	66.2	86.2	8.8	A	AMB
Scor Holding (Switzerland) AG	6.5	39.8	46.3	12.0	A	AMB
Partner Reinsurance Europe	6.7	33.5	40.2	18.8	AA-	S&P
National Indemnity Company	10.2	29.1	39.3	3.0	A++	AMB
Munchener Ruckversicherungs-Gesellschaft	0.9	36.1	37.0	8.1	A+	AMB
White Mountains Reinsurance of America	0.3	33.8	34.1	0.2	A-	AMB
General Reinsurance Corporation	1.2	32.8	34.0	1.0	A++	AMB
Berkley Insurance Company	2.5	29.8	32.3	(0.4)	A+	AMB
Platinum Underwriters Re	1.7	26.6	28.3	3.7	A	AMB
Lloyd s Syndicate #2003	4.1	23.7	27.8	3.4	A	AMB
Ace Property and Casualty Insurance Company	4.9	21.7	26.6	1.9	A+	AMB
Allied World Reinsurance	6.9	14.7	21.6	2.5	A	AMB
AXIS Re Europe	3.6	16.8	20.4	5.3	A	AMB
Swiss Re International SE	0.7	15.4	16.1	5.5	A	AMB
Validus Reinsurance Ltd.	2.6	12.8	15.4	4.8	A-	AMB
Hannover Ruckversicherung	0.6	14.8	15.4	4.3	A	AMB
Tower Insurance Company	12.4	2.0	14.4	15.0	A-	AMB
Top 20 Total	126.5	694.9	821.4	122.0		
All Other	37.1	228.2	265.3	82.8		
Total	$ 163.6	$ 923.1	$ 1,086.7	$ 204.8		

(1) Collateral includes letters of credit, ceded balances payable and other balances held by the Company s Insurance Companies and 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 the Company s 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. Certain non-performance based grants vest over five years with one-third vesting in each of the third, fourth and fifth years. The Company s performance based share grants generally consist of two types of awards. Those issued in 2011 will cliff vest in three years, generally with 50% vesting in full, while the vesting of the remaining 50% will be dependent on the compound annual growth in book value per share for the three years immediately prior to the vesting date, with actual shares that vest ranging between 150% to 0% of that portion of the original award. Those issued prior to 2011 generally vest over five years with one-third vesting in each of the third, fourth and fifth years, dependent on the rolling three-year average return on equity based on the three years prior to the year in which the vesting occurs, with actual shares that vest ranging between 150% to 0% of the original award.

Table of Contents

The amounts charged to expense for stock-based compensation were $1.4 million and $2.0 million for the three months ended March 31, 2011 and 2010, respectively.

The Company expensed $55,200 and $48,000 for the three months ended March 31, 2011 and 2010, respectively, related to its Employee Stock Purchase Plan. In addition, $60,000 and $45,000 were expensed for the three months ended March 31, 2011 and 2010, respectively, 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. Lloyd s Syndicate 1221

The Company s Lloyd s Operations included in the consolidated financial statements represents its participation in Syndicate 1221. Syndicate 1221 s stamp capacity is £175 million ($280 million) for the 2011 underwriting year compared to £165 million ($256 million) for the 2010 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 the Company s financial statements are gross of commission. The Company controlled 100% of Syndicate 1221 s stamp capacity for the 2011 and 2010 underwriting years through its wholly-owned Lloyd s corporate member.

The Company provides letters of credit and posts cash to Lloyd s to support its participation in Syndicate 1221 s stamp capacity. As of March 31, 2011, the Company had provided letters of credit of $132 million and did not have any cash collateral posted. If Syndicate 1221 increases its stamp capacity and the Company participates in the additional stamp capacity, or if Lloyd s changes the capital requirements, the Company may be required to supply additional collateral acceptable to Lloyd s. If the Company is unwilling or unable to provide additional acceptable collateral, the Company will be required to reduce its participation in the stamp capacity of Syndicate 1221. The letters of credit are provided through a credit facility with a consortium of banks which provides the Company with the ability to have letters of credit issued to support Syndicate 1221 s stamp capacity at Lloyd s for the 2011 and 2012 underwriting years. The credit facility will expire on December 31, 2011. Refer to Note 11, *Credit Facility* for additional information. If the consortium of banks decides not to renew the credit facility, the Company 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

The Company is subject to the tax laws and regulations of the United States (U.S.) and foreign countries in which it operates. The Company files a consolidated U.S. federal tax return, which includes all domestic subsidiaries and the United Kingdom (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 Internal Revenue Service (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 IRS. These amounts are then charged to the corporate members in proportion to their participation in the relevant syndicates. The Company s corporate members are subject to this agreement and will receive 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 the Company s foreign source insurance income and foreign tax credits, where available, are utilized to offset U.S. tax as permitted. The Company s effective tax rate for Syndicate 1221 taxable income could substantially exceed 35% to the extent the Company is 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 the Company s 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. 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.

The Company has not provided for U.S. deferred income taxes on the undistributed earnings of approximately $51.6 million of its non-U.S. subsidiaries since these earnings are intended to be permanently reinvested in the non-U.S. subsidiaries. However, in the future, if such earnings were distributed to the Company, taxes of approximately $1.5 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. The Company has no unrecognized tax benefits at March 31, 2011 and March 31, 2010. The Company did not incur any interest or penalties related to unrecognized tax benefits for the three months ended March 31, 2011 and 2010. The Company is currently not under examination by any major U.S. or foreign tax authority and is generally subject to U.S. Federal, state or local, or foreign tax examinations by tax authorities for years 2007 and subsequent.

The Company recorded an income tax benefit of $4.5 million for the three months ended March 31, 2011 compared to an income tax expense of $6.3 million for the comparable period in 2010, resulting in effective tax rates of 36.3% and 27.1% respectively. The effective tax rate on net investment income was 28.5% for the 2011 three months period compared to 24.5% for the same period in 2010. The net deferred tax asset at March 31, 2011 and December 31, 2010 was $15.9 million and $15.1 million, respectively.

The Company had state and local deferred tax assets amounting to potential future tax benefits of $2.4 million and $2.2 million at March 31, 2011 and December 31, 2010, respectively. Included in the deferred tax assets are state and local net operating loss carry-forwards of $1.4 million at March 31, 2011 and December 31, 2010. A valuation allowance was established for the full amount of these potential future tax benefits due to the uncertainty associated with their realization. The Company s state and local tax carry-forwards at March 31, 2011 expire from 2023 to 2025.

Note 8. Senior Notes due May 1, 2016

On April 17, 2006, the Company 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 March 31, 2011 and was $2.0 million for the three months ended March 31, 2010. The fair value of the Senior Notes, based on quoted market prices, was $122.6 million and $117.6 million at March 31, 2011 and December 31, 2010, respectively.

The Company 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 March 31, 2011, the Company was in compliance with all such covenants.

In April 2009, the Company 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 pre-tax gain that was reflected in Other income. As a result of this transaction, approximately $115 million aggregate principal amount of the Senior Notes remains issued and outstanding as of March 31, 2011.

Table of Contents

Note 9. Commitments and Contingencies

In the ordinary course of conducting business, the Company s subsidiaries are involved in various legal proceedings, either indirectly as insurers for parties or directly as defendants. Most of these proceedings are claims litigation involving the Company s 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. The Company accounts for such activity through the establishment of unpaid loss and loss adjustment reserves. The Company s 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 the Company s consolidated financial condition, results of operations, or cash flows.

The Company s 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, the Company believes it has valid defenses to these cases. The Company s management expects that the ultimate liability if any, with respect to future extra-contractual matters will not be material to its 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 the Company s 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 (NMC) Inc., a wholly-owned subsidiary of the Company. 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.

Table of Contents

Note 10. Investments

The following tables set forth the Company s cash and investments as of March 31, 2011 and December 31, 2010. The table below includes other-than-temporarily impaired (OTTI) securities recognized within other comprehensive income (OCI).

March 31, 2011	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
Fixed Maturities:					
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 288,734	$ 4,475	$ (2,839)	$ 287,098	$
States, municipalities and political subdivisions	373,352	10,312	(2,915)	365,955	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	359,610	9,254	(3,430)	353,786	
Residential mortgage obligations	21,235	77	(2,051)	23,209	(1,260)
Asset-backed securities	42,914	230	(226)	42,910	
Commercial mortgage-backed securities	207,018	4,896	(1,991)	204,113	
Subtotal	630,777	14,457	(7,698)	624,018	(1,260)
Corporate bonds	552,115	13,718	(6,503)	544,900	
Total fixed maturities	1,844,978	42,962	(19,955)	1,821,971	(1,260)
Equity securities common stocks	90,912	26,366	(40)	64,586	
Cash	39,284			39,284	
Short-term investments	169,510			169,510	
Total	$ 2,144,684	$ 69,328	$ (19,995)	$ 2,095,351	$ (1,260)

December 31, 2010	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost	OTTI Recognized in OCI
			($ in thousands)		
Fixed Maturities:					
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 324,145	$ 5,229	$ (4,499)	$ 323,415	$
States, municipalities and political subdivisions	392,250	11,903	(3,805)	384,152	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	382,628	10,127	(2,434)	374,935	
Residential mortgage obligations	20,463	24	(2,393)	22,832	(1,646)
Asset-backed securities	46,093	247	(292)	46,138	
Commercial mortgage-backed securities	190,015	4,804	(1,794)	187,005	
Subtotal	639,199	15,202	(6,913)	630,910	(1,646)
Corporate bonds	526,651	15,075	(5,545)	517,121	
Total fixed maturities	1,882,245	47,409	(20,762)	1,855,598	(1,646)
Equity securities common stocks	87,258	22,475	(10)	64,793	
Cash	31,768			31,768	
Short-term investments	153,057			153,057	
Total	$ 2,154,328	$ 69,884	$ (20,772)	$ 2,105,216	$ (1,646)

The fair value of the Company s 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. The Company does not have the intent to sell nor is it more likely than not that it will have to sell debt securities in unrealized loss positions that are not other-than-temporarily impaired before recovery. The Company 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 the Company considers 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 categorized by the number of years until maturity at March 31, 2011 are shown in the following table:

Period from March 31, 2011 to Maturity	**Fair Value**	**Amortized Cost**
	($ in thousands)	
Due in one year or less	$ 20,811	$ 20,706
Due after one year through five years	574,146	562,020
Due after five years through ten years	394,016	390,075
Due after ten years	225,228	225,152
Mortgage- and asset-backed (including GNMAs)	630,777	624,018
Total	$ 1,844,978	$ 1,821,971

Table of Contents

The following table summarizes all securities in a gross unrealized loss position at March 31, 2011 and December 31, 2010, 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 relevant number of securities.

	March 31, 2011			December 31, 2010		
	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	34	$ 146,418	$ 2,839	36	$ 163,253	$ 4,499
7-12 Months						
> 12 Months						
Subtotal	34	146,418	2,839	36	163,253	4,499
States, municipalities and political subdivisions						
0-6 Months	55	101,879	2,736	57	112,291	3,749
7-12 Months	2	1,101	109	1	1,004	20
> 12 Months	5	2,268	70	4	1,317	36
Subtotal	62	105,248	2,915	62	114,612	3,805
Agency mortgage-backed securities						
0-6 Months	39	123,436	3,430	36	139,226	2,434
7-12 Months						
> 12 Months						
Subtotal	39	123,436	3,430	36	139,226	2,434
Residential mortgage obligations						
0-6 Months	4	4,148	109	3	3,215	20
7-12 Months						
> 12 Months	48	14,234	1,942	52	15,939	2,373
Subtotal	52	18,382	2,051	55	19,154	2,393

Asset-backed securities								
0-6 Months	5	24,355		226	7	28,175		292
7-12 Months								
> 12 Months	1				1	2		
Subtotal	6	24,355		226	8	28,177		292
Commercial mortgage-backed securities								
0-6 Months	25	97,543		1,977	16	78,212		1,755
7-12 Months								
> 12 Months	2	351		14	2	491		39
Subtotal	27	97,894		1,991	18	78,703		1,794
Corporate bonds								
0-6 Months	110	228,588		6,503	98	214,180		5,545
7-12 Months								
> 12 Months								
Subtotal	110	228,588		6,503	98	214,180		5,545
Total fixed maturities	330	$ 744,321	$	19,955	313	$ 757,305	$	20,762
Equity securities common stocks								
0-6 Months	3	$ 1,648	$	40	1	$ 322	$	10
7-12 Months								
> 12 Months								
Total equity securities	3	$ 1,648	$	40	1	$ 322	$	10

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.

In the above table the residential mortgage-obligations gross unrealized loss for the greater than 12 months category consists primarily of residential mortgage-backed securities. Residential mortgage-backed securities are a type of fixed income security in which residential mortgage loans are sold into a trust or special purpose vehicle, thereby securitizing the cash flows of the mortgage loans.

To determine whether the unrealized loss on structured securities is other-than-temporary, the Company projects 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 break even default rate is also calculated. A comparison of 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, the Company compares 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, the Company focuses its attention on those securities with a fair value less than 80% of their cost for six or more consecutive months. If warranted as the result of conditions relating to a particular security, the Company 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, the Company considers its 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, the Company considers its intent to sell a security and whether it is more likely than not that the Company 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. The Company s 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. The Company does not intend to sell any of these securities and it is more likely than not that it will not be required to sell these securities before the recovery of the amortized cost basis.

Table of Contents

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

	Three Months Ended March 31,					
	2011			2010		
($ in thousands, except # of securities)	Number of Securities		Amount	Number of Securities		Amount
Total other-than-temporary impairment losses						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities	1		33	2		224
Asset-backed securities						
Equities	1		230	1		27
Total	**2**		**263**	**3**	**$**	**251**
Portion of loss in accumulated other comprehensive income (loss)						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities			22			170
Asset-backed securities						
Equities						
Total		**$**	**22**		**$**	**170**
Impairment losses recognized in earnings						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities			11			54
Asset-backed securities						
Equities			230			27
Total		**$**	**241**		**$**	**81**

Table of Contents

The following table summarizes the cumulative amounts related to the Company s credit loss portion of the OTTI losses on debt securities for the three months ended March 31, 2011 and 2010 that itdoes not intend to sell and it is not more likely than not that it 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:

	Three months ended March 31,			
($ in thousands)	**2011**		**2010**	
Beginning balance at January 1	$	1,658	$	2,523
Credit losses on securities not previously impaired as of January 1				54
Additional credit losses on securities previously impaired as of January 1		11		
Reductions for securities sold during the period				
Ending balance at March 31	$	1,669	$	2,577

For the three months ended March 31, 2011, OTTI losses within OCI decreased $0.4 million primarily as a result of increases in the fair value of securities previously impaired.

Table of Contents

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

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
($ in thousands, except # of securities)	**Number of Securities**	**Pre-Tax Amount**	**After-Tax Amount**	**Number of Securities**	**Pre-Tax Amount**	**After-Tax Amount**
Beginning balance at January 1						
Residential mortgage-backed securities	31	$ 1,646	$ 1,176	34	$ 5,723	$ 3,984
Asset-backed securities				1	23	16
Total		**$ 1,646**	**$ 1,176**		**$ 5,746**	**$ 4,000**
Portion of loss in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities	1	$ 22	$ 14	2	$ 170	$ 111
Asset-backed securities						
Total		**$ 22**	**$ 14**		**$ 170**	**$ 111**
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	31	$ (408)	$ (287)		$ (1,208)	$ (831)
Asset-backed securities					11	8
Total		**$ (408)**	**$ (287)**		**$ (1,197)**	**$ (823)**
Subsequent sale of securities in which an OTTI loss was recorded in accumulated other comprehensive income (loss)						
Residential mortgage-backed securities		$	$		$	$
Asset-backed securities						
Total		**$**	**$**		**$**	**$**
Ending balance at March 31						
Residential mortgage-backed securities	31	$ 1,260	$ 903	36	$ 4,685	$ 3,264
Asset-backed securities				1	34	24

Total	**$ 1,260**	**$ 903**	**$ 4,719**	**$ 3,288**

Table of Contents

The contractual maturity categorized by the number of years until maturity for fixed maturity securities with a gross unrealized loss at March 31, 2011 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	$ 48	0%	$ 39,337	5%
Due after one year through five years	2,401	12%	148,023	20%
Due after five years through ten years	6,332	32%	188,963	25%
Due after ten years	3,476	17%	103,931	14%
Mortgage- and asset-backed securities	7,698	39%	264,067	36%
Total fixed maturity securities	$ 19,955	100%	$ 744,321	100%

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

	Three months ended March 31,	
	2011	2010
	($ in thousands)	
Fixed maturities	$ (3,640)	$ 6,439
Equity securities	3,861	2,751
	221	9,190
Deferred income tax (charged) credited	(183)	(3,192)
Change in unrealized gains (losses), net	$ 38	$ 5,998

Realized gains(losses) for the periods indicated were as follows:

	Three Months Ended March 31,	
	2011	2010
	($ in thousands)	
Fixed maturities:		
Gains	$ 2,867	$ 6,370
(Losses)	(4,256)	(257)
	(1,389)	6,113
Equity securities:		
Gains		
(Losses)		
Net realized gains (losses)	$ (1,389)	$ 6,113

The following table presents, for each of the fair value hierarchy levels as defined in ASC 820, *Fair Value Measurements*, the Company s fixed maturities and equity securities by asset class that are measured at fair value at March 31, 2011 and December 31, 2010:

March 31, 2011	Level 1	Level 2	Level 3	Total
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 138,123	$ 150,611	$	$ 288,734
States, municipalities and political subdivisions		373,352		373,352
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		359,610		359,610
Residential mortgage obligations		21,235		21,235
Asset-backed securities		42,914		42,914
Commercial mortgage-backed securities		207,018		207,018
Subtotal		630,777		630,777
Corporate bonds		552,115		552,115
Total fixed maturities	138,123	1,706,855		1,844,978
Equity securities common stocks	90,912			90,912
Total	$ 229,035	$ 1,706,855	$	$ 1,935,890

Table of Contents

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 212,933	$ 111,212	$	$ 324,145
States, municipalities and political subdivisions		392,250		392,250
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		382,628		382,628
Residential mortgage obligations		20,463		20,463
Asset-backed securities		46,093		46,093
Commercial mortgage-backed securities		188,178	1,837	190,015
Subtotal		637,362	1,837	639,199
Corporate bonds		526,651		526,651
Total fixed maturities	212,933	1,667,475	1,837	1,882,245
Equity securities common stocks	87,258			87,258
Total	$ 300,191	$ 1,667,475	$ 1,837	$ 1,969,503

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.

Table of Contents

The Company did not have any significant transfers between Level 1 and 2 for the three months ended March 31, 2011. The Company did not have any securities classified as Level 3 at March 31, 2011 and 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 three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Level 3 investments as of December 31	$	1,837	$	156
Unrealized net gains included in other comprehensive income (loss)		(26)		23
Purchases, sales, paydowns and amortization		(4)		(23)
Transfer from Level 3		(1,807)		(156)
Transfer to Level 3				
Level 3 investments as of March 31	$		$	

Note 11. Credit Facility

On April 1, 2011, we entered into a $165 million credit facility agreement with ING Bank, N.V., London Branch, individually and as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and replaces a $140 million credit facility agreement that expired March 31, 2011. The credit facility, which is denominated in U.S. dollars, will be utilized to fund the Company s participation in Syndicate 1221 through letters of credit for the 2011 and 2012 underwriting years, as well as open prior years. 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 ability to have letters of credit issued under this credit facility expires on December 31, 2011. At March 31, 2011, letters of credit with an aggregate face amount of $132 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, the Company is required to post collateral with the lead bank of the consortium. The Company was in compliance with all covenants under the credit facility at March 31, 2011.

As a result of the April 1, 2011 renewal 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 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 and without third-party credit enhancement and the amount of the Company s own Funds at Lloyd s collateral.

Table of Contents

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. The share repurchase program as originally approved was scheduled to expire on December 31, 2010, however, prior to its expiration, the Parent Company s Board of Directors approved an extension to December 31, 2011.

Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2011. 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. For the three months ended March 31, 2011, the Company repurchased 256,094 shares of the Parent Company s common stock at an aggregate purchase price of $13.1 million and a weighted average price per share of $50.96 pursuant to the share repurchase program. Since inception, the Company has repurchased 1,661,954 shares of the Parent Company s common stock at an aggregate purchase price of $71.8 million and a weighted average price per share of $43.19. At March 31, 2011, approximately $27.8 million was available for future repurchases under the program.

Table of Contents

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 2010 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 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;

Table of Contents

- 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 man-made catastrophes) impacting our insureds and/or reinsurers;
- volatility in the market price of our common stock;
- the effect of the E.U. Directive on Solvency II on how we manage our business, capital requirements and costs associated with conducting business; 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 through Lloyd s Syndicate 1221 (Syndicate 1221) (Lloyd s Operations). The Insurance Companies consist o Navigators Insurance Company (Navigators Insurance), which includes our branch located in the United Kingdom (the U.K. Branch), and Navigators Specialty Insurance Company (Navigators Specialty), which underwrites specialty and professional liability insurance on an excess and surplus lines basis. All of the insurance business written by Navigators Specialty is fully reinsured by Navigators Insurance 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 2011 and 2010 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, each of which underwrites 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.

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 largest exposure to loss from a single natural catastrophe event comes from an earthquake on the west coast of the United States. As of March 31, 2011, we estimate that our probable maximum pre-tax gross and net loss exposure from such an earthquake event would be approximately $147 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.

To date losses reported to us with respect to the Japanese earthquake that occurred on March 11, 2011 have been minimal. Based on the information we have received and our evaluation of the potential exposure under our insurance policies, we do not currently expect to incur material losses related to the Japanese earthquake, but information to date is limited and the situation continues to develop, so we cannot be certain that our losses from this event will not develop in a material adverse manner.

Table of Contents

Critical Accounting Policies

The Company s Annual Report on Form 10-K for the year ended December 31, 2010 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 losses 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 Annual Report on Form 10-K for the year ended December 31, 2010, pages 42 through 51.

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

Summary

The following is a discussion and analysis of our consolidated and segment results of operations for the three months ended March 31, 2011 and 2010. Earnings per share data is presented on a per diluted share basis. In presenting our financial results, we discuss our performance with reference to underwriting profit or loss and the related combined ratio, both of which are non- generally accepted accounting principles (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 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.

2011 Results

Results for the three months ended March 31, 2011 were a net loss of $7.9 million or $0.50 per share compared to net income of $17.0 million or $1.00 per diluted share for the three months ended March 31, 2010. Included in these results were a net realized loss of $1.2 million and a net realized gain of $3.9 million after-tax for the three months ended March 31, 2011 and 2010, respectively. Our net realized loss in the first quarter 2011 resulted from the normal ongoing management of our investment portfolio. In addition, our results included net OTTI losses recognized in earnings of $0.2 million and $0.01 million after-tax for the three months ended March 31, 2011 and 2010, respectively.

Our pre-tax underwriting profit declined by $27.5 million to a $26.1 million underwriting loss in 2011 compared to a $1.4 million underwriting profit in 2010 and the combined ratio for the three months ended March 31, 2011 was 117.1% compared to 99.1% for the comparable period in 2010. The decline in the pre-tax underwriting profit was primarily due to:

- Large current accident year losses from a North Sea drilling operation and an onshore industrial site. The North Sea drilling operation losses resulted in an $8.9 million first quarter charge including $5 million of net loss and $3.9 million of reinstatement premiums. The onshore drilling site generated gross and net losses of $12.0 million and $2.4 million, respectively.
- Sliding scale commission adjustments of $2.6 million related to large loss activity that has reduced our ceding commission benefit on a large quota share treaty.
- An increase in our reinsurance reinstatement premium accrual by $7.5 million. This accrual was driven by the recognition of the effect of a shift in our marine reinsurance protections to an excess of loss program from a quota share program. As a result of this shift and the increased frequency of severity losses in recent periods, a greater portion of our IBNR was attributable to marine and energy losses that are or will be ceded to Marine Excess of Loss Reinsurance program and such cession will trigger additional reinstatement premiums.
- Adverse loss development in our Lloyd s Professional Liability business of $4.2 million related mostly to Errors and Omissions (E&O) lines for underwriting years 2006 and 2007.

Gross written premiums increased 9.7% primarily due to the addition of Accident and Health and Latin American reinsurance as well as more Agriculture business within our Nav Re division, partially offset by the run-off of our personal umbrella lines of business as well as a decline in our directors and officers liability (D&O) lines due to a planned shift toward underwriting excess layers.

Net written premiums increased 2% due to the increase in gross writings but were tempered by the recognition of the $11.4 million of estimated reinsurance reinstatement premiums discussed above.

Our net investment income declined 3.3%. Our pre-tax average investment yield declined in 2011 to 3.3% from 3.6% in 2010 resulting from lower short-term yields. Our total investment portfolio decreased 0.5% in 2011. We experienced significantly lower investment impairments in our portfolio for both periods in 2011 and 2010 as the financial markets experienced a period of greater stability.

The loss ratios were 76.6% and 63.3% for the three months ended March 31, 2011 and 2010, respectively. The increase in the loss ratio was primarily due to the adverse loss development in our Lloyd s operations and the current accident year large loss activity. See *Net Losses and Loss Adjustment Expenses* section below. There was adverse prior year reserve development of $3.4 million for the three months ended March 31, 2011 compared to favorable prior year development of $1.2 million for the comparable period in 2010. The net paid losses and LAE ratio for the three months ended March 31, 2011 was 59.2% compared to 60.3% for the comparable period in 2010.

We recognized $1.6 million of net realized losses for the three months ended March 31, 2011 compared to $6.0 million of net realized gains for the same period in 2010. Net realized gains and losses are generated from the sale of securities in the normal course of management of the investment portfolio.

Consolidated stockholders equity decreased approximately 2% to $815.2 million or $52.29 per share at March 31, 2011 compared to $829.4 million or $52.68 per share at December 31, 2010. The decrease was primarily due to the repurchase of $13.1 million of shares of our common stock.

Cash flow from operations was $13.3 million for the three months ended March 31, 2011 compared to $4.1 million for the comparable period in 2010. The increase in cash flow from operations for the three month period was primarily due to reductions in paid losses and income taxes paid.

REVENUES

Gross written premiums increased 10% to $296.3 million for the three months ended March 31, 2011 compared to $270.1 million for the comparable period in 2010. The increase in the 2011 first quarter gross written premiums compared to 2010 was primarily due to the addition of Accident and Health and Latin American reinsurance as well as more Agriculture business within our Nav Re division, partially offset by the run-off of our personal umbrella lines of business as well as a decline in our D&O lines due to a planned shift toward underwriting excess layers.

Our Marine division saw increases in the average renewal premium rates in our Inland Marine, U.K. Marine and Lloyd s lines of approximately 6.3%, 3.2% and 2.4%, respectively, for the three months ended March 31, 2011 compared to the same period in 2010. U.S. Marine premiums rates remained flat for the period. For our Property Casualty division, we experienced an average renewal premium rate increase in our Navigators Technical Risk (NavTech) line of approximately 6.2% for the three months ended March 31, 2011 compared to the same period in 2010, which was offset by declines in our primary and excess casualty lines of 7.1% and 3.7%, respectively. The Insurance Companies and Lloyd s Professional Liability division overall experienced approximately 3.4% decrease in average renewal premium rates for the three months ended March 31, 2011 compared to 2010.

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.

Table of Contents

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

	Three Months Ended March 31,							
	2011				2010			
	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums	Gross Written Premiums	%	Net Written Premiums	Net Earned Premiums
	($ in thousands)							
Insurance Companies:								
Marine	$ 70,348	24%	$ 54,218	$ 40,559	$ 67,526	25%	$ 51,003	$ 41,094
Property Casualty	112,888	38%	62,907	42,935	79,346	30%	49,697	51,081
Professional Liability	23,540	8%	13,615	15,326	30,966	11%	20,640	19,036
Insurance Companies Total	206,776	70%	130,740	98,820	177,838	66%	121,340	111,211
Lloyd s Operations:								
Marine	61,155	20%	49,671	36,978	59,141	22%	49,642	35,560
Property Casualty	19,302	7%	8,386	11,894	19,959	7%	11,711	11,915
Professional Liability	9,050	3%	4,279	4,786	13,207	5%	6,624	5,383
Lloyd s Operations Total	89,507	30%	62,336	53,658	92,307	34%	67,977	52,858
Total	$ 296,283	100%	$ 193,076	$ 152,478	$ 270,145	100%	$ 189,317	$ 164,069

Table of Contents

Gross Written Premiums

Insurance Companies Gross Written Premiums

Marine Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Marine liability	$ 24,050	35%	$ 24,780	37%
Inland marine	10,651	15%	8,892	13%
P&I	8,863	13%	7,122	11%
Craft/fishing vessel	6,580	9%	5,870	9%
Cargo	6,511	9%	6,221	9%
Bluewater hull	4,558	6%	4,624	7%
Transport	4,276	6%	3,677	5%
Other	4,859	7%	6,340	9%
Total	$ 70,348	100%	$ 67,526	100%

The Insurance Companies Marine gross written premiums for the first quarter in 2011 increased 4% compared to the same period in 2010. Competition remains significant as excess capacity remains in the sector. Economic activity has been on the upswing, increasing reported exposures, and will have a positive impact on premiums. Pricing adjustments for significant catastrophes (New Zealand, Australia and Japan) have not worked through the marketplace to date. The marine liability premium decreased 3% for the three months ended March 31, 2011 due to the loss of some renewal business from the U.K. Branch, but is expected to start quoting 10% to 15% increases in the wake of the Japanese earthquake. The Marine business experienced an overall average renewal premium increase of 2.1%

Property Casualty Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Nav Re	$ 38,118	33%	$ 5,800	7%
Construction liability	23,289	21%	22,671	29%
Commercial umbrella	21,859	18%	16,313	21%
Offshore energy	11,963	11%	9,215	12%
Primary casualty	5,385	5%	2,993	4%
Other	12,274	12%	22,354	27%
Total	$ 112,888	100%	$ 79,346	100%

The Property Casualty gross written premiums for the three months ended March 31, 2011 increased 42% compared to the same period in 2010 due primarily to new business within our Nav Re division. Our offshore energy line increased by 30% in the quarter compared to the same quarter in 2010 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 2011 due to strong renewal retention during the first quarter. Finally, our primary casualty line increased primarily due to significant growth in our environmental business.

For the three months ended March 31, 2011, the average renewal premium rates for most of our casualty lines including construction liability declined modestly. Our NavTech lines, including onshore energy, saw average renewal rate increases of approximately 6%.

Professional Liability Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31,					
	2011			2010		
	($ in thousands)					
D&O (public and private)	$	8,915	39%	$	16,143	52%
Errors and omissions		7,562	32%		5,981	19%
Small lawyers		4,812	20%		5,577	18%
Design professional		1,441	6%			
Runoff		810	3%		3,265	11%
Total	$	23,540	100%	$	30,966	100%

The Professional Liability gross written premiums for the three months ended March 31, 2011 decreased 24% compared to the same period in 2010. 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 design professionals and miscellaneous professional liability lines. For the three months ended March 31, 2011, the average renewal premium rates for the Professional Liability business decreased approximately 4% compared to the same period in 2010.

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 £175 million ($280 million) in 2011 compared to £168 million ($264 million) in 2010.

The Lloyd s Operations gross written premiums for the three months ended March 31, 2011 decreased 3% compared to the same period in 2010. The decrease in the gross written premiums was attributable to lower Property Casualty and Professional Liability premiums which are described in detail below.

Table of Contents

Marine Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Marine liability	$ 25,863	42%	$ 25,529	43%
Cargo and specie	20,009	33%	21,081	36%
Assumed reinsurance	7,775	13%	6,496	11%
War	4,177	7%	2,408	4%
Hull	3,331	5%	3,627	6%
Total	$ 61,155	100%	$ 59,141	100%

The Marine gross written premium for the three months ended March 31, 2011 increased 3% compared to the same period in 2010. For the three months ended March 31, 2011, average renewal premium rates increased approximately 2% compared to the same period in 2010, with larger increases on our energy liability policies within marine liability.

Property Casualty Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Offshore energy	$ 10,285	53%	$ 10,406	52%
Engineering and construction	4,456	23%	4,958	25%
Onshore energy	4,367	23%	2,312	12%
Other	194	1%	2,283	11%
Total	$ 19,302	100%	$ 19,959	100%

The Property Casualty gross written premiums for the three months ended March 31, 2011 decreased 3% compared to the same period in 2010 primarily due to the decrease in Other which includes our U.S. Property Casualty written through our Lloyd s operations and bloodstock business lines. The average renewal premium rates for the three months ended March 31, 2011 for our offshore energy and engineering lines both increased approximately 2% and our onshore energy line decreased approximately 4% compared to the same period in 2010.

Professional Liability Premiums. The gross written premiums for the three months ended March 31, 2011 and 2010 consisted of the following:

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	($ in thousands)			
D&O (public and private)	$ 6,309	70%	$ 6,581	50%
E&O	2,741	30%	6,626	50%
Total	$ 9,050	100%	$ 13,207	100%

The Professional Liability gross written premiums for the three months ended March 31, 2011 decreased 32% compared to the same period in 2010 due to competitive market conditions in both the D&O and E&O lines. The average renewal premium rates for the D&O and E&O lines decreased approximately 2% for the three months ended March 31, 2011 compared to the same period in 2010, respectively.

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:

	2011 Ceded Written Premiums	2011 % of Gross Written Premiums	2010 Ceded Written Premiums	2010 % of Gross Written Premiums
	Three Months Ended March 31, ($ in thousands)			
Insurance Companies:				
Marine	$ 16,130	23%	$ 16,523	24%
Property Casualty	49,981	44%	29,649	37%
Professional Liability	9,925	42%	10,326	33%
Subtotal	76,036	37%	56,498	32%
Lloyd s Operations:				
Marine	11,484	19%	9,499	16%
Property Casualty	10,916	57%	8,248	41%
Professional Liability	4,771	53%	6,583	50%
Subtotal	27,171	30%	24,330	26%
Total	$ 103,207	35%	$ 80,828	30%

Table of Contents

The increase in the percentage of total ceded written premiums to total gross written premiums for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to the $11.4 million of estimated reinsurance reinstatement premiums discussed earlier, and the transfer of NavPac business to Tower Insurance Company of New York via a quota share on an in force basis which generated an additional $13.5 million of ceded premiums this quarter.

Our reinsurance program includes contracts for proportional reinsurance, per risk and whole account excess-of-loss reinsurance for both property and casualty risks and property catastrophe excess-of-loss reinsurance. In recent years we have increased our utilization of excess-of-loss reinsurance for both property and casualty risks. Our excess-of-loss reinsurance contracts generally provide for a specific amount of coverage in excess of an attachment point and sometimes provides for reinstatement of the coverage to the extent the limit has been exhausted for payment of additional premium (referred to as reinstatement premiums). The number of reinstatements available varies by contract.

We record an estimate of the expected reinstatements premiums for losses ceded to excess of loss agreements where this feature applies.

Net Written Premiums

Net written premiums increased 2% for the three months ended March 31, 2011 compared to the same period in 2010. The impact of higher gross written premiums for the three months ended March 31, 2011 was partially offset by the $11.4 million of estimated reinsurance reinstatement premiums discussed earlier.

Net Earned Premiums

Net earned premiums decreased 7% for the three months ended March 31, 2011 compared to the same period in 2010 as the Nav Re premiums that are driving the increase in written premiums have not fully earned. The decrease was also due to the $11.4 million of estimated reinsurance reinstatements premiums discussed earlier.

Net Investment Income

Our net investment income was derived from the following sources:

	Three Months Ended March 31,	
	2011	**2010**
	($ in thousands)	
Fixed maturities	$ 17,192	$ 17,740
Equity securities	783	556
Short-term investments	267	235
	18,242	18,531
Investment expenses	(858)	(559)
Net investment income	$ 17,384	$ 17,972

Net investment income decreased 3.3% for the first quarter of 2011 compared to the same period in 2010 due to lower investment yields and higher investment management fees.

Table of Contents

Net Other-Than-Temporary Impairment Losses Recognized In Earnings

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

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Fixed maturities	$	(11)	$	(54)
Equity securities		(230)		(27)
Net other-than-temporary impairment losses recognized in earnings	$	(241)	$	(81)

For the three months ended March 31, 2011, we recorded net OTTI losses recognized in earnings of $0.2 million relating primarily to residential mortgage-backed securities and one equity security. For the comparable period in the prior year, we recorded $0.1 million of net OTTI losses recognized in earnings on two residential mortgage-backed securities and one equity security.

Net Realized Gains and Losses

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

	Three Months Ended March 31,			
	2011		2010	
	($ in thousands)			
Fixed maturities:				
Gains	$	2,867	$	6,370
(Losses)		(4,256)		(257)
		(1,389)		6,113
Equity securities:				
Gains				
(Losses)				
Net realized gains (losses)	$	(1,389)	$	6,113

For the three months ended March 31, 2011, we recorded $1.4 million of net realized losses compared to net realized gains of $6.1 million for the comparable period in 2010. On an after-tax basis, the net realized losses for the three months ended March 31, 2011 were $1.0 million compared with net realized gains of $3.9 for the 2010 comparable period. We typically generate realized gains and losses as part of the normal ongoing management of our investment portfolio, and the losses recorded this period include the sale of treasuries at a loss in order to shorten our duration.

42

Table of Contents

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.

EXPENSES

Net Losses and Loss Adjustment Expenses

The ratio of net losses and LAE to net earned premiums (loss ratios) for the three months ended March 31, 2011 was 76.6% compared to 63.3% for the comparable period in 2010. The increase in the loss ratio for the 2011 period was primarily attributable to large loss activity in the current accident year and adverse loss development. The adverse prior year reserve development was $3.4 million for the three months ended March 31, 2011 compared to favorable prior year development of $1.2 million for the comparable period in 2010, which are explained in more detail later.

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

	March 31, 2011	December 31, 2010	Change
		($ in thousands)	
Reinsurance recoverables:			
Paid losses	$ 57,920	$ 56,658	$ 1,262
Unpaid losses and LAE reserves	865,212	843,296	21,916
Total	$ 923,132	$ 899,954	$ 23,178

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:

	March 31, 2011	December 31, 2010	Change
		($ in thousands)	
Gross reserves for losses and LAE	$ 2,034,263	$ 1,985,838	$ 48,425
Less: Reinsurance recoverable on unpaid losses and LAE reserves	865,212	843,296	21,916
Net loss and LAE reserves	$ 1,169,051	$ 1,142,542	$ 26,509

Table of Contents

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:

	March 31, 2011			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
		($ in thousands)		
Insurance Companies:				
Marine	$ 106,894	$ 115,173	$ 222,067	52%
Property Casualty	159,135	311,470	470,605	66%
Professional Liability	56,372	67,487	123,859	54%
Total Insurance Companies	322,401	494,130	816,531	61%
Lloyd s Operations:				
Marine	110,905	120,781	231,686	52%
Property Casualty	33,613	31,707	65,320	49%
Professional Liability	10,985	44,529	55,514	80%
Total Lloyd s Operations	155,503	197,017	352,520	56%
Total	$ 477,904	$ 691,147	$ 1,169,051	59%

	December 31, 2010			
	Net Reported Reserves	Net IBNR Reserves	Total Net Loss Reserves	% of IBNR to Total Net Loss Reserves
		($ in thousands)		
Insurance Companies:				
Marine	$ 107,147	$ 109,361	$ 216,508	51%
Property Casualty	158,740	308,613	467,353	66%
Professional Liability	46,096	78,469	124,565	63%
Total Insurance Companies	311,983	496,443	808,426	61%
Lloyd s Operations:				
Marine	111,914	112,708	224,622	50%
Property Casualty	30,327	29,792	60,119	50%
Professional Liability	9,904	39,471	49,375	80%

Total Lloyd s Operations	152,145	181,971	334,116	54%
Total	$ 464,128	$ 678,414	$ 1,142,542	59%

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 2010 Annual Report on Form 10-K for the year ended December 31, 2010, pages 42 to 49.

Hurricanes Katrina, Rita, Gustav, and Ike

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.

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.

We review the gross loss reserves for the events each quarter and the ending gross and net loss reserves as of March 31, 2011 were $56.7 million and $1.4 million, respectively.

Approximately $62.6 million and $73.4 million of paid and unpaid losses at March 31, 2011 and December 31, 2010, respectively, were due from reinsurers as a result of the losses from Hurricanes Katrina, Rita, Gustav and Ike.

Prior Year Reserve Redundancies/Deficiencies

The relevant factors that may have a significant impact on the establishment and adjustment of losses 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.

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

	Three Months Ended March 31,	
	2011	2010
	($ in thousands)	
Insurance Companies:		
Marine	$ 748	$ 696
Property Casualty	1,183	(1,541)
Professional Liability	(709)	192
Subtotal Insurance Companies	1,222	(653)
Lloyd s Operations	2,211	(593)
Total	$ 3,433	$ (1,246)

Following is a discussion of relevant factors related to the $3.4 million prior period net reserve deficiency recorded in the 2011 first quarter:

The Insurance Companies recorded $1.2 million of prior period net reserve deficiencies which was driven by adverse development of $0.7 million from the Marine division and $1.2 million in the Property Casualty division. Within the Marine development was adverse development on inland marine business of $3.2 million due to a series of reported losses that exceeded our expectations, partially offset by favorable development on marine liability and craft business to favorable loss emergence relative to expectations. Within the Property Casualty development was $1.4 million of adverse development on the New York Construction segment which is a declining book of business. While there was prior year loss activity on several other lines, none of the activity was noteworthy.

The Lloyd s Operations recorded $2.2 million of prior period net reserve deficiencies resulting from adverse development of $4.2 million in Professional Liability driven by adverse claims movements for underwriting years 2006 and 2007 in the E&O line of business. Partially offsetting that was redundancies in Marine and Nav Tech business across multiple lines and underwriting years.

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 D&O business due to an increase in our loss ratio assumption of the 2010 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.

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 three months ended March 31, 2011 was 17.2% compared to 15.4% for the comparable period in 2010. The increase in the net commission ratios for the first three months of 2011 when compared to the same period in 2010 was attributable to $2.6 million of sliding scale adjustments on our consortium quota share treaties due to large loss activity, which have reduced the ceding commission benefit. In addition, reinsurance reinstatement costs of $11.4 million, as discussed earlier, resulted in lower net earned premiums which in turn increased the net commission ratios.

Other Operating Expenses

Other operating expenses increased 5.7% for the three months ended March 31, 2011 compared to the same period in 2010. The increase in other operating expenses for the first quarter of 2011 was primarily due 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 on account of the implementation of Solvency II. For the three months ended March 31, 2011, our operating expense ratios increased due to the explanations noted above combined with the impact of the estimated reinsurance reinstatement costs of $11.4 million recorded in the first quarter of 2011, resulting in lower net earned premiums which increased the operating expense ratios. Our total staff count at March 31, 2011 has declined 1.8% compared to our staff count at December 31, 2010.

INCOME TAXES

We recorded an income tax benefit of $4.5 million for the three months ended March 31, 2011 compared to an expense of $6.3 million for the comparable period in 2010, resulting in effective tax rates of 36.3% and 27.1%, respectively. 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 28.5% for the three months ended March 31, 2011 compared to 24.5% for the same period in 2010. As of March 31, 2011 and December 31, 2010 the net deferred federal, foreign, state and local tax liabilities and assets were $15.9 million and $15.1 million, respectively.
We had net state and local deferred tax assets amounting to potential future tax benefits of $2.4 million and $2.2 million at March 31, 2011 and December 31, 2010, respectively. Included in the deferred tax assets are state and local net operating loss carry-forwards of $1.6 million and $1.4 million at March 31, 2011 and December 31, 2010, 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 March 31, 2011 expire from 2023 to 2025.

Table of Contents

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 , including its U.K. Branch, and its wholly-owned subsidiary, Navigators Specialty. 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 underwrites specialty and professional liability insurance on an excess and surplus lines basis. Navigators Specialty is 100% reinsured by Navigators Insurance.

Table of Contents

The following table sets forth the results of operations for the Insurance Companies for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Change
	($ in thousands)		
Gross written premiums	$ 206,776	$ 177,838	16%
Net written premiums	130,740	121,340	8%
Net earned premiums	98,820	111,211	-11%
Net losses and loss adjustment expenses	(74,797)	(68,403)	9%
Commission expenses	(12,340)	(14,362)	-14%
Other operating expenses	(26,799)	(27,353)	-2%
Other income (expense)	1,691	(977)	NM
Underwriting profit	(13,425)	116	NM
Net investment income	14,983	15,748	-5%
Net realized gains (losses)	(245)	5,205	NM
Income before income taxes	1,313	21,069	-94%
Income tax expense	228	5,463	-96%
Net income	$ 1,085	$ 15,606	-93%
Losses and loss adjustment expenses ratio	75.7%	61.5%	
Commission expense ratio	12.5%	12.9%	
Other operating expense ratio (1)	25.4%	25.5%	
Combined ratio	113.6%	99.9%	

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

Three Months Ended March 31, 2011
($ in thousands)

	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 40,559	$ 27,998	$ 13,798	$ (1,237)	69.0%	34.0%	103.0%
Property Casualty	42,935	35,934	17,598	(10,597)	83.7%	41.0%	124.7%
Professional Liability	15,326	10,865	6,052	(1,591)	70.9%	39.5%	110.4%
Total	$ 98,820	$ 74,797	$ 37,448	$ (13,425)	75.7%	37.9%	113.6%

Three Months Ended March 31, 2010
($ in thousands)

	Net Earned Premium	Losses and LAE Incurred	Underwriting Expenses	Underwriting Profit/(Loss)	Loss Ratio	Expense Ratio	Combined Ratio
Marine	$ 41,094	$ 26,133	$ 14,928	$ 33	63.6%	36.3%	99.9%
Property Casualty	51,081	32,126	20,316	(1,361)	62.9%	39.8%	102.7%
Professional Liability	19,036	10,144	7,448	1,444	53.3%	39.1%	92.4%
Total	$ 111,211	$ 68,403	$ 42,692	$ 116	61.5%	38.4%	99.9%

Net earned premiums of the Insurance Companies decreased 11% for the three months ended March 31, 2011 compared to the same period in 2010. The decrease was primarily due to a reduction in net written premiums, primarily in our construction liability and D&O business lines during 2010. In addition, there was an increase of $3.8 million of reinsurance reinstatement premiums related to ceded IBNR and $2.7 million of reinsurance reinstatement premiums related to the large loss in our offshore drilling operations.

The loss ratio for the three months ended March 31, 2011 included unfavorable prior year development of $1.2 million, or 1.2 loss ratio points, and the impact of the aforementioned reinstatement premiums which served to increase the loss ratio by 4.6 points. The loss ratio for the three months ended March 31, 2010 was favorably impacted by prior period loss reserve redundancies of $0.7 million, or 0.6 loss ratio points. Generally, while the Insurance Companies segment has experienced favorable prior period redundancies, the ultimate loss ratios for the recent underwriting years 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 OTTI losses recognized in earnings, was 3.6% for the first three months of 2011 compared to 3.9% for the comparable period in 2010. The average duration of the Insurance Companies invested assets was 4.3 years at March 31, 2011 and 4.7 years at March 31, 2010. Net investment income decreased for the three months ended March 31, 2011 compared to the same period for 2010 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 months ended March 31, 2011 and 2010:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Change
	($ in thousands)		
Gross written premiums	$ 89,507	$ 92,307	-3%
Net written premiums	62,336	67,977	-8%
Net earned premiums	53,658	52,858	2%
Net losses and loss adjustment expenses	(41,991)	(35,404)	19%
Commission expenses	(14,407)	(10,966)	31%
Other operating expenses	(9,776)	(7,243)	35%
Other income (expense)	(153)	2,069	NM
Underwriting profit (loss)	(12,669)	1,314	NM
Net investment income	2,255	2,069	9%
Net realized gains (losses)	(1,385)	713	NM
Income (loss) before income taxes	(11,799)	4,096	NM
Income tax expense (benefit)	(4,056)	1,503	NM
Net income (loss)	$ (7,743)	$ 2,593	NM
Losses and loss adjustment expenses ratio	78.3%	67.0%	
Commission expense ratio	26.8%	20.7%	
Other operating expense ratio (1)	18.5%	9.8%	
Combined ratio	123.6%	97.5%	

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

Net earned premiums of the Lloyd s Operations increased 2% for the three months ended March 31, 2011 compared to the same period in 2010. The increase was primarily due to greater written premiums during the first three months of 2011, particularly in the offshore energy and engineering and construction lines, and was partially offset by reinsurance reinstatement premiums of $3.8 million related to ceded IBNR and $1.1 million related to the large loss in our offshore drilling operations that reduced net earned premiums in the first quarter. The increase in net commission ratios for the first three months of 2011 when compared to the same period in 2010 was attributable to $2.6 million of sliding scale adjustments on our consortium quota share treaties due to large loss activity, which have reduced the ceding commission benefit.

Table of Contents

The loss ratio of 78.3% for the three months ended March 31, 2011 was increased by 6.6 points for the aforementioned reinstatement premiums. The Lloyd s Operations recognized prior year reserve deficiencies of $2.2 million, or 4.1 loss ratio points in the first three months of 2011 compared to redundancies of $0.6 million, or 1.1 loss ratio points, in the comparable period in 2010. Generally, while the Lloyd s Operations have experienced favorable prior period redundancies, the ultimate loss ratios for the recent underwriting years 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 OTTI losses recognized in earnings, was 2.4% for the three months ended March 31, 2011 compared to 2.3% for the comparable period in 2010. The average duration of the Lloyd s Operations invested assets at March 31, 2011 was 3.0 years compared to 2.0 years at March 31, 2010. Net investment income decreased in the three months ended March 31, 2011 compared to the same period in 2010 primarily due to a decrease in yields on investments.

Investments

The following tables set forth our cash and investments as of March 31, 2011:

March 31, 2011	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Cost or Amortized Cost**	**OTTI Recognized in OCI**
			($ in thousands)		
Fixed Maturities:					
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 288,734	$ 4,475	$ (2,839)	$ 287,098	$
States, municipalities and political subdivisions	373,352	10,312	(2,915)	365,955	
Mortgage- and asset-backed securities:					
Agency mortgage-backed securities	359,610	9,254	(3,430)	353,786	
Residential mortgage obligations	21,235	77	(2,051)	23,209	(1,260)
Asset-backed securities	42,914	230	(226)	42,910	
Commercial mortgage-backed securities	207,018	4,896	(1,991)	204,113	
Subtotal	630,777	14,457	(7,698)	624,018	(1,260)
Corporate bonds	552,115	13,718	(6,503)	544,900	
Total fixed maturities	1,844,978	42,962	(19,955)	1,821,971	(1,260)
Equity securities common stocks	90,912	26,366	(40)	64,586	
Cash	39,284			39,284	
Short-term investments	169,510			169,510	

Total	$ 2,144,684	$ 69,328	$ (19,995)	$ 2,095,351	$ (1,260)

Invested assets decreased in the first three months of 2011 primarily due to funding of share repurchases of $13.1 million. The annualized pre-tax yields of our investment portfolio, excluding net realized gains and losses and net OTTI losses recognized in earnings, was 3.3% for the three months ended March 31, 2011 compared to 3.6% for the comparable 2010 period.

Table of Contents

The tax exempt securities portion of our investment portfolio decreased $259.4 million to approximately 18% of the fixed maturities investment portfolio at March 31, 2011 compared to March 31, 2010. As a result, the effective tax rate on net investment income was 28.5% for the three months ended March 31, 2011 compared to 24.5% for the comparable 2010 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.

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 March 31, 2011:

March 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
		($ in thousands)		
U.S. Government Treasury bonds, agency bonds and foreign government bonds	$ 138,123	$ 150,611	$	$ 288,734
States, municipalities and political subdivisions		373,352		373,352
Mortgage- and asset-backed securities:				
Agency mortgage-backed securities		359,610		359,610
Residential mortgage obligations		21,235		21,235
Asset-backed securities		42,914		42,914
Commercial mortgage-backed securities		207,018		207,018
Subtotal		630,777		630,777
Corporate bonds		552,115		552,115
Total fixed maturities	138,123	1,706,855		1,844,978
Equity securities common stocks	90,912			90,912
Total	$ 229,035	$ 1,706,855	$	$ 1,935,890

Table of Contents

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 March 31, 2011 are shown in the following table:

Period from March 31, 2011 to Maturity	**Fair Value**	**Amortized Cost**
	($ in thousands)	
Due in one year or less	$ 20,811	$ 20,706
Due after one year through five years	574,146	562,020
Due after five years through ten years	394,016	390,075
Due after ten years	225,228	225,152
Mortgage- and asset-backed (including GNMAs)	630,777	624,018
Total	$ 1,844,978	$ 1,821,971

The following table sets forth our U.S. Treasury bonds, Agency bonds , and Foreign government bonds as of March 31, 2011:

March 31, 2011	**Fair Value**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Cost or Amortized Cost**
	($ in thousands)			
U.S. Treasury bonds	$ 138,733	$ 2,870	$ (1,532)	$ 137,395
Agency bonds	88,320	1,258	(661)	87,723
Foreign government bonds	61,681	347	(646)	61,980
Total	$ 288,734	$ 4,475	$ (2,839)	$ 287,098

Table of Contents

The following table sets forth the fifteen largest holdings categorized as state, municipalities and political subdivisions by counterparty as of March 31, 2011:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost	S&P Rating
		($ in thousands)		
Issuers:				
University of Pittsburgh	$ 13,648	$ 270	$ 13,378	AA
New York City Transitional Finance Authority	9,740	250	9,490	AA+
Illinois Finance Authority	7,831	(70)	7,901	BBB
Missouri Highway and Transportation Comm	6,848	204	6,644	AA+
Delaware Transportation Authority	6,845	587	6,258	AA
Virginia College Building Authority	6,510	213	6,297	AA+
Purdue University	6,154	(106)	6,260	AA+
State of California	6,124	80	6,044	A-
Missouri Highway and Transportation Comm	7,160	478	6,682	AA+
Pennsylvania Turnpike Commission	6,013	(11)	6,024	A+
Energy Northwest	5,935	(36)	5,971	AA
New York State Thruway Authority	5,853	310	5,543	AA-
University of California	5,815	123	5,692	AA
City of San Antonio	5,592	389	5,203	AA
New York State Environmental Facilities	5,576	153	5,423	AA
Subtotal	105,644	2,834	102,810	
All Other	267,708	4,563	263,145	
Total	$ 373,352	$ 7,397	$ 365,955	

Table of Contents

The following table sets forth the composition of the investments categorized as states, municipalities and political subdivisions in our portfolio by generally equivalent Standard & Poor s Rating Services (S&P) and Moody s Investors Service (Moody s) ratings (not all securities in our portfolio are rated by both S&P and Moody s) as at March 31, 2011. 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	$ 352,609	$ 345,128	$ 7,481
BBB	Baa	15,763	15,844	(81)
BB	Ba			
B	B			
CCC or lower	Caa or lower			
NR	NR	4,980	4,983	(3)
Total		$ 373,352	$ 365,955	$ 7,397

The following table sets forth the municipal bond holdings by sectors for March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
Municipal Sector	Fair Value	Percent of Total	Fair Value	Percent of Total
		($ in thousands)		
General Obligation	$ 17,301	5%	$ 13,249	3%
Prerefunded	16,832	4%	14,122	4%
Revenue	299,992	80%	313,166	80%
Taxable	39,227	11%	51,713	13%
	$ 373,352	100%	$ 392,250	100%

We own $147.6 million of municipal securities which are credit enhanced by various financial guarantors. As of March 31, 2011, 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, Alternative A-paper (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.

Table of Contents

The following tables set forth our agency mortgage-backed securities, residential mortgage obligations 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 March 31, 2011:

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Agency mortgage-backed securities:				
GNMA	$ 125,351	$ 3,155	$ (1,202)	$ 123,398
FNMA	189,807	4,978	(1,663)	186,492
FHLMC	44,452	1,121	(565)	43,896
Total	$ 359,610	$ 9,254	$ (3,430)	$ 353,786

	Fair Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Cost or Amortized Cost
		($ in thousands)		
Residential mortgage obligations:				
Prime	$ 16,214	$ 77	$ (1,661)	$ 17,798
Alt-A	2,390		(373)	2,763
Subprime				
Non-US RMBS	2,631		(17)	2,648
Total	$ 21,235	$ 77	$ (2,051)	$ 23,209

Table of Contents

The following table sets forth the fifteen largest residential mortgage obligations as of March 31, 2011:

Security Description	Issue Date	Fair Value	Book Value	Unrealized (Loss)	S&P Rating	Moody s Rating
			($ in thousands)			
Arkle Master Issuer Plc 10-2A 1A1	2010	$ 2,491	$ 2,501	$ (10)	AAA	Aaa
GSR Mortgage Loan Trust 05-Ar6 1A1	2005	1,154	1,202	(48)	AAA	NR
Wells Fargo Mtg Bkd Secs Tr 05 Ar4 2A2	2005	843	837	6	NR	Ba2
JP Morgan Mortgage Trust 07-A3 1A1	2007	604	716	(112)	CCC	NR
JP Morgan Mortgage Trust 06 A4 1A1	2006	592	681	(89)	NR	Caa2
Citigroup Mtg Ln Tr Inc 04 Hyb3 1A	2004	581	577	4	AA-	A1
Bear Stearns Adjustable Rate 06 1 A1	2006	574	640	(66)	NR	B2
Banc Of America Fdg Corp 06 D 3A1	2006	563	597	(34)	CCC	NR
Banc Of America Fdg Corp 05 F 4A1	2005	557	609	(52)	CCC	Caa2
GSR Mortgage Loan Trust 06 Ar1 2A1	2006	552	680	(128)	B+	NR
Wells Fargo Mtg Bkd Secs Tr 06 Ar6 3A	2006	537	619	(82)	NR	B3
First Horizon Mtg Pass-Th 05 Ar4 2A	2005	506	486	20	CCC	NR
Wells Fargo Mortgage Backed Se 06-Ar14 2	2006	504	559	(55)	NR	Caa2
Wells Fargo Mtg Bkd Secs Tr 05 Ar1 1A1	2005	468	514	(46)	AAA	B2
Citigroup Mtg Ln Tr Inc 06 Ar1 3A1	2006	457	514	(57)	NR	Caa3
Subtotal		10,983	11,732	(749)		
All Other		10,252	11,477	(1,225)		
Total		$ 21,235	$ 23,209	$ (1,974)		

Details of the collateral of our asset-backed securities portfolio as of March 31, 2011 are presented below:

	AAA	AA	A	BBB	BB	CCC	Total Fair Value	Total Amortized Cost	Unrealized Gain/(Loss)
				($ in thousands)					
Auto Loans	$ 336	$ 6,273	$	$ 3,583	$	$	$ 10,192	$ 10,209	$ (17)
Credit Cards	5,409						5,409	5,498	(89)
Miscellaneous	5,896		18,236	3,179		2	27,313	27,203	110
Total	$ 11,641	$ 6,273	$ 18,236	$ 6,762	$	$ 2	$ 42,914	$ 42,910	$ 4

Table of Contents

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 March 31, 2011:

Security Description	Issue Date	Fair Value	Book Value	Average Underlying LTV %	Delinq. Rate	Subord. Level	S&P Rating	Moody s Rating
				($ in thousands)				
Morgan Stanley Cap I 06 IQ12 A4	2006	$ 21,946	$ 22,589	73.88%	13.28%	29.34%	AAA	NR
Wachovia Bk Comm Mtg Tr 06 C23 A4	2006	15,258	15,485	76.95%	6.39%	33.08%	AA-	Aaa
Banc Of America Comm Mtg 06 2 A4	2006	11,947	11,991	78.35%	13.03%	30.82%	AAA	NR
GSMS 2010-C1 A2	2010	8,040	8,270	53.34%	0.00%	18.67%	NR	Aaa
Wachovia Bk Comm Mtg Tr 05 C18 A4	2005	7,460	6,887	79.70%	14.86%	34.08%	AAA	Aaa
Four Times Square Tr 06-4TS A	2006	7,215	7,026	39.40%	0.00%	8.07%	AAA	Aa1
Citigroup Comm Mtg Tr 06 C5 A4	2006	7,210	6,967	72.88%	7.22%	29.46%	NR	Aaa
Credit Suisse Mortgage Capital 06-Oma B2	2006	6,853	7,157	65.71%	0.00%	52.76%	NR	Aa1
LB-UBS Comm Mtg Tr 06 C7 A3	2006	6,665	6,323	72.59%	8.18%	30.07%	AAA	NR
GS Mortgage Securities Corp 10-C1 B	2010	6,033	6,171	53.34%	0.00%	15.14%	NR	Aa2
LB-UBS Comm Mtg Tr 06 C6 A4	2006	5,657	5,772	65.76%	6.99%	30.66%	AAA	Aaa
Bear Stearns Comm Mtg Secs 06 T22 A4	2006	5,364	4,886	58.67%	3.88%	32.20%	NR	Aaa
Morgan Stanley Capital I 06 Hq10 A4	2006	4,778	4,738	77.52%	11.44%	32.51%	NR	Aaa
Citigroup/Deutsche Bk Comm Mtg 05 CD1 A4	2005	4,515	4,206	76.42%	11.09%	31.67%	AAA	Aaa
Commercial Mtg Pt Cert 05 C6 A5A	2005	4,321	4,051	76.73%	9.78%	31.55%	AAA	Aaa
Subtotal		123,262	122,519					
All Other		83,756	81,594					
Total		$ 207,018	$ 204,113					

The following table shows the amount and percentage of our fixed maturities and short-term investments at March 31, 2011 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.

Rating	Fair	Percent of

Description	Rating	Value ($ in thousands)	Total
Extremely Strong	AAA	$ 880,031	47%
Very Strong	AA	362,738	20%
Strong	A	481,427	26%
Adequate	BBB	101,699	6%
Speculative	BB & below	14,103	1%
Not Rated	NR	4,980	0%
Total	AA	$ 1,844,978	100%

Table of Contents

The following is a list of the top fifteen corporate bond holdings for fixed maturities at fair value at March 31, 2011. 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	$ 26,439	$ 1,789	$ 24,650	AA
Bank of America Corp	25,443	388	25,055	A-
Wells Fargo & Co	24,947	76	24,871	A+
Morgan Stanley	23,663	221	23,442	A-
Goldman Sachs Group	19,686	162	19,524	A-
Barclays Plc	17,585	485	17,100	AA-
J.P. Morgan Chase & Co	17,017	10	17,007	A
Credit Suisse Group AG	13,372	(316)	13,688	A+
Southern Co	12,280	470	11,810	A-
Citigroup Inc	11,419	564	10,855	A-
Wal-Mart Stores Inc	10,979	(583)	11,562	AA
Baker Hughes Inc	10,923	533	10,390	A
Deutsche Bank AG	10,224	282	9,942	A+
Transcanada Corp	10,070	647	9,423	A-
BNP Paribas	9,711	(163)	9,874	AA-
Subtotal	243,758	4,565	239,193	
All Other	308,357	2,650	305,707	
Total	$ 552,115	$ 7,215	$ 544,900	

Table of Contents

The following table sets forth the fifteen largest equity securities holdings as of March 31, 2011:

	Fair Value	Net Unrealized Gains/(Losses)	Cost or Amortized Cost
		($ in thousands)	
Issuers:			
Vanguard Total Stock Market Index	$ 5,805	$ 2,390	$ 3,415
Vanguard Emerging Market Stock Index	5,100	2,578	2,522
Vanguard Pacific Stock Index	4,500	1,401	3,099
Vanguard European Stock Index	4,328	1,553	2,775
Conocophillips	3,386	1,536	1,850
Chevron Corp	2,983	1,239	1,744
Philip Morris International Inc	2,852	1,148	1,704
General Electric Co	2,600	785	1,815
Altria Group Inc	2,554	934	1,620
Vodafone Group Plc	2,425	870	1,555
AT&T Inc	2,421	467	1,954
The Boeing Co	2,347	955	1,392
EI DU Pont DE Nemours & Co	2,320	1,091	1,229
HJ Heinz Co	2,243	374	1,869
Health Care Reit Inc	2,223	443	1,780
Subtotal	48,087	17,764	30,323
All Other	42,825	8,562	34,263
Total	$ 90,912	$ 26,326	$ 64,586

Table of Contents

The following table summarizes all securities in a gross unrealized loss position at March 31, 2011 and December 31, 2010, 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:

	March 31, 2011			December 31, 2010		
	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	34	$ 146,418	$ 2,839	36	$ 163,253	$ 4,499
7-12 Months						
> 12 Months						
Subtotal	34	146,418	2,839	36	163,253	4,499
States, municipalities and political subdivisions						
0-6 Months	55	101,879	2,736	57	112,291	3,749
7-12 Months	2	1,101	109	1	1,004	20
> 12 Months	5	2,268	70	4	1,317	36
Subtotal	62	105,248	2,915	62	114,612	3,805
Agency mortgage-backed securities						
0-6 Months	39	123,436	3,430	36	139,226	2,434
7-12 Months						
> 12 Months						
Subtotal	39	123,436	3,430	36	139,226	2,434
Residential mortgage obligations						
0-6 Months	4	4,148	109	3	3,215	20
7-12 Months						
> 12 Months	48	14,234	1,942	52	15,939	2,373
Subtotal	52	18,382	2,051	55	19,154	2,393

Asset-backed securities						
0-6 Months	5	24,355	226	7	28,175	292
7-12 Months						
> 12 Months	1			1	2	
Subtotal	6	24,355	226	8	28,177	292
Commercial mortgage-backed securities						
0-6 Months	25	97,543	1,977	16	78,212	1,755
7-12 Months						
> 12 Months	2	351	14	2	491	39
Subtotal	27	97,894	1,991	18	78,703	1,794
Corporate bonds						
0-6 Months	110	228,588	6,503	98	214,180	5,545
7-12 Months						
> 12 Months						
Subtotal	110	228,588	6,503	98	214,180	5,545
Total fixed maturities	330	$ 744,321	$ 19,955	313	$ 757,305	$ 20,762
Equity securities common stocks						
0-6 Months	3	$ 1,648	$ 40	1	$ 322	$ 10
7-12 Months						
> 12 Months						
Total equity securities	3	$ 1,648	$ 40	1	$ 322	$ 10

Table of Contents

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 2010 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 break even default rate is also calculated. A comparison of 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 March 31, 2011, the largest single unrealized loss by issuer in the fixed maturities was $0.6 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 March 31, 2011.

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	$	$	$	$ (202)	$ (202)
Equity securities					
Total	$	$	$	$ (202)	$ (202)

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.

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 March 31, 2011. 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	$ 17,012	86%	$ 682,636	92%
2	BBB	Baa	1,128	6%	47,916	6%
3	BB	Ba	225	1%	1,652	0%
4	B	B	413	2%	3,780	1%
5	CCC or lower	Caa or lower	1,092	5%	7,046	1%
6	NR	NR	85	0%	1,291	0%
	Total		$ 19,955	100%	$ 744,321	100%

At March 31, 2011, the gross unrealized losses in the table directly above were 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 $1.8 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 March 31, 2011 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	$ 48	0%	$ 39,337	5%
Due after one year through five years	2,401	12%	148,023	20%
Due after five years through ten years	6,332	32%	188,963	25%
Due after ten years	3,476	17%	103,931	14%
Mortgage- and asset-backed securities	7,698	39%	264,067	36%
Total fixed maturity securities	$ 19,955	100%	$ 744,321	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 5.0 years.

Table of Contents

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

	Three Months Ended March 31,					
	2011			2010		
($ in thousands, except # of securities)	**Number of Securities**		**Amount**	**Number of Securities**		**Amount**
Total other-than-temporary impairment losses						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities	1		33	2		224
Asset-backed securities						
Equities	1		230	1		27
Total	**2**		**263**	**3**	**$**	**251**
Portion of loss in accumulated other comprehensive income (loss)						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities			22			170
Asset-backed securities						
Equities						
Total		**$**	**22**		**$**	**170**
Impairment losses recognized in earnings						
Corporate and other bonds		$			$	
Commercial mortgage-backed securities						
Residential mortgage-backed securities			11			54
Asset-backed securities						
Equities			230			27
Total		**$**	**241**		**$**	**81**

During the three months ended March 31, 2011, we recognized in earnings OTTI losses of $0.2 million related to non-agency mortgage-backed securities and one equity security. During the comparable period in 2010, we recognized in earnings OTTI losses of $0.05 million related to residential mortgage-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 to sell these securities before the recovery of the amortized cost basis.

For the three months ended March 31, 2011, OTTI losses within other comprehensive income (OCI) decreased $0.4 million, primarily as a result of increases in the fair value of securities previously impaired. For the comparable period in 2010, OTTI losses within OCI decreased $1.0 million.

The following table summarizes the cumulative amounts related to our credit loss portion of the OTTI losses on debt securities held as of March 31, 2011 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:

	Three months ended March 31,			
($ in thousands)	**2011**		**2010**	
Beginning balance at January 1	$	1,658	$	2,523
Credit losses on securities not previously impaired as of January 1				54
Additional credit losses on securities previously impaired as of January 1		11		
Reductions for securities sold during the period				
Ending balance at March 31	$	1,669	$	2,577

Liquidity and Capital Resources

Net cash provided by operating activities was $13.3 million for the three months ended March 31, 2011 compared to $4.1 million for the same period in 2010. The increase in cash flow from operations for the three month period was primarily due to reductions in paid losses and income taxes paid.

Net cash provided by investing activities was $6.9 million for the three months ended March 31, 2011 compared to $21.1 million for the same period in 2010. This change is primarily due to sale of securities to fund our share repurchase program.

Net cash used in financing activities was $12.6 million for the three months ended March 31, 2011 compared to $23.1 million for the comparable period in 2010. The use of cash primarily related to the repurchase of the Parent Company s common stock under our share repurchase program.

At March 31, 2011, 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 $19.1 million, consists of investment grade bonds. At March 31, 2011, 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 March 31, 2011 and December 31, 2010, all fixed maturity securities and equity securities held by us were classified as available-for-sale.

On April 1, 2011, we entered into a $165 million credit facility agreement with ING Bank, N.V., London Branch, individually and as Administrative Agent, and a syndicate of lenders. The credit facility is a letter of credit facility and replaces a $140 million credit facility agreement that expired March 31, 2011. The credit facility, which is denominated in U.S. dollars, will be utilized to fund our participation in Syndicate 1221 through letters of credit for the 2011 and 2012 underwriting years, as well as open prior years. 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 ability to have letters of credit issued under this credit facility expires on December 31, 2012. At March 31, 2011, letters of credit with an aggregate face amount of $132 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 March 31, 2011.

As a result of the April 1, 2011 renewal 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 then-current ratings issued by S&P and Moody s with respect to the Company s senior unsecured long-term debt securities and without third-party credit enhancement and the amount of the Company s own Funds at Lloyd s collateral.

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).

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 March 31, 2011 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.

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 large losses could significantly impact our liquidity needs. However, 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.

Our capital resources consist of funds deployed or available to be deployed to support our business operations. At March 31, 2011 and December 31, 2010, our capital resources were as follows:

	March 31, 2011	December 31, 2010
	($ in thousands)	
Senior debt	$ 114,171	$ 114,138
Stockholders equity	815,172	829,354
Total capitalization	$ 929,343	$ 943,492
Ratio of debt to total capitalization	12.3%	12.1%

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 the Parent Company s 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. The share repurchase program as originally approved was scheduled to expire on December 31, 2010, however, prior to its expiration, the Parent Company s Board of Directors approved an extension to December 31, 2011. Purchases are permitted from time to time at prevailing prices in open market or privately negotiated transactions through December 31, 2011. 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.

For the three months ended March 31, 2011, we repurchased 256,094 shares of the Parent Company s common stock at an aggregate purchase price of $13.1 million and a weighted average price per share of $50.96 pursuant to the share repurchase program. Since inception, we have repurchased 1,661,954 shares of the Parent Company s common stock at an aggregate purchase price of $71.8 million and a weighted average price per share of $43.19. At March 31, 2011, approximately $27.8 million was available for future repurchases under the program.

Table of Contents

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 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. Based on the December 31, 2010 surplus of Navigators Insurance, the approximate remaining maximum amount available for the payment of dividends by Navigators Insurance during 2011 without prior regulatory approval was $67.1 million. Navigators Insurance declared and paid $10.0 million of dividends to the Parent Company in the first three months of 2011, leaving $29.3 million of remaining dividend capacity for 2011.
Condensed Parent Company balance sheets as of March 31, 2011 (unaudited) and December 31, 2010 are shown in the table below:

	March 31, 2011	**December 31, 2010**
	($ in thousands)	
Cash and investments	$ 50,240	$ 53,217
Investments in subsidiaries	861,799	877,999
Goodwill and other intangible assets	2,534	2,534
Other assets	14,287	12,028
Total assets	$ 928,860	$ 945,778
Senior Notes	$ 114,171	$ 114,138
Accounts payable and other liabilities	(3,837)	946
Accrued interest payable	3,354	1,342
Total liabilities	113,688	116,426
Stockholders equity	815,172	829,354
Total liabilities and stockholders equity	$ 928,860	$ 945,778

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 2010 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 March 31, 2011, an assumed 5%, 10% and 15% negative currency movement would result in changes as follows:

(amounts in millions)	USD equivalent as of March 31, 2011	Negative currency movement of 5%	10%	15%
Cash, cash equivalents and marketable securities at fair value	$ 97.3	($4.9)	($9.7)	($14.6)
Premiums receivable	$ 28.3	($1.4)	($2.8)	($4.3)
Reinsurance recoverables on paid, unpaid losses and loss adjustment expenses	$ 74.3	($3.7)	($7.4)	($11.1)
Reserves for losses and loss adjustment expenses	$ 182.0	($9.1)	($18.2)	($27.3)

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 first 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.

Table of Contents

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 of 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 (NMC), Inc., a wholly-owned subsidiary of the Company . 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 2010 Annual Report on Form 10-K.

Table of Contents

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, 2011. 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.

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

	Total Number of Shares Purchased	Average Cost Paid Per Share	Purchased Under Publicly Announced Program	Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
		($ in thousands, except per share)		
January 2011				$ 68,232
February 2011	28,835	$ 52.24	28,835	$ 39,397
March 2011	227,259	$ 50.79	227,259	$ 27,848
Subtotal first quarter	256,094	$ 50.96	256,094	
Total 2011 activity	256,094		256,094	

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

Item 3. Defaults Upon Senior Securities

None

Item 5. Other Information

None

Table of Contents

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).	*
101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema	*
101.CAL	XBRL Taxonomy Extension Calculation Database	*
101.LAB	XBRL Taxonomy Extension Label Linkbase	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase	*

* *Included herein.*

Table of Contents

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: May 9, 2011	/s / Francis W. McDonnell Francis W. McDonnell Senior Vice President and Chief Financial Officer

Table of Contents

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