UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number: 001-33245

EMPLOYERS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Nevada	**04-3850065**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

10375 Professional Circle
Reno, Nevada 89521
(Address of principal executive offices and zip code)
(888) 682-6671
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	EIG	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer ☑	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 17, 2019, there were 31,814,678 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in millions, except share data)

	As of September 30, 2019	As of December 31, 2018
Assets	(unaudited)	
Investments:		
Fixed maturity securities at fair value (amortized cost $2,394.6 at September 30, 2019 and $2,513.7 at December 31, 2018)	$ 2,480.8	$ 2,496.4
Equity securities at fair value (cost $199.0 at September 30, 2019 and $131.9 at December 31, 2018)	284.7	199.9
Equity securities at cost	6.7	6.4
Other invested assets	24.7	—
Short-term investments at fair value (amortized cost $25.0 at December 31, 2018)	—	25.0
Total investments	2,796.9	2,727.7
Cash and cash equivalents	140.3	101.4
Restricted cash and cash equivalents	0.3	0.6
Accrued investment income	17.5	18.0
Premiums receivable (less bad debt allowance of $5.7 at September 30, 2019 and $6.7 at December 31, 2018)	314.7	333.1
Reinsurance recoverable for:		
Paid losses	7.1	6.7
Unpaid losses	527.1	504.4
Deferred policy acquisition costs	51.2	48.2
Deferred income taxes, net	0.1	26.9
Property and equipment, net	23.9	18.2
Operating lease right-of-use assets	15.0	—
Intangible assets, net	13.6	7.7
Goodwill	36.2	36.2
Contingent commission receivable—LPT Agreement	13.2	32.0
Cloud computing arrangements	30.4	26.0
Other assets	37.4	32.1
Total assets	$ 4,024.9	$ 3,919.2
Liabilities and stockholders' equity		
Unpaid losses and loss adjustment expenses	$ 2,197.3	$ 2,207.9
Unearned premiums	360.3	336.3
Commissions and premium taxes payable	52.0	57.3
Accounts payable and accrued expenses	27.3	37.1
Deferred reinsurance gain—LPT Agreement	139.4	149.6
Notes payable	—	20.0
Operating lease liability	17.1	—
Non-cancellable obligations	20.4	18.8
Other liabilities	50.7	74.0
Total liabilities	$ 2,864.5	$ 2,901.0
Commitments and contingencies		

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in millions, except share data)

	As of September 30, 2019	As of December 31, 2018
Stockholders' equity:	(unaudited)	
Common stock, $0.01 par value; 150,000,000 shares authorized; 57,178,320 and 56,975,675 shares issued and 31,814,678 and 32,765,792 shares outstanding at September 30, 2019 and December 31, 2018, respectively	$ 0.6	$ 0.6
Preferred stock, $0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	393.0	388.8
Retained earnings	1,134.3	1,030.7
Accumulated other comprehensive income (loss), net of tax	68.1	(13.7)
Treasury stock, at cost (25,363,642 shares at September 30, 2019 and 24,209,883 shares at December 31, 2018)	(435.6)	(388.2)
Total stockholders' equity	1,160.4	1,018.2
Total liabilities and stockholders' equity	$ 4,024.9	$ 3,919.2

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues	(unaudited)		(unaudited)	
Net premiums earned	$ 175.8	$ 192.9	$ 526.1	$ 547.5
Net investment income	22.3	20.2	65.5	59.9
Net realized and unrealized gains on investments	2.6	15.6	33.3	13.2
Other income	0.3	0.2	0.6	0.4
Total revenues	201.0	228.9	625.5	621.0
Expenses				
Losses and loss adjustment expenses	92.9	106.6	268.2	289.7
Commission expense	21.9	24.8	67.7	73.1
Underwriting and other operating expenses	45.3	38.8	136.6	118.1
Interest and financing expenses	—	0.4	0.6	1.1
Total expenses	160.1	170.6	473.1	482.0
Net income before income taxes	40.9	58.3	152.4	139.0
Income tax expense	8.1	10.7	27.0	23.3
Net income	$ 32.8	$ 47.6	$ 125.4	$ 115.7
Comprehensive income				
Unrealized AFS investment gains (losses) arising during the period (net of tax (expense) benefit of $(4.3) and $2.4 for the three months ended September 30, 2019 and 2018, respectively, and $(22.3) and $15.0 for the nine months ended September 30, 2019 and 2018, respectively)	$ 16.4	$ (9.2)	$ 84.1	$ (56.3)
Reclassification adjustment for realized AFS investment (gains) losses in net income (net of tax (expense) benefit of $0.4 for the three months ended September 30, 2019, and $0.6 and $0.1 for the nine months ended September 30, 2019 and 2018, respectively)	(1.6)	—	(2.3)	0.4
Other comprehensive income (loss), net of tax	14.8	(9.2)	81.8	(55.9)
Total comprehensive income	$ 47.6	$ 38.4	$ 207.2	$ 59.8
Net realized and unrealized gains on investments				
Net realized and unrealized gains on investments before impairments	$ 2.6	$ 15.6	$ 33.3	$ 15.2
Other than temporary impairment recognized in earnings	—	—	—	(2.0)
Net realized and unrealized gains on investments	$ 2.6	$ 15.6	$ 33.3	$ 13.2
Earnings per common share (Note 13):				
Basic	$ 1.03	$ 1.45	$ 3.90	$ 3.52
Diluted	$ 1.01	$ 1.43	$ 3.85	$ 3.48
Cash dividends declared per common share and eligible RSUs and PSUs	$ 0.22	$ 0.20	$ 0.66	$ 0.60

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the Three Months Ended September 30, 2019 and 2018

(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock at Cost	Total Stockholders' Equity
	Shares Issued	Amount					
	(in millions, except share data)						
Balance, July 1, 2019	57,157,926	$ 0.6	$ 389.8	$ 1,108.7	$ 53.3	$ (430.9)	$ 1,121.5
Stock-based obligations	—	—	2.7	—	—	—	2.7
Stock options exercised	20,394	—	0.5	—	—	—	0.5
Acquisition of common stock	—	—	—	—	—	(4.7)	(4.7)
Dividends declared	—	—	—	(7.2)	—	—	(7.2)
Net income for the period	—	—	—	32.8	—	—	32.8
Change in net unrealized gains on investments, net of taxes of $(3.9)	—	—	—	—	14.8	—	14.8
Balance, September 30, 2019	57,178,320	$ 0.6	$ 393.0	$ 1,134.3	$ 68.1	$ (435.6)	$ 1,160.4
Balance, July 1, 2018	56,866,727	$ 0.6	$ 382.4	$ 970.8	$ (13.3)	$ (384.0)	$ 956.5
Stock-based obligations	—	—	2.0	—	—	—	2.0
Stock options exercised	37,291	—	0.8	—	—	—	0.8
Dividends declared	—	—	—	(6.6)	—	—	(6.6)
Net income for the period	—	—	—	47.6	—	—	47.6
Change in net unrealized losses on investments, net of taxes of $2.4	—	—	—	—	(9.2)	—	(9.2)
Balance, September 30, 2018	56,904,018	$ 0.6	$ 385.2	$ 1,011.9	$ (22.5)	$ (384.0)	$ 991.2

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

For the Nine Months Ended September 30, 2019 and 2018

(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Treasury Stock at Cost	Total Stockholders' Equity
	Shares Issued	Amount					
			(in millions, except share data)				
Balance, January 1, 2019	56,975,675	$ 0.6	$ 388.8	$ 1,030.7	$ (13.7)	$ (388.2)	$ 1,018.2
Stock-based obligations	—	—	6.8	—	—	—	6.8
Stock options exercised	25,580	—	0.6	—	—	—	0.6
Vesting of RSUs and PSUs, net of shares withheld to satisfy tax withholdings	177,065	—	(3.2)	—	—	—	(3.2)
Acquisition of common stock	—	—	—	—	—	(47.4)	(47.4)
Dividends declared	—	—	—	(21.8)	—	—	(21.8)
Net income for the period	—	—	—	125.4	—	—	125.4
Change in net unrealized gains on investments, net of taxes of $(21.7)	—	—	—	—	81.8	—	81.8
Balance,September 30, 2019	57,178,320	$ 0.6	$ 393.0	$ 1,134.3	$ 68.1	$ (435.6)	$ 1,160.4
Balance, January 1, 2018	56,695,174	$ 0.6	$ 381.2	$ 842.2	$ 107.4	$ (383.7)	$ 947.7
Stock-based obligations	—	—	5.9	—	—	—	5.9
Stock options exercised	51,091	—	1.0	—	—	—	1.0
Vesting of RSUs and PSUs, net of shares withheld to satisfy tax withholdings	157,753	—	(2.9)	—	—	—	(2.9)
Acquisition of common stock	—	—	—	—	—	(0.3)	(0.3)
Dividends declared	—	—	—	(19.9)	—	—	(19.9)
Net income for the period		—	—	115.7	—	—	115.7
Reclassification adjustment for adoption of ASU No. 2016-01	—	—	—	74.0	(74.0)	—	—
Change in net unrealized losses on investments, net of taxes of $14.9		—	—	—	(55.9)	—	(55.9)
Balance, September 30, 2018	56,904,018	$ 0.6	$ 385.2	$ 1,011.9	$ (22.5)	$ (384.0)	$ 991.2

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in millions)

	Nine Months Ended September 30,	
	2019	**2018**
Operating activities	(unaudited)	
Net income	$ 125.4	$ 115.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6.5	5.1
Stock-based compensation	6.8	5.9
Amortization of cloud computing arrangements	3.8	—
Amortization of premium on investments, net	7.1	6.4
Allowance for doubtful accounts	(1.0)	(2.1)
Deferred income tax expense	5.1	23.0
Net realized and unrealized gains on investments	(33.3)	(13.2)
Change in operating assets and liabilities:		
Premiums receivable	19.4	(23.9)
Reinsurance recoverable on paid and unpaid losses	25.9	24.5
Cloud computing arrangements	(8.2)	(21.8)
Operating lease right-of-use-assets	(15.0)	—
Current federal income taxes	(5.8)	(2.9)
Unpaid losses and loss adjustment expenses	(58.9)	(32.4)
Unearned premiums	24.0	37.7
Accounts payable, accrued expenses and other liabilities	(12.0)	3.8
Deferred reinsurance gain—LPT Agreement	(10.2)	(11.5)
Contingent commission receivable—LPT Agreement	18.8	—
Operating lease liabilities	17.1	—
Non-cancellable obligations	1.6	15.5
Other	(4.5)	3.3
Net cash provided by operating activities	112.6	133.1
Investing activities		
Purchases of fixed maturity securities	(250.1)	(472.9)
Purchases of equity securities	(219.7)	(31.2)
Purchases of short-term investments	—	(34.9)
Purchases of other invested assets	(24.9)	—
Proceeds from sale of fixed maturity securities	147.3	169.8
Proceeds from sale of equity securities	80.3	58.1
Proceeds from maturities and redemptions of fixed maturity securities	313.1	294.7
Proceeds from maturities of short-term investments	25.0	38.9
Net change in unsettled investment purchases and sales	(24.3)	5.0
Capital expenditures and other	(12.4)	(7.6)
Purchase of Cerity Insurance Company, net of cash and cash equivalents acquired	(15.9)	—
Net cash provided by investing activities	18.4	19.9
Financing activities		
Acquisition of common stock	(47.8)	(0.3)
Cash transactions related to stock-based compensation	(2.6)	(1.9)
Dividends paid to stockholders	(21.8)	(19.9)
Redemption of notes payable	(20.0)	—
Payments on capital leases	(0.2)	(0.2)
Net cash used in financing activities	(92.4)	(22.3)
Net increase in cash, cash equivalents and restricted cash	38.6	130.7
Cash, cash equivalents and restricted cash at the beginning of the period	102.0	74.3
Cash, cash equivalents and restricted cash at the end of the period	$ 140.6	$ 205.0

The following table presents our cash, cash equivalents and restricted cash by category within the Consolidated Balance Sheets:

	As of September 30, 2019	As of December 31, 2018
	(in millions)	
Cash and cash equivalents	$ 140.3	$ 101.4
Restricted cash and cash equivalents supporting reinsurance obligations	0.3	0.6
Total cash, cash equivalents and restricted cash	$ 140.6	$ 102.0

See accompanying unaudited notes to the consolidated financial statements.

1. Basis of Presentation and Summary of Operations

Employers Holdings, Inc. (EHI) is a Nevada holding company. Through its wholly owned insurance subsidiaries, Employers Insurance Company of Nevada (EICN), Employers Compensation Insurance Company (ECIC), Employers Preferred Insurance Company (EPIC), Employers Assurance Company (EAC), and Cerity Insurance Company (CIC), EHI is engaged in the commercial property and casualty insurance industry, specializing in workers' compensation products and services. Unless otherwise indicated, all references to the "Company" refer to EHI, together with its subsidiaries.

In 1999, the Nevada State Industrial Insurance System (the Fund) entered into a retroactive 100% quota share reinsurance agreement (the LPT Agreement) through a loss portfolio transfer transaction with third party reinsurers. The LPT Agreement commenced on June 30, 1999 and will remain in effect until all claims under the covered policies have closed, the LPT Agreement is commuted or terminated, upon the mutual agreement of the parties, or the reinsurers' aggregate maximum limit of liability is exhausted, whichever occurs first. The LPT Agreement does not provide for any additional termination terms. On January 1, 2000, EICN assumed all of the assets, liabilities and operations of the Fund, including the Fund's rights and obligations associated with the LPT Agreement (See Note 9).

The Company accounts for the LPT Agreement as retroactive reinsurance. Upon entry into the LPT Agreement, an initial deferred reinsurance gain (the Deferred Gain) was recorded as a liability on the Company's Consolidated Balance Sheets. The Company is entitled to receive a contingent profit commission under the LPT Agreement. The contingent profit commission is estimated based on both actual paid results to date and projections of expected paid losses under the LPT Agreement and is recorded as an asset on the Company's Consolidated Balance Sheets.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of the Company's consolidated financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. These financial statements have been prepared consistent with the accounting policies described in the Company's Form 10-K for the year ended December 31, 2018 (Annual Report).

The Company operates as a single operating segment, workers' compensation insurance, through its wholly owned subsidiaries. The Company considers an operating segment to be any component of its business whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance based on discrete financial information.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. As a result, actual results could differ from these estimates. The most significant areas that require management judgment are the estimate of unpaid losses and loss adjustment expenses (LAE), evaluation of reinsurance recoverables, recognition of premium revenue, recoverability of deferred income taxes, and valuation of investments.

Acquisition

On August 11, 2017, the Company entered into a stock purchase agreement (as amended, Purchase Agreement), with Partner Reinsurance Company of the U.S. (PRUS) with respect to the acquisition (Acquisition) of all of the outstanding shares of capital stock of PartnerRe Insurance Company of New York (PRNY). On July 31, 2019, the Company completed the Acquisition. The purchase price was equal to the sum of: (i) $47.6 million, the amount of statutory capital and surplus of PRNY at closing; and (ii) $5.8 million. The Company funded the Acquisition with cash on hand. As a result of the purchase, the Company acquired $37.5 million of cash and cash equivalents, $10.2 million of fixed maturity securities, $5.8 million of intangible assets (comprised of state licenses), $6.9 million of other assets, $7.0 million of other liabilities, and $48.3 million of gross loss and LAE reserves, which were offset by $48.3 million of reinsurance recoverables, resulting in no net loss and LAE reserves. The Company did not acquire any employees or ongoing business operations pursuant to the Acquisition.

Pursuant to the Purchase Agreement, all liabilities and obligations of PRNY existing as of the closing date, whether known or unknown, will be indemnified by PRUS. In addition, PartnerRe Ltd., the parent company of PRUS, has provided the Company with a guaranty that unconditionally, absolutely and irrevocably guarantees the full and prompt payment and performance by PRUS of all of its obligations, liabilities, and indemnities under the Purchase Agreement and the transactions contemplated thereby. If PRUS and PartnerRe Ltd. were to fail to honor their obligations to the Company under the Purchase Agreement, all or a portion of the remaining gross loss and LAE reserves acquired by the Company pursuant to the Acquisition would become the Company's responsibility.

Subsequent to completing the Acquisition, PRNY was renamed CIC and will offer digital, direct-to-customer workers' compensation insurance solutions.

2. Change in Estimates

The Company reduced its estimated loss and LAE reserves ceded under the Loss Portfolio Transfer Agreement (LPT Reserve Adjustment) during the second quarter of 2019 as a result of the determination that an adjustment was necessary to reflect observed favorable paid loss trends. The following table shows the financial statement impact related to the LPT Reserve Adjustment.

	Nine Months Ended September 30, 2019	
	(in millions, except per share data)	
LPT Reserve Adjustment	$	(5.3)
Cumulative adjustment to the Deferred Gain[1]		(1.8)
Net income impact from this change in estimate		1.8
Earnings per common share impact from this change in estimate:		
Basic and Diluted		0.06

(1) The cumulative adjustment to the Deferred reinsurance gain–LPT Agreement (Deferred Gain) was also recognized in losses and LAE incurred in the Company's Consolidated Statement of Comprehensive Income, so that the Deferred Gain reflects the balance that would have existed had the revised loss and LAE reserves been recognized at the inception of the LPT Agreement.

The Company increased its estimate of Contingent commission receivable – LPT Agreement (LPT Contingent Commission Adjustment) during the second quarter of 2019 as a result of the determination that an adjustment was necessary to reflect observed favorable paid loss trends. The following table shows the financial statement impact related to the LPT Contingent Commission Adjustment.

	Nine Months Ended September 30, 2019	
	(in millions, except per share data)	
LPT Contingent Commission Adjustment	$	0.3
Net income impact from this change in estimate		0.2
Earnings per common share impact from this change in estimate:		
Basic and Diluted		0.01

3. New Accounting Standards

Recently Issued Accounting Standards

In April 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (*ASU) 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this update represent changes to clarify, correct errors in, or improve the codification within various Accounting Standards Codification (ASC) topics. The Company will adopt the updates related to *Topic 815* when it adopts *ASU 2016-13*. The Company will adopt any remaining codification improvements as they become applicable and has determined that the impact of these improvements will not be material to its consolidated financial condition and results of operations.

In August 2018, the FASB issued *ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* This update removes the disclosure requirements for the amounts of and the reasons for transfers between Level 1 and Level 2 and disclosure of the policy for timing of transfers between levels. This update also removes disclosure requirements for the valuation processes for Level 3 fair value measurements. Additionally, this update adds disclosure requirements for the changes in unrealized gains and losses for recurring Level 3 fair value measurements and quantitative information for certain unobservable inputs in Level 3 fair value measurements. This update becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not expect that this update will have a material impact on its consolidated financial condition and results of operations.

In January 2017, the FASB issued *ASU 2017-04, Intangibles-Goodwill and Other (Topic 350)*. This update simplifies the measurement of goodwill by eliminating the performance of Step 2 in the goodwill impairment testing. This update allows the testing to be performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge when the carrying amount exceeds fair value. Additionally, this update eliminates the requirements of any reporting unit with a zero or negative carrying value to perform Step 2, but requires disclosure of the amount of goodwill allocated to a reporting unit with zero or negative carrying amount of net assets. This update becomes effective for fiscal years beginning after December 15, 2019. The Company does not expect that this update will have a material impact on its consolidated financial condition and results of operations.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments - Credit Losses* (Topic 326). This update replaces the incurred loss impairment methodology for recognizing credit losses on financial instruments with a methodology that reflects an entity's current estimate of all expected credit losses. This update requires financial assets (including receivables and reinsurance recoverables) measured at amortized cost to be presented net of an allowance for credit losses. Additionally, this update requires credit losses on available-for-sale fixed maturity securities to be presented as an allowance rather than as a write-down, allowing an entity to also record reversals of credit losses in current period net income. This update becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Additionally, in December 2018, the FASB issued *ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses.* This update provides clarification on the effective and transition dates and the exclusion of operating lease receivables from Topic 326. In May 2019, the FASB issued *ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*. This update adds optional transition relief for entities to elect the fair value option for certain financial assets previously measured at amortized cost basis to increase comparability of similar financial assets. The Company is currently evaluating the impact that the adoption of these updates will have on its consolidated financial condition and results of operations.

Recently Adopted Accounting Standards

In July 2019, the FASB issued *ASU 2019-07, Codification Updates to SEC Sections*. This update aligns the guidance in various SEC sections of the codification with the requirements of certain SEC final rules along with other miscellaneous updates, which are effective upon issuance. The Company adopted these updates where applicable and has determined that there was no impact to its consolidated financial condition and results of operations.

In July 2018, the FASB issued *ASU 2018-09, Codification Improvements*. This update provides clarification, corrects errors in and makes minor improvements to the codification within various ASC topics. Many of the amendments in this update have transition guidance with effective dates for annual periods beginning after December 15, 2018 and some amendments in this update do not require transition guidance and became effective upon issuance of this update. The Company has adopted these amendments and has determined that there was no impact to its consolidated financial condition and results of operations.

In July 2018, the FASB issued *ASU 2018-11, Leases (Topic 842): Targeted Improvements*. This update provides entities with an additional and optional transition method to adopt *ASU 2016-02* with a cumulative-effect adjustment in the period of adoption. This update also provides guidance for a practical expedient that permits lessors to not separate non-lease components from the associated lease components. Additionally, in July 2018, the FASB issued *ASU 2018-10, Codification Improvements to Topic 842, Leases*. This update provides additional guidance on the new lease model with improvements in numerous aspects of the guidance in ASC 842 including, but not limited to, implicit rates, reassessment of lease classification, terms and purchase options, investment tax credits, and various other transition guidance. In December 2018, the FASB issued *ASU 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors*. This update provides amendments to various lease topics including sales taxes collected from lessees, certain lessor costs paid to third parties, and variable payments for contracts with lease and non-lease components. In March 2019, the FASB issued *ASU 2019-01, Leases Topics (842) Codification Improvements.* The amendments in this update increase transparency and comparability for the recognition of leases and disclosures about leasing transactions. This update provides additional clarity on determining the value of the underlying asset by lessors that are not manufacturers or dealers. This update further clarifies the presentation of the statement of cash flows related to lessors that are depository and lending institutions within the scope of Topic 942. Additionally, this update provides guidance on transition disclosures related to leases. The Company adopted these updates concurrently with *ASU 2016-02*. See Note 6 regarding the impact of adopting this standard on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued *ASU 2016-02, Leases* (Topic 842). This update provides guidance on a new lease model that includes the recognition of assets and liabilities arising from lease transactions on the balance sheet. Additionally, the update provides clarity on the definition of a lease and the distinction between finance and operating leases. Furthermore, the update requires certain qualitative and quantitative disclosures pertaining to the amounts recorded in the financial statements. This update became effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2018 and early adoption is permitted. As a result of the implementation of this standard, the Company recognized an Operating lease right-of-use asset of $16.8 million and $19.0 million of Lease liabilities on its Consolidated Balance Sheet at March 31, 2019. See Note 6 for additional detail regarding the adoption of this standard.

4. Valuation of Financial Instruments

Financial Instruments Carried at Fair Value

The carrying value and the estimated fair value of the Company's financial instruments at fair value were as follows:

	September 30, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in millions)			
Financial assets				
Total investments at fair value	$ 2,765.5	$ 2,765.5	$ 2,721.3	$ 2,721.3
Cash and cash equivalents	140.3	140.3	101.4	101.4
Restricted cash and cash equivalents	0.3	0.3	0.6	0.6
Financial liabilities				
Notes payable	$ —	$ —	$ 20.0	$ 23.5

Assets and liabilities recorded at fair value on the Company's Consolidated Balance Sheets are categorized based upon the levels of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

- Level 1 - Inputs are unadjusted quoted market prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 - Inputs other than Level 1 prices that are observable for similar assets or liabilities through corroboration with market data at the measurement date.
- Level 3 - Inputs that are unobservable that reflect management's best estimate of what willing market participants would use in pricing the assets or liabilities at the measurement date.

The Company uses third party pricing services to assist it with its investment accounting function. The ultimate pricing source varies depending on the investment security and pricing service used, but investment securities valued on the basis of observable inputs (Levels 1 and 2) are generally assigned values on the basis of actual transactions. Securities valued on the basis of pricing models with significant unobservable inputs or non-binding broker quotes are classified as Level 3. The Company performs quarterly analyses on the prices it receives from third parties to determine whether the prices are reasonable estimates of fair value, including confirming the fair values of these securities through observable market prices using an alternative pricing source, as it is ultimately management's responsibility to ensure that the fair values reflected in the Company's consolidated financial statements are appropriate. If differences are noted in these analyses, the Company may obtain additional information from other pricing services to validate the quoted price.

The Company bases all of its estimates of fair value for assets on the bid prices, when available, as they represent what a third-party market participant would be willing to pay in an arm's length transaction.

For securities not actively traded, third party pricing services may use quoted market prices of similar instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speed assumptions. There were no material adjustments made to the prices obtained from third party pricing services as of September 30, 2019 and December 31, 2018.

These methods of valuation only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. When objectively verifiable information is not available, the Company produces an estimate of fair value using some of the same methodologies, making assumptions for market-based inputs that are unavailable.

The Company's estimates of fair value for its notes payable are based on a combination of the variable interest rates for notes with similar durations to discount the projection of future payments on notes payable. The fair value measurements for notes payable have been determined to be Level 2 at December 31, 2018. As of September 30, 2019, all outstanding notes payable were redeemed. See Note 10 for further details.

EICN, ECIC, EPIC, and EAC are members of the Federal Home Loan Bank of San Francisco (FHLB). Members are required to purchase stock in the FHLB in addition to maintaining collateral deposits that back any funds advanced. The Company's investment in FHLB stock is recorded at cost, which approximates fair value, as purchases and sales of these securities are at par value with the issuer. FHLB stock is considered a restricted security and is periodically evaluated by the Company for impairment based on the ultimate recovery of par value.

The following table presents the Company's investments at fair value and the corresponding fair value measurements.

	September 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(in millions)					
Fixed maturity securities:						
U.S. Treasuries	$ —	$ 84.2	$ —	$ —	$ 106.4	$ —
U.S. Agencies	—	2.9	—	—	11.4	—
States and municipalities	—	492.7	—	—	528.0	—
Corporate securities	—	1,077.8	—	—	1,090.4	—
Residential mortgage-backed securities	—	480.4	—	—	451.5	—
Commercial mortgage-backed securities	—	105.3	—	—	94.3	—
Asset-backed securities	—	58.0	—	—	64.5	—
Other securities	—	179.5	—	—	149.9	—
Total fixed maturity securities	$ —	$ 2,480.8	$ —	$ —	$ 2,496.4	$ —
Equity securities at fair value:						
Industrial and miscellaneous	$ 246.1	$ —	$ —	$ 174.8	$ —	$ —
Other	38.6	—	—	25.1	—	—
Total equity securities at fair value	$ 284.7	$ —	$ —	$ 199.9	$ —	$ —
Short-term investments	$ —	$ —	$ —	$ —	$ 25.0	$ —
Total investments at fair value	$ 284.7	$ 2,480.8	$ —	$ 199.9	$ 2,521.4	$ —

The following table provides a reconciliation of the beginning and ending balances of investments that are recorded at fair value and are measured using Level 3 inputs for the nine months ended September 30, 2019 and 2018.

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Level 3 Securities:	(in millions)	
Beginning balance, January 1	$ —	$ 4.7
Transfers out of Level 3 [(1)]	—	(4.7)
Purchases and sales, net	—	—
Ending balance, September 30	$ —	$ —

(1) The transfer during the nine months ended September 30, 2018 was the result of adoption of ASU 2016-01, which specified that FHLB stock shall be carried at cost and is therefore excluded from the fair value hierarchy.

Financial Instruments Carried at Net Asset Value (NAV)

The Company has investments in private equity limited partnership interests that are included in Other invested assets on the Company's Consolidated Balance Sheets. These investments do not have readily determinable fair values and are carried at NAV and therefore are excluded from the fair value hierarchy. The Company initially estimates the value of these investments using the transaction price. In subsequent periods, the Company measures these investments using NAV per share provided quarterly by the general partner, based on financial statements that are audited annually. The Company performs certain control procedures to validate the appropriateness of using NAV as a measurement. These investments are generally not redeemable by the investees and cannot be sold without approval of the general partner. These investments have a fund term of 12 years, subject to three one year extensions at the general partner's discretion. The Company will receive distributions of proceeds from dividends and interest from fund investments, as well as from the disposition of a fund investment, or portion thereof. The Company expects these distributions from time-to-time during the full course of the fund term. As of September 30, 2019, the Company had unfunded commitments to these private equity limited partnerships totaling $45.1 million.

Additionally, certain cash equivalents, principally money market securities, are measured using NAV, which approximates fair value.

The following table presents cash and investments carried at NAV on the Company's Consolidated Balance Sheets.

	September 30, 2019	December 31, 2018
	(in millions)	
Cash equivalents carried at NAV	$ 100.2	$ 57.5
Other invested assets carried at NAV	4.7	—

5. Investments

The Company's investments in fixed maturity securities and short-term investments are classified as available-for-sale (AFS) and are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of deferred taxes, in Accumulated other comprehensive income (loss) (AOCI) on the Company's Consolidated Balance Sheets. Other securities within fixed maturity securities consist of bank loans, which are classified as AFS and are reported at fair value.

The amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of the Company's AFS investments were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
At September 30, 2019				
Fixed maturity securities				
U.S. Treasuries	$ 82.0	$ 2.2	$ —	$ 84.2
U.S. Agencies	2.7	0.2	—	2.9
States and municipalities	464.8	27.9	—	492.7
Corporate securities	1,035.9	41.9	—	1,077.8
Residential mortgage-backed securities	472.6	8.6	(0.8)	480.4
Commercial mortgage-backed securities	100.7	4.6	—	105.3
Asset-backed securities	56.7	1.3	—	58.0
Other securities	179.2	1.1	(0.8)	179.5
Total fixed maturity securities	$ 2,394.6	87.8	(1.6)	$ 2,480.8
At December 31, 2018				
Fixed maturity securities				
U.S. Treasuries	$ 106.7	$ 0.9	$ (1.2)	$ 106.4
U.S. Agencies	11.3	0.1	—	11.4
States and municipalities	513.4	15.3	(0.7)	528.0
Corporate securities	1,106.2	5.8	(21.6)	1,090.4
Residential mortgage-backed securities	459.1	2.2	(9.8)	451.5
Commercial mortgage-backed securities	96.7	0.1	(2.5)	94.3
Asset-backed securities	64.7	0.2	(0.4)	64.5
Other securities	155.6	—	(5.7)	149.9
Total fixed maturity securities	$ 2,513.7	24.6	(41.9)	$ 2,496.4
Total short-term investments	$ 25.0	—	—	$ 25.0

The Company's investment in equity securities are recorded at fair value with changes in the fair value included in Net realized and unrealized gains (losses) on investments on the Company's Consolidated Statements of Comprehensive Income. The Company's investment in FHLB stock is presented within Equity securities at cost on the Company's Consolidated Balance Sheets. The cost and estimated fair value of the Company's equity securities recorded at fair value at September 30, 2019 and December 31, 2018 were as follows:

	Cost	Estimated Fair Value
	(in millions)	
At September 30, 2019		
Equity securities at fair value		
Industrial and miscellaneous	$ 171.8	$ 246.1
Other	27.2	38.6
Total equity securities at fair value	$ 199.0	$ 284.7
At December 31, 2018		
Equity securities at fair value		
Industrial and miscellaneous	$ 114.6	$ 174.8
Other	17.3	25.1
Total equity securities at fair value	$ 131.9	$ 199.9

The Company has investments in private equity limited partnerships that totaled $4.7 million (initial cost of $4.9 million) at September 30, 2019, which are carried at NAV based on information provided by the general partner. The Company also has investments in convertible preferred shares of real estate investment trusts that totaled $20.0 million at September 30, 2019, which are carried at cost and approximate fair value. These investments are non-redeemable until conversion and are periodically evaluated by the Company for impairment based on the ultimate recovery of the investment. Both of these investments are included in Other invested assets on the Company's Consolidated Balance Sheets, and changes in the value of these investments are recorded through net realized and unrealized gains and losses on the Company's Consolidated Statements of Comprehensive Income. The Company had no Other invested assets at December 31, 2018.

The amortized cost and estimated fair value of the Company's fixed maturity securities at September 30, 2019, by contractual maturity, are shown below. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due in one year or less	$ 131.1	$ 132.1
Due after one year through five years	796.1	818.6
Due after five years through ten years	783.1	826.0
Due after ten years	54.3	60.4
Mortgage and asset-backed securities	630.0	643.7
Total	$ 2,394.6	$ 2,480.8

The following is a summary of AFS investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or greater as of September 30, 2019 and December 31, 2018.

	September 30, 2019			December 31, 2018		
	Estimated Fair Value	Gross Unrealized Losses	Number of Issues	Estimated Fair Value	Gross Unrealized Losses	Number of Issues
	(in millions, except number of issues data)					
Less than 12 months:						
Fixed maturity securities						
U.S. Treasuries	$ —	$ —	—	$ 12.2	$ (0.1)	7
States and municipalities	—	—	—	70.1	(0.7)	21
Corporate securities	—	—	—	624.4	(13.4)	205
Residential mortgage-backed securities	—	—	—	156.9	(2.5)	59
Commercial mortgage-backed securities	—	—	—	30.9	(0.5)	13
Asset-backed securities	—	—	—	25.1	(0.2)	18
Other securities	46.4	(0.8)	125	137.1	(5.7)	215
Total less than 12 months	$ 46.4	$ (0.8)	125	$ 1,056.7	$ (23.1)	538
12 months or greater:						
Fixed maturity securities						
U.S. Treasuries	$ —	$ —	—	$ 72.7	$ (1.1)	25
Corporate securities	—	—	—	193.7	(8.2)	69
Residential mortgage-backed securities	65.1	(0.8)	28	199.8	(7.3)	72
Commercial mortgage-backed securities	—	—	—	55.0	(2.0)	22
Asset-backed securities	—	—	—	16.5	(0.2)	17
Total 12 months or greater	$ 65.1	$ (0.8)	28	$ 537.7	$ (18.8)	205

There were no other-than-temporary impairments on fixed maturity securities recognized during the nine months ended September 30, 2019. The Company recognized impairments on fixed maturity securities of $2.0 million (consisting of fifty-seven securities) during the nine months ended September 30, 2018 as a result of the Company's intent to sell these securities. The Company determined that the remaining unrealized losses on fixed maturity securities for the nine months ended September 30, 2018 were primarily the result of changes in prevailing interest rates and not the credit quality of the issuers. The fixed maturity securities whose total fair value was less than amortized cost were not determined to be other-than-temporarily impaired given the lack of severity and duration of the impairment, the credit quality of the issuers, the Company's intent to not sell the securities, and a determination that it is not more likely than not that the Company will be required to sell the securities at an amount less than their amortized cost.

Realized gains and losses on investments include the gain or loss on a security at the time of sale compared to its original or adjusted cost (equity securities) or amortized cost (fixed maturity securities). Realized losses on fixed maturity securities are also recognized when securities are written down as a result of an other-than-temporary impairment.

Net realized gains (losses) on investments and the change in unrealized gains on the Company's investments recorded at fair value are determined on a specific-identification basis and were as follows:

	Gross Realized Gains	Gross Realized Losses	Change in Net Unrealized Gains (Losses)	Changes in Fair Value Reflected in Earnings	Changes in Fair Value Reflected in AOCI, before tax
			(in millions)		
Three Months Ended September 30, 2019					
Fixed maturity securities	$ 2.3	$ (0.3)	$ 18.7	$ 2.0	$ 18.7
Equity securities	14.0	(3.0)	(10.3)	0.7	—
Other invested assets	—	—	(0.2)	(0.2)	—
Cash equivalents	0.1	—	—	0.1	—
Total investments	$ 16.4	$ (3.3)	$ 8.2	$ 2.6	$ 18.7
Nine Months Ended September 30, 2019					
Fixed maturity securities	$ 3.9	$ (1.0)	$ 103.5	$ 2.9	$ 103.5
Equity securities	16.7	(3.9)	17.7	30.5	—
Other invested assets	—	—	(0.2)	(0.2)	—
Cash equivalents	0.1	—	—	0.1	—
Total investments	$ 20.7	$ (4.9)	$ 121.0	$ 33.3	$ 103.5
Three Months Ended September 30, 2018					
Fixed maturity securities	$ —	$ —	$ (11.6)	$ —	$ (11.6)
Equity securities	4.9	(0.5)	11.2	15.6	—
Total investments	$ 4.9	$ (0.5)	$ (0.4)	$ 15.6	$ (11.6)
Nine Months Ended September 30, 2018					
Fixed maturity securities	$ 2.1	$ (2.6)	$ (70.8)	$ (0.5)	$ (70.8)
Equity securities	13.0	(1.1)	1.8	13.7	—
Total investments	$ 15.1	$ (3.7)	$ (69.0)	$ 13.2	$ (70.8)

Proceeds from the sales of fixed maturity securities were $52.9 million and $147.3 million for the three and nine months ended September 30, 2019, respectively, compared to $1.5 million and $169.8 million for the three and nine months ended September 30, 2018.

Net investment income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
		(in millions)		
Fixed maturity securities	$ 20.2	$ 18.8	$ 60.8	$ 56.5
Equity securities	2.8	1.5	6.6	4.8
Cash equivalents and restricted cash	0.5	0.9	1.5	1.4
Gross investment income	23.5	21.2	68.9	62.7
Investment expenses	(1.2)	(1.0)	(3.4)	(2.8)
Net investment income	$ 22.3	$ 20.2	$ 65.5	$ 59.9

The Company is required by various state laws and regulations to hold securities or letters of credit in depository accounts with certain states in which it does business. These laws and regulations govern not only the amount but also the types of securities that are eligible for deposit. As of September 30, 2019 and December 31, 2018, securities having a fair value of $846.5 million and $867.7 million, respectively, were on deposit. Additionally, standby letters of credit from the FHLB were in place in lieu of $260.0 million of securities on deposit as of September 30, 2019 (See Note 10).

Certain reinsurance contracts require the Company's funds to be held in trust for the benefit of the ceding reinsurer to secure the outstanding liabilities assumed by the Company. The fair value of fixed maturity securities and restricted cash and cash equivalents held in trust for the benefit of ceding reinsurers at September 30, 2019 and December 31, 2018 was $3.2 million and $23.2 million, respectively.

6. Property and Equipment

Property and equipment consists of the following:

	As of September 30, 2019	As of December 31, 2018
	(in millions)	
Furniture and equipment	$ 2.5	$ 3.3
Leasehold improvements	6.0	3.2
Computers and software	66.3	61.9
Automobiles	1.1	1.1
Property and equipment, gross	75.9	69.5
Accumulated depreciation	(52.0)	(51.3)
Property and equipment, net	$ 23.9	$ 18.2

Depreciation expenses related to property and equipment for the three and nine months ended September 30, 2019 were $2.8 million and $6.5 million, respectively, and $6.1 million for the year ended December 31, 2018. Internally developed software costs of $0.9 million and $2.5 million were capitalized during the three and nine months ended September 30, 2019, respectively, and $2.9 million in internally developed software costs were capitalized during the year ended December 31, 2018.

Cloud Computing Arrangements

The Company's capitalized costs associated with cloud computing arrangements totaled $30.4 million and $26.0 million, which were comprised of service contract fees and implementation costs associated with hosting arrangements on the Company's Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018, respectively. Total amortization for hosting arrangements for the three and nine months ended September 30, 2019 was $1.7 million and $3.8 million, respectively, and $0.8 million for the year ended December 31, 2018.

Leases

The Company determines if an arrangement is a lease at the inception of the transaction. Operating leases for offices are presented as a right-of-use asset (ROU asset) and lease liability on the Company's Consolidated Balance Sheets. Financing leases for automobiles are included in property and equipment and other liabilities on the Company's Consolidated Balance Sheets. The Company elected the practical expedients provided in *ASU Number 2018-11, Leases (Topic 842): Targeted Improvements* and *ASU Number 2016-02, Leases* (Topic 842), allowing the Company to apply provisions of the new guidance at the date of adoption without adjusting comparative periods presented.

ROU assets represent the right to use an underlying asset for the lease term and the lease liability represents the obligation to make lease payments arising from the lease transaction. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term. The Company uses collateralized incremental borrowing rates to determine the present value of lease payments. The ROU assets also include lease payments less any lease incentives within a lease agreement. The Company's lease terms may include options to extend or terminate a lease. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's operating leases have remaining terms of 1 year to 8 years, with options to extend up to 10 years with no termination provision. The Company's finance leases have an option to terminate after 1 year.

Components of lease expense were as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(in millions)	
Operating lease expense	$ 1.3	$ 3.8
Finance lease expense	0.1	0.2
Total lease expense	$ 1.4	$ 4.0

As of September 30, 2019, the weighted average remaining lease term for operating leases was 6.6 years and for finance leases was 2.7 years. The weighted average discount rate was 3.3% and 3.7% for operating and finance leases, respectively.

Maturities of lease liabilities were as follows:

	As of September 30, 2019	
	Operating Leases	Finance Leases
	(in millions)	
2019	$ 1.3	$ 0.2
2020	4.5	0.2
2021	3.1	0.2
2022	1.9	—
2023	2.0	—
Thereafter	6.1	—
Total lease payments	18.9	0.6
Less: inputed interest	(1.8)	—
Total	$ 17.1	$ 0.6

Supplemental balance sheet information related to leases was as follows:

	As of September 30, 2019
	(in millions)
Operating leases:	
Operating lease right-of-use asset	$ 15.0
Operating lease liability	17.1
Finance leases:	
Property and equipment, gross	1.1
Accumulated depreciation	(0.5)
Property and equipment, net	0.6
Other liabilities	$ 0.6

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30, 2019
	(in millions)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used for operating leases	$ 3.8
Financing cash flows used for finance leases	0.2

7. Income Taxes

Income tax expense for interim periods is measured using an estimated effective tax rate for the annual period. The Company’s effective tax rates were 19.8% and 17.7% for the three and nine months ended September 30, 2019, respectively, compared to 18.4% and 16.8% for the same periods of 2018. Tax-advantaged investment income, Deferred Gain amortization, LPT Reserve Adjustments, LPT Contingent Commission Adjustments, and certain other adjustments reduced the Company’s effective income tax rate below the U.S. statutory rate of 21%.

8. Liability for Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and LAE.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Unpaid losses and LAE at beginning of period	$ 2,161.8	$ 2,227.9	$ 2,207.9	$ 2,266.1
Less reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	484.2	512.5	504.4	537.0
Net unpaid losses and LAE at beginning of period	1,677.6	1,715.4	1,703.5	1,729.1
Losses and LAE, net of reinsurance, incurred during the period related to:				
Current period	115.4	121.1	344.8	342.5
Prior periods	(20.2)	(11.9)	(66.1)	(40.8)
Total net losses and LAE incurred during the period	95.2	109.2	278.7	301.7
Paid losses and LAE, net of reinsurance, related to:				
Current period	32.9	31.2	63.5	56.9
Prior periods	69.7	71.5	248.5	252.0
Total net paid losses and LAE during the period	102.6	102.7	312.0	308.9
Ending unpaid losses and LAE, net of reinsurance	1,670.2	1,721.9	1,670.2	1,721.9
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	527.1	511.8	527.1	511.8
Unpaid losses and LAE at end of period	$ 2,197.3	$ 2,233.7	$ 2,197.3	$ 2,233.7

Total net losses and LAE included in the above table exclude amortization of the deferred reinsurance gain—LPT Agreement, LPT Reserve Adjustments, and LPT Contingent Commission Adjustments, which totaled $2.3 million and $2.6 million for the three months ended September 30, 2019 and 2018, respectively and $10.5 million and $12.0 million for the nine months ended September 30, 2019 and 2018, respectively (See Note 9).

The change in incurred losses and LAE attributable to prior periods included $20.0 million and $66.0 million of favorable development on the Company's voluntary risk business for the three and nine months ended September 30, 2019, respectively, and $0.2 million and $0.1 million of favorable development on the Company's assigned risk business for the same periods. The change in incurred losses and LAE attributable to prior periods for the three and nine months ended September 30, 2018 included $12.0 million and $40.5 million of favorable development on the Company's voluntary risk business, respectively, and $0.1 million of unfavorable development and $0.3 million of favorable development on the Company's assigned risk business for the three and nine months ended September 30, 2018, respectively. The favorable prior accident year loss development on voluntary business during the three and nine months ended September 30, 2019 and 2018 was the result of the Company's determination that adjustments were necessary to reflect observed favorable paid loss trends, which have been impacted by cost savings associated with accelerated claims settlement activity that began in 2014 and continued in 2019.

9. LPT Agreement

The Company is party to the LPT Agreement under which $1.5 billion in liabilities for losses and LAE related to claims incurred by the Fund prior to July 1, 1995 were reinsured for consideration of $775.0 million. The LPT Agreement provides coverage up to $2.0 billion. The Company records its estimate of contingent profit commission in the accompanying Consolidated Balance Sheets as Contingent commission receivable–LPT Agreement and a corresponding liability is recorded in the accompanying Consolidated Balance Sheets in Deferred reinsurance gain–LPT Agreement. The Deferred Gain is being amortized using the recovery method. Amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the LPT Agreement, except for the contingent profit commission, which is amortized through June 30, 2024, the date through which the Company is entitled to receive a contingent profit commission under the LPT Agreement. The amortization is recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income. Any adjustments to the Deferred Gain are recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income.

The Company amortized $2.3 million and $2.6 million of the Deferred Gain for the three months ended September 30, 2019 and 2018, respectively, and $8.5 million and $9.3 million for the nine months ended September 30, 2019 and 2018, respectively. Additionally, the Deferred Gain was further reduced by $1.8 million and $2.2 million for the nine months ended September 30, 2019 and 2018, respectively, due to a favorable LPT Reserve Adjustment and by $0.2 million and $0.5 million due to favorable LPT Contingent Commission Adjustments for the nine months ended September 30, 2019 and 2018, respectively. The remaining Deferred Gain was $139.4 million and $149.6 million as of September 30, 2019 and December 31, 2018, respectively. The estimated remaining liabilities subject to the LPT Agreement were $385.8 million and $408.2 million as of September 30, 2019 and December 31, 2018, respectively. Losses and LAE paid with respect to the LPT Agreement totaled $790.8 million and $773.7 million from inception through September 30, 2019 and December 31, 2018, respectively.

10. Notes Payable and Other Financing Arrangements

Notes payable is comprised of the following:

	September 30, 2019	December 31, 2018
	(in millions)	
Dekania Surplus Note, due April 29, 2034	$ —	$ 10.0
Alesco Surplus Note, due December 15, 2034	—	10.0
Total	$ —	$ 20.0

EPIC had a $10.0 million surplus note to Dekania CDO II, Ltd. (Dekania) issued as part of a pooled transaction. On April 12, 2019, the Florida Office of Insurance Regulation approved EPIC’s request to pay off the Dekania surplus note. Subsequently, on April 15, 2019, EPIC formally called this note. The outstanding principal, plus accrued and unpaid interest, in the amount of $10.2 million, was paid on May 14, 2019.

EPIC had a $10.0 million surplus note to Alesco Preferred Funding V, LTD (Alesco) issued as part of a pooled transaction. On April 12, 2019, the Florida Office of Insurance Regulation approved EPIC’s request to pay off the Alesco surplus note. Subsequently, on May 6, 2019, EPIC formally called this note. The outstanding principal, plus accrued and unpaid interest, in the amount of $10.2 million, was paid on June 13, 2019.

Other financing arrangements are comprised of the following:

EICN, ECIC, EPIC, and EAC are members of the FHLB. Membership allows the insurance subsidiaries access to collateralized advances, which may be used to support and enhance liquidity management. The amount of advances that may be taken is dependent on statutory admitted assets on a per company basis. Currently, none of the Company’s insurance subsidiaries has advances outstanding under the FHLB facility.

FHLB membership also allows the Company’s insurance subsidiaries access to standby letters of credit. On March 9, 2018, ECIC, EPIC, and EAC entered into standby Letter of Credit Reimbursement Agreements (Letter of Credit Agreements) with the FHLB. On March 1, 2019, FHLB and ECIC, EPIC, and EAC each amended their Letter of Credit Agreements to increase their respective credit amounts. The Letter of Credit Agreements are between the FHLB and each of EAC, in the amount of $60.0 million, ECIC, in the amount of $90.0 million, and EPIC, in the amount of $110.0 million. The amended Letter of Credit Agreements will expire on March 31, 2020; however, the Letter of Credit Agreements will remain evergreen with automatic one-year extensions unless the FHLB notifies the beneficiary at least 60 days prior to the then applicable expiration date of its election not to renew. The Letter of Credit Agreements may only be used to satisfy, in whole or in part, insurance deposit requirements with the State of California and are fully secured with eligible collateral at all times. The Letter of Credit Agreements are subject to annual maintenance charges and a fee of 15 basis points on issued amounts. As of September 30, 2019, letters of credit totaling $260.0 million were issued in lieu of securities on deposit with the State of California under these Letter of Credit Agreements.

As of September 30, 2019, investment securities having a fair value of $351.0 million were pledged to the FHLB by the Company’s insurance subsidiaries in support of the collateralized advance facility and the Letter of Credit Agreements.

11. Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of unrealized gains (losses) on investments classified as AFS, net of deferred tax expense. Beginning in 2018, with the adoption of ASU 2016-01, the Company's investments in equity securities at fair value are no longer considered to be AFS and are reported at fair value with unrealized gains and losses included in Net realized and unrealized gains (losses) on investments on the Company's Consolidated Statements of Comprehensive Income. Prior to 2018, investments in equity securities at fair value were classified as AFS and changes in fair value were excluded from earnings and reported in accumulated other comprehensive income. The following table summarizes the components of accumulated other comprehensive income (loss):

	September 30, 2019	December 31, 2018
	(in millions)	
Net unrealized gains (losses) on investments, before taxes	$ 86.2	$ (17.3)
Deferred tax (expense) benefit on net unrealized gains (losses)	(18.1)	3.6
Total accumulated other comprehensive income (loss)	$ 68.1	$ (13.7)

12. Stock-Based Compensation

The Company awarded restricted stock units (RSUs) and performance share units (PSUs) to certain employees and non-employee Directors of the Company as follows:

	Number Awarded	Weighted Average Fair Value on Date of Grant	Aggregate Fair Value on Date of Grant
			(in millions)
March 2019			
RSUs[1]	72,060	$ 40.54	$ 2.9
PSUs[2]	95,940	40.54	3.9
May 2019			
RSUs[3]	17,050	$ 40.76	$ 0.7
August 2019			
PSUs[2]	9,587	$ 41.72	$ 0.4

(1) The RSUs awarded in March 2019 were awarded to certain employees of the Company and vest 25% on March 15, 2020, and each of the subsequent three anniversaries of that date. The RSUs are subject to accelerated vesting in certain circumstances, including but not limited to: death, disability, retirement, or in connection with a change of control of the Company.

(2) The PSUs awarded in March 2019 and August 2019 were awarded to certain employees of the Company and have a performance period of two years followed by an additional one year vesting period. The PSU awards are subject to certain performance goals with payouts that range from 0% to 200% of the target awards. The value shown in the table represents the aggregate number of PSUs awarded at the target level.

(3) The RSUs awarded in May 2019 were awarded to non-employee Directors of the Company and vest in full on May 23, 2020.

Employees who were awarded RSUs and PSUs are entitled to receive dividend equivalents for eligible awards, payable in cash, when the underlying award vests and becomes payable. If the underlying award does not vest or is forfeited, any dividend equivalents with respect to the underlying award will also fail to become payable and will be forfeited.

Stock options exercised totaled 25,580 for the nine months ended September 30, 2019, 51,091 for the nine months ended September 30, 2018, and 57,091 for the year ended December 31, 2018.

As of September 30, 2019, the Company had 160,066 options, 237,077 RSUs, and 258,765 PSUs (based on target number awarded) outstanding.

13. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilutive impact of all common stock equivalents on earnings per share. Diluted earnings per share includes shares that are assumed to be issued under the "treasury stock method," which reflects the potential dilution that would occur if outstanding RSUs and PSUs had vested and options were to be exercised.

Commencing in 2017, certain stock-based compensation awards are eligible to receive dividend equivalents on awards that fully vest or become payable. The dividend equivalents are reflected in the Company's net income; therefore, these awards are not considered participating securities for the purposes of determining earnings per share.

The following table presents the net income and the weighted average number of shares outstanding used in the earnings per common share calculations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions, except share data)			
Net income—basic and diluted	$ 32.8	$ 47.6	$ 125.4	$ 115.7
Weighted average number of shares outstanding—basic	31,946,851	32,906,250	32,168,826	32,864,612
Effect of dilutive securities:				
PSUs	255,663	253,612	278,641	253,269
Stock options	80,889	104,450	79,954	101,907
RSUs	34,614	51,852	60,034	59,002
Dilutive potential shares	371,166	409,914	418,629	414,178
Weighted average number of shares outstanding—diluted	32,318,017	33,316,164	32,587,455	33,278,790

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

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto included in Item 1 of Part I. Unless otherwise indicated, all references to "we," "us," "our," "the Company," or similar terms refer to EHI, together with its subsidiaries. The information contained in this quarterly report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this quarterly report and in our other reports filed with the Securities and Exchange Commission (SEC), including our Annual Report.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements if accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed. You should not place undue reliance on these statements, which speak only as of the date of this report. Forward-looking statements include those related to our expected financial position, business, financing plans, litigation, future premiums, revenues, earnings, pricing, investments, business relationships, strategic initiatives, expected losses, accident year loss estimates, loss experience, loss reserves, acquisitions, competition, the impact of changes in interest rates, rate increases with respect to our business, and the insurance industry in general. Statements including words such as "expect," "intend," "plan," "believe," "estimate," "may," "anticipate," "will," or similar statements of a future or forward-looking nature identify forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. All forward-looking statements address matters that involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results, depending on a number of factors. These risks and uncertainties include, but are not limited to, those described in our Annual Report and other documents that we have filed with the SEC.

Overview

We are a Nevada holding company. Through our insurance subsidiaries, we provide workers' compensation insurance coverage to select, small businesses in low to medium hazard industries. Workers' compensation insurance is provided under a statutory system wherein most employers are required to provide coverage for their employees' medical, disability, vocational rehabilitation, and/or death benefit costs for work-related injuries or illnesses. We provide workers' compensation insurance throughout the United States, with a concentration in California. Our revenues are primarily comprised of net premiums earned, net investment income, and net realized and unrealized gains on investments.

We target small businesses, as we believe that this market is traditionally characterized by more attractive pricing, and stronger persistency when compared to the U.S. workers' compensation insurance industry in general. We believe we are able to price our policies at levels that are competitive and profitable over the long-term given our expertise in underwriting this market segment. Our underwriting approach is to consistently underwrite small business accounts at appropriate and competitive prices without sacrificing long-term profitability and stability for short-term top-line revenue growth.

Our strategy is to pursue profitable growth opportunities across market cycles and maximize total investment returns within the constraints of prudent portfolio management. We pursue profitable growth opportunities by focusing on disciplined underwriting and claims management, utilizing medical provider networks designed to produce superior medical and indemnity outcomes, establishing and maintaining strong, long-term relationships with independent insurance agencies, developing and implementing new technologies designed to transform the way small businesses and insurance agents utilize digital capabilities, and developing important alternative distribution channels. We continue to execute a number of ongoing business initiatives, including: focusing on internal and customer-facing business process excellence; diversifying our risk exposure across geographic markets; utilizing a multi-company pricing platform; and utilizing territory-specific pricing. Additionally, we continue to execute our plan of aggressive development and implementation of new technologies and capabilities that we believe will fundamentally transform and enhance the digital experience of our customers, including: (i) continued investments in new technology, data analytics, and process improvement capabilities focused on improving the agent experience and enhancing agent efficiency; and (ii) the launch of Cerity, a subsidiary separate from our other insurance businesses, which offers digital, direct-to-customer workers' compensation insurance solutions.

The insurance industry is highly competitive, and there is significant competition in the national workers' compensation industry that is based on price and quality of services. We compete with other specialty workers' compensation carriers, state agencies, multi-line insurance companies, professional employer organizations, self-insurance funds, state insurance pools, and other direct-to-customer workers' compensation insurance solutions.

Pricing on our renewals showed an overall average rate decrease of 8.4% and 11.8% for the three and nine months ended September 30, 2019, respectively, versus the rate level in effect on such business a year earlier. We believe that we can continue to write attractive business due to favorable loss costs and frequency trends and the success of our accelerated claims initiatives, despite the competitive market conditions we currently face. Given the strength of our balance sheet and the execution of our underwriting, claims, and investment strategies, we believe that we are well positioned for the current market cycle.

On August 11, 2017, we entered into the Purchase Agreement with PRUS with respect to the Acquisition of all of the outstanding shares of capital stock of PRNY. On July 31, 2019, we completed the Acquisition. We funded the Acquisition with cash on hand. The purchase price was equal to the sum of: (i) $47.6 million, the amount of statutory capital and surplus of PRNY at closing; and (ii) $5.8 million. We did not acquire any employees or ongoing business operations pursuant to the Acquisition.

Pursuant to the Purchase Agreement, all liabilities and obligations of PRNY existing as of the closing date, whether known or unknown, will be indemnified by PRUS. In addition, PartnerRe Ltd., the parent company of PRUS, has provided us with a Guaranty that unconditionally, absolutely, and irrevocably guarantees the full and prompt payment and performance by PRUS of all of its obligations, liabilities, and indemnities under the Purchase Agreement and the transactions contemplated thereby. If PRUS and PartnerRe Ltd. were to fail to honor their obligations to us under the Purchase Agreement, all or a portion of the remaining gross loss and LAE reserves acquired by us pursuant to the Acquisition would become our responsibility.

Subsequent to completing the Acquisition, PRNY was renamed CIC.

Results of Operations

A primary measure of our performance is our ability to increase Adjusted stockholders' equity over the long-term. We believe that this measure is important to our investors, analysts, and other interested parties who benefit from having an objective and consistent basis for comparison with other companies within our industry. The following table shows a reconciliation of our Stockholders' equity on a GAAP basis to our Adjusted stockholders' equity.

	September 30, 2019	December 31, 2018
	(in millions)	
GAAP stockholders' equity	$ 1,160.4	$ 1,018.2
Deferred reinsurance gain–LPT Agreement	139.4	149.6
Less: Accumulated other comprehensive income (loss), net	68.1	(13.7)
Adjusted stockholders' equity(1)	$ 1,231.7	$ 1,181.5

(1) Adjusted stockholders' equity is a non-GAAP measure consisting of total GAAP stockholders' equity plus the Deferred Gain, less Accumulated other comprehensive income (loss), net.

Our net income was $32.8 million and $125.4 million for the three and nine months ended September 30, 2019, respectively, compared to $47.6 million and $115.7 million for the corresponding periods of 2018. Our underwriting income was $15.7 million and $53.6 million for the three and nine months ended September 30, 2019, respectively, compared to $22.7 million and $66.6 million for the same periods of 2018. Underwriting income or loss is determined by deducting losses and LAE, commission expense, and underwriting and other operating expenses from net premiums earned.

Our results of operations during the three months ended September 30, 2019 were impacted by: (i) favorable prior accident year loss development of $20.2 million, which decreased our losses and LAE by the same amount; and (ii) $10.3 million in net unrealized losses on equity securities during the period. Collectively, these items increased our pre-tax net income by $9.9 million during the third quarter of 2019.

Our results of operations during the nine months ended September 30, 2019 were impacted by: (i) favorable prior accident year loss development of $66.1 million, which decreased our losses and LAE by the same amount; (ii) favorable development in the estimated reserves ceded under the LPT Agreement that resulted in a $1.8 million LPT Reserve Adjustment; (iii) an increase in the contingent commission receivable under the LPT Agreement that resulted in a $0.2 million LPT Contingent Commission Adjustment; and (iv) $17.7 million in net unrealized gains on equity securities during the period. Collectively, these items increased our pre-tax net income by $85.8 million during the nine months ended September 30, 2019.

Our results of operations during the three months ended September 30, 2018 were impacted by: (i) favorable prior accident year loss development of $11.9 million, which decreased our losses and LAE by the same amount; and (ii) the inclusion of $11.2 million in net unrealized gains on equity securities during the period. Collectively, these items increased our pre-tax net income by $23.1 million during the third quarter of 2018.

Our results of operations during the nine months ended September 30, 2018 were impacted by: (i) favorable prior accident year loss development of $40.8 million, which decreased our losses and LAE by the same amount; (ii) favorable development in the estimated reserves ceded under the LPT Agreement that resulted in a $2.2 million LPT Reserve Adjustment during the second quarter of 2018; (iii) an increase in the contingent commission receivable under the LPT Agreement that resulted in a $0.5 million LPT Contingent Commission Adjustment during the second quarter of 2018; and (iv) the inclusion of $1.8 million in net unrealized gains on equity securities during the period. Collectively, these items increased our pre-tax net income by $45.3 million during the nine months ended September 30, 2018.

The components of net income are set forth in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
	(in millions)			
Gross premiums written	$ 166.5	$ 189.2	$ 553.1	$ 587.2
Net premiums written	$ 165.2	$ 187.3	$ 549.1	$ 582.5
Net premiums earned	$ 175.8	$ 192.9	$ 526.1	$ 547.5
Net investment income	22.3	20.2	65.5	59.9
Net realized and unrealized gains on investments	2.6	15.6	33.3	13.2
Other income	0.3	0.2	0.6	0.4
Total revenues	201.0	228.9	625.5	621.0
Losses and LAE	92.9	106.6	268.2	289.7
Commission expense	21.9	24.8	67.7	73.1
Underwriting and other operating expenses	45.3	38.8	136.6	118.1
Interest and financing expenses	—	0.4	0.6	1.1
Total expenses	160.1	170.6	473.1	482.0
Income tax expense	8.1	10.7	27.0	23.3
Net income	$ 32.8	$ 47.6	$ 125.4	$ 115.7
Less amortization of the Deferred Gain related to losses	$ 1.9	$ 2.1	$ 7.1	$ 7.8
Less amortization of the Deferred Gain related to contingent commission	0.4	0.5	1.4	1.5
Less impact of LPT Reserve Adjustments[(1)]	—	—	1.8	2.2
Less impact of LPT Contingent Commission Adjustments[(2)]	—	—	0.2	0.5
Net income before impact of the LPT Agreement[(3)]	$ 30.5	$ 45.0	$ 114.9	$ 103.7

(1) LPT Reserve Adjustments result in a cumulative adjustment to the Deferred Gain, which is recognized in losses and LAE incurred on our Consolidated Statements of Comprehensive Income, such that the Deferred Gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement.

(2) LPT Contingent Commission Adjustments result in an adjustment to the Deferred Gain, which is recognized in losses and LAE incurred on our Consolidated Statements of Comprehensive Income, such that the Deferred Gain reflects the balance that would have existed had the revised contingent profit commission been recognized at the inception of the LPT Agreement.

(3) We define net income before impact of the LPT Agreement as net income before the impact of: (a) amortization of the Deferred Gain; (b) adjustments to the LPT Agreement ceded reserves; and (c) adjustments to the Contingent commission receivable–LPT Agreement. The Deferred Gain reflects the unamortized gain from the LPT Agreement. Under GAAP, this gain is deferred and is being amortized using the recovery method in which amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the LPT Agreement, except for the contingent profit commission, which is amortized through June 30, 2024. The amortization is reflected in losses and LAE. We periodically reevaluate the remaining direct reserves subject to the LPT Agreement and the expected losses and LAE subject to the contingent profit commission under the LPT Agreement. Our reevaluation results in corresponding adjustments, if needed, to reserves, ceded reserves, contingent commission receivable, and the Deferred Gain, with the net effect being an increase or decrease to our net income. Net income before impact of the LPT Agreement is not a measurement of financial performance under GAAP, but rather reflects a difference in accounting treatment between statutory and GAAP, and should not be considered in isolation or as an alternative to net income before income taxes or net income, or any other measure of performance derived in accordance with GAAP.

We present net income before impact of the LPT Agreement because we believe that it is an important supplemental measure of our ongoing operating performance to be used by analysts, investors, and other interested parties in evaluating us. The LPT Agreement was a non-recurring transaction under which the Deferred Gain does not affect our ongoing operations, and, consequently, we believe this presentation is useful in providing a meaningful understanding of our operating performance. In addition, we believe this non-GAAP measure, as we have defined it, is helpful to our management in identifying trends in our performance because the LPT Agreement has limited significance on our current and ongoing operations.

Gross Premiums Written

Gross premiums written were $166.5 million and $553.1 million for the three and nine months ended September 30, 2019, respectively, compared to $189.2 million and $587.2 million for the corresponding periods of 2018. The year-over-year decreases for the three and nine months ended September 30, 2019 were primarily due to period-over-period decreases in final audit premiums and average rates, as well as declines in new business premiums written in California, partially offset by increases in renewal premiums written across all of our markets.

Net Premiums Written

Net premiums written were $165.2 million and $549.1 million for the three and nine months ended September 30, 2019, respectively, compared to $187.3 million and $582.5 million for the corresponding periods of 2018. Reinsurance premiums ceded were $1.3 million and $4.0 million for the three and nine months ended September 30, 2019, respectively, compared to $1.9 million and $4.7 million for the corresponding periods of 2018.

Net Premiums Earned

Net premiums earned were $175.8 million and $526.1 million for the three and nine months ended September 30, 2019, respectively, compared to $192.9 million and $547.5 million for the corresponding periods of 2018. Net premiums earned are primarily a function of the amount and timing of net premiums previously written.

The following table shows the percentage change in our in-force premiums, policy count, average policy size, and payroll exposure (upon which our premiums are based) overall, for California, where 51% of our premiums were generated, and for all other states, excluding California:

	As of September 30, 2019					
	Year-to-Date Change			Year-Over-Year Change		
	Overall	California	All Other States	Overall	California	All Other States
In-force premiums	(0.3)%	(5.3)%	5.5 %	0.4 %	(5.5)%	7.3 %
In-force policy count	5.9	3.5	7.9	7.4	5.2	9.4
Average in-force policy size	(5.8)	(8.5)	(2.2)	(6.6)	(10.2)	(1.9)
In-force payroll exposure	13.5	8.6	16.6	18.8	15.0	21.1

The following table shows our in-force premiums and number of policies in-force for each state with at least five percent of our in-force premiums and all other states combined for the periods presented:

State	September 30, 2019		December 31, 2018		September 30, 2018		December 31, 2017	
	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force
	(dollars in millions)							
California	$ 338.3	43,465	$ 357.1	41,988	$ 358.1	41,335	$ 349.4	40,573
Florida	37.0	5,688	41.0	5,833	42.0	5,745	41.8	5,625
Other (44 states and D.C.)	289.2	47,747	268.1	43,677	262.0	43,110	235.7	39,296
Total	$ 664.5	96,900	$ 666.2	91,498	$ 662.1	90,190	$ 626.9	85,494

Our alternative distribution channels that utilize partnerships and alliances generated $163.0 million and $157.6 million, or 24.5% and 23.8%, of our in-force premiums as of September 30, 2019 and 2018, respectively. We believe that the bundling of products and services through these relationships contributes to higher retention rates than business generated by our independent agents. These relationships also allow us to access new customers that we may not have access to through our independent agent distribution channel. We continue to actively seek new partnerships and alliances.

Net Investment Income and Net Realized and Unrealized Gains on Investments

We invest in fixed maturity securities, equity securities, other invested assets, short-term investments, and cash equivalents. Net investment income includes interest and dividends earned on our invested assets and amortization of premiums and discounts on our fixed maturity securities, less bank service charges and custodial and portfolio management fees. We have established a high quality/short duration bias in our investment portfolio.

Net investment income increased 10.4% and 9.3% for the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. The average pre-tax book yield on invested assets increased to 3.4% as of September 30, 2019, up from 3.3% as of September 30, 2018. Average invested assets was up slightly year-over-year.

Realized and certain unrealized gains and losses on our investments are reported separately from our net investment income. Realized gains and losses on investments include the gain or loss on a security at the time of sale compared to its original or adjusted cost (equity securities) or amortized cost (fixed maturity securities). Realized losses are also recognized when securities are written down as a result of an other-than-temporary impairment. Changes in fair value of equity securities and other invested assets are also included in Net realized and unrealized gains on investments on our Consolidated Statements of Comprehensive Income.

Net realized and unrealized gains on investments were $2.6 million and $33.3 million for the three and nine months ended September 30, 2019, respectively, compared to $15.6 million and $13.2 million for the corresponding periods of 2018. The net realized and unrealized gains on investments for the three months ended September 30, 2019 and 2018 included $0.7 million and $15.6 million of net realized and unrealized gains on equity securities, respectively, and $2.0 million of net realized gains on fixed maturity securities for the three months ended September 30, 2019. There were no net realized gains on fixed maturity securities for the three months ended September 30, 2018. The net realized and unrealized gains on investments for the nine months ended September 30, 2019 and 2018 included $30.5 million and $13.7 million of net realized and unrealized gains on equity securities, respectively, and $2.9 million and $(0.5) million of net realized gains (losses) on fixed maturity securities, respectively. Net gains on equity securities during each of the periods presented were largely consistent with the performance of U.S. equity markets. Realized gains and losses on fixed maturity securities were primarily related to sales associated with a reallocation of our investment portfolio. Net realized and unrealized gains on investments included $2.0 million of other-than-temporary impairments for the nine months ended September 30, 2018. There were no other-than-temporary impairments on investments for the nine months ended September 30, 2019.

Additional information regarding our Investments is set forth under “—Liquidity and Capital Resources—Investments.”

Losses and LAE, Commission Expenses, and Underwriting and Other Operating Expenses

The combined ratio, a key measurement of underwriting profitability, is the sum of the loss and LAE ratio, the commission expense ratio, and the underwriting and other operating expenses ratio. A combined ratio below 100% indicates that an insurance company is generating an underwriting profit, and conversely, a combined ratio above 100% indicates that an insurance company is generating an underwriting loss.

The following table presents our calendar year combined ratios.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Loss and LAE ratio	52.8%	55.3%	51.0%	52.9%
Underwriting and other operating expenses ratio	25.8	20.0	25.9	21.5
Commission expense ratio	12.5	12.9	12.9	13.4
Combined ratio	91.1%	88.2%	89.8%	87.8%

We include all of the operating expenses of our holding company in the calculation of our combined ratio, which added approximately three percentage points to that ratio for each of the three and nine months ended September 30, 2019 and approximately two percentage points for each of the three and nine months ended September 30, 2018.

Loss and LAE Ratio

Losses and LAE represents our largest expense item and includes claim payments made, amortization of the Deferred Gain, estimates for future claim payments and changes in those estimates for current and prior periods, and costs associated with investigating, defending, and adjusting claims. The quality of our financial reporting depends in large part on accurately predicting our losses and LAE, which are inherently uncertain as they are estimates of the ultimate cost of individual claims based on actuarial estimation techniques.

Our indemnity claims frequency (the number of claims expressed as a percentage of payroll) decreased year-over-year and through September 30, 2019, we saw a slight downward movement in medical and indemnity costs per claim that is reflected in our current accident year loss estimate. We believe our current accident year loss estimate is adequate; however, ultimate losses will not be known with any certainty for many years.

Our loss and LAE ratio decreased 2.5 percentage points, or 4.5%, and 1.9 percentage points, or 3.6%, for the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. The decrease in our loss and LAE ratios during the three months and nine months ended September 30, 2019, compared to the same periods of 2018, were primarily attributable to increased favorable prior accident year loss development, partially offset by an increase in our current accident year loss estimate. Favorable development totaled $20.2 million and $66.1 million during the three and nine months ended September 30, 2019, respectively, which included $20.0 million and $66.0 million favorable development on our voluntary business and an additional $0.2 million and $0.1 million favorable development on our assigned risk business, respectively. Favorable development for the three and nine months ended September 30, 2018 totaled $11.9 million and $40.8 million, respectively. Favorable development for the three months ended September 30, 2018 included $12.0 million favorable development on our our voluntary business and $0.1 million unfavorable development on our assigned risk business, while favorable development for the nine months ended September 30, 2018 included $40.5 million of favorable development on our voluntary business and $0.3 million of favorable development on our assigned risk business. Favorable prior accident year loss development on our voluntary business in all periods presented was primarily the result of observed favorable loss cost trends, primarily for the 2014 through 2017 accident years, which have been impacted by our internal initiatives to reduce loss costs, including the accelerated claims settlement activity that began in 2014 and that has continued into 2019.

Our current accident year loss and LAE ratio was 65.6% and 65.5% for the three and nine months ended September 30, 2019, respectively, compared to 62.8% and 62.6% for each of the corresponding periods of 2018. The year-over-year increases were primarily due to the impact of increased competitive pressures and price decreases across most of our markets; however, our current accident year loss and LAE ratio continues to reflect the impact of key business initiatives, including: an emphasis on the accelerated settlement of open claims; diversifying our risk exposure across geographic markets; and leveraging data-driven strategies to target, underwrite, and price profitable classes of business across all of our markets.

Excluding the impact from the LPT, losses and LAE would have been $95.2 million and $109.2 million, or 54.2% and 56.6% of net premiums earned, for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, losses and LAE, excluding the impact of the LPT, would have been $278.7 million and $301.7 million, or 53.0% and 55.1% of net premium earned, respectively.

The table below reflects prior accident year loss and LAE reserve adjustments and the impact of the LPT on net income before income taxes.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Prior accident year favorable loss development, net	$ 20.2	$ 11.9	$ 66.1	$ 40.8
Amortization of the Deferred Gain related to losses	$ 1.9	$ 2.1	$ 7.1	$ 7.8
Amortization of the Deferred Gain related to contingent commission	0.4	0.5	1.4	1.5
Impact of LPT Reserve Adjustments	—	—	1.8	2.2
Impact of LPT Contingent Commission Adjustments	—	—	0.2	0.5
Total impact of the LPT on losses and LAE	2.3	2.6	10.5	12.0
Total losses and LAE reserve adjustments	$ 22.5	$ 14.5	$ 76.6	$ 52.8

Underwriting and Other Operating Expenses Ratio

Underwriting and other operating expenses are those costs that we incur to underwrite and maintain the insurance policies we issue, excluding commission. These expenses include premium taxes and certain other general expenses that vary with, and are primarily related to, producing new or renewal business. Other underwriting expenses include policyholder dividends, changes in estimates of future write-offs of premiums receivable, general administrative expenses such as salaries and benefits, rent, office supplies, depreciation, and all other operating expenses not otherwise classified separately. Policy acquisition costs are variable based on premiums earned. Other operating expenses are more fixed in nature and become a smaller percentage of net premiums earned as premiums increase.

Our underwriting and other operating expenses ratio increased 5.8 and 4.4 percentage points, or 29.0% and 20.5%, for the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. During the three months ended September 30, 2019, our IT expenses increased $3.8 million and our compensation expenses increased $3.2 million compared to the same period of 2018. During the nine months ended September 30, 2019, our compensation expenses increased $7.5 million, our IT expenses increased $6.7 million, and our professional fees increased $2.0 million, compared to the same period of 2018. These increases were largely the result of our aggressive development and implementation of new digital technologies and capabilities. Additionally, our policyholder dividends increased $0.5 million and $1.2 million during the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018, primarily as a result of increased competitive pressures.

Commission Expense Ratio

Commission expenses include direct commissions to our agents and brokers, including our partnerships and alliances, for the premiums that they produce for us, as well as incentive payments, other marketing costs, and fees.

Our commission expense ratio decreased 0.4 and 0.5 percentage points, or 3.1% and 3.7%, for the three and nine months ended September 30, 2019, respectively, compared to the same periods of 2018. The decreases in the commission expense ratios were primarily the result of a year-over-year decrease in projected 2019 agency incentive commissions, which were directly impacted by decreases in premiums written.

Income Tax Expense

Income tax expense was $8.1 million and $27.0 million for the three and nine months ended September 30, 2019, respectively, compared to $10.7 million and $23.3 million for the corresponding periods of 2018. The effective tax rates were 19.8% and 17.7% for the three and nine months ended September 30, 2019, respectively, compared to 18.4% and 16.8% for the same periods of 2018. The period-over-period increases in the effective tax rates were driven by a higher proportion of fully taxable income. Tax-advantaged investment income, Deferred Gain amortization, LPT Reserve Adjustments, LPT Contingent Commission Adjustments, and certain other adjustments reduced our effective income tax rate below the U.S. statutory rate of 21%.

Liquidity and Capital Resources

Holding Company Liquidity

We are a holding company and our ability to fund our operations is contingent upon existing capital and the ability of our subsidiaries to pay dividends up to the holding company. Payment of dividends by our insurance subsidiaries is restricted by state insurance laws and regulations, including laws establishing minimum solvency and liquidity thresholds. We require cash to pay stockholder dividends, repurchase common stock, make interest and principal payments on any outstanding debt obligations, provide additional surplus to our insurance subsidiaries, and fund our operating expenses.

Our insurance subsidiaries' ability to pay dividends to their parent is based on reported capital, surplus, and dividends paid within the prior 12 months. The maximum dividends that may be paid in 2019 by EPIC without prior regulatory approval is $19.0 million. During the first quarter of 2019, EICN made a $19.7 million cash dividend payment to its parent company. As a result of that payment, EICN's dividend capacity is limited to $0.1 million without prior regulatory approval for the remainder of 2019. During the second quarter of 2019, EAC made a $19.7 million cash dividend payment to its parent company and, as a result of that payment, EAC's dividend capacity is limited to $0.1 million without prior regulatory approval for the remainder of 2019. During the third quarter of 2019, ECIC made a $57.2 million cash dividend payment to its parent company. As a result of that payment, ECIC cannot pay any dividends without prior regulatory approval for the remainder of 2019. Prior to the completion of the Acquisition, during the third quarter of 2019, PRNY made an extraordinary dividend payment to its parent company, PRUS. As a result of that payment, CIC cannot pay any dividends for two years from the date of Acquisition without prior regulatory approval.

Total cash and investments at the holding company was $98.7 million at September 30, 2019, consisting of $37.4 million of cash and cash equivalents, $26.6 million of unaffiliated fixed maturity securities, and $34.7 million of equity securities. We do not currently have a revolving credit facility because we believe that the holding company's cash needs for the foreseeable future will be met with its cash and investments on hand, as well as dividends available from our insurance subsidiaries.

Operating Subsidiaries' Liquidity

The primary sources of cash for our operating subsidiaries, which include our insurance and other operating subsidiaries, are premium collections, investment income, sales and maturities of investments, and reinsurance recoveries. The primary uses of cash by our operating subsidiaries are payments of losses and LAE, commission expenses, underwriting and other operating expenses, ceded reinsurance, investment purchases and dividends paid to their parent.

Total cash and investments held by our operating subsidiaries was $2,838.8 million at September 30, 2019, consisting of $103.2 million of cash and cash equivalents, $2,454.2 million of fixed maturity securities, $256.7 million of equity securities, and $24.7 million of other invested assets. Sources of immediate and unencumbered liquidity at our operating subsidiaries as of September 30, 2019 consisted of $102.9 million of cash and cash equivalents, $250.1 million of publicly traded equity securities whose proceeds are available within three business days, and $1,043.9 million of highly liquid fixed maturity securities whose proceeds are available within three business days. We believe that our subsidiaries' liquidity needs over the next 24 months will be met with cash from operations, investment income, and maturing investments.

EICN, ECIC, EPIC, and EAC are members of the FHLB. Membership allows our insurance subsidiaries access to collateralized advances, which may be used to support and enhance liquidity management. The amount of advances that may be taken is dependent on statutory admitted assets on a per company basis. Currently, none of our insurance subsidiaries has advances outstanding under the FHLB facility.

FHLB membership also allows our insurance subsidiaries access to Letter of Credit Agreements and on March 9, 2018, ECIC, EPIC, and EAC entered into Letter of Credit Agreements with the FHLB. On March 1, 2019 FHLB and ECIC, EPIC, and EAC each amended their Letter of Credit Agreements to increase their respective credit amounts. The Letter of Credit Agreements are between the FHLB and each of EAC, in the amount of $60.0 million, ECIC, in the amount of $90.0 million, and EPIC, in the amount of $110.0 million. The amended Letter of Credit Agreements became effective March 1, 2019 and expire March 31, 2020. The Letter of Credit Agreements may only be used to satisfy, in whole or in part, insurance deposit requirements with the State of California and are fully secured with eligible collateral at all times (See Note 10).

We purchase reinsurance to protect us against the costs of severe claims and catastrophic events. On July 1, 2019, we entered into a new reinsurance program that is effective through June 30, 2020 with similar terms and conditions to the expiring program. The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in four layers of coverage. Our reinsurance coverage is $190.0 million in excess of our $10.0 million retention on a per occurrence basis, subject to certain exclusions. We believe that our reinsurance program meets our needs and that we are sufficiently capitalized.

Various state laws and regulations require us to hold investment securities or letters of credit on deposit with certain states in which we do business. These laws and regulations govern both the amount and types of investment securities that are eligible for deposit. Securities having a fair value of $846.5 million and $867.7 million were on deposit at September 30, 2019 and December 31, 2018, respectively. Additionally, standby letters of credit from the FHLB have been issued in lieu of $260.0 million of securities on deposit at September 30, 2019.

Certain reinsurance contracts require company funds to be held in trust for the benefit of the ceding reinsurer to secure the outstanding liabilities we assumed. The fair value of fixed maturity securities held in trust for the benefit of our ceding reinsurers was $3.2 million and $23.2 million at September 30, 2019 and December 31, 2018, respectively.

Sources of Liquidity

We monitor the cash flows of each of our subsidiaries individually, as well as collectively as a consolidated group. We use trend and variance analyses to project future cash needs, making adjustments to our forecasts as appropriate.

The table below shows our net cash flows for the nine months ended:

	September 30,	
	2019	2018
	(in millions)	
Cash, cash equivalents, and restricted cash provided by (used in):		
Operating activities	$ 112.6	$ 133.1
Investing activities	18.4	19.9
Financing activities	(92.4)	(22.3)
Increase in cash, cash equivalents, and restricted cash	$ 38.6	$ 130.7

For additional information regarding our cash flows, see Item 1, Consolidated Statements of Cash Flows.

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2019 included net premiums received of $569.6 million, investment income received of $73.1 million, and cash received of $19.1 million for the LPT Contingent Commission. These operating cash inflows were partially offset by net claims payments of $312.5 million, underwriting and other operating expenses paid of $135.6 million, commissions paid of $71.8 million, and federal taxes paid of $28.7 million.

Net cash provided by operating activities for the nine months ended September 30, 2018 included net premiums received of $561.2 million, and investment income received of $66.9 million. These operating cash inflows were partially offset by net claims payments of $309.6 million, underwriting and other operating expenses paid of $112.8 million, and commissions paid of $69.4 million.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2019 was primarily related to sales, maturities, and redemptions of investments whose proceeds were used to fund the acquisition of CIC, claims payments, underwriting and other operating expenses, stockholder dividend payments, debt repayment, and share repurchases, partially offset by the investment of premiums received and the reinvestment of funds from sales, maturities, redemptions, and interest income.

Net cash provided by investing activities for the nine months ended September 30, 2018 was primarily related to sales, maturities, and redemptions of investments whose proceeds were used to accumulate cash on hand, fund claims payments, underwriting and other operating expenses, and stockholder dividend payments, partially offset by the investment of premiums received and the reinvestment of funds from sales, maturities, redemptions, and interest income.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2019 was primarily related to share repurchases, the redemption of notes payable, and stockholder dividend payments.

Net cash used in financing activities for the nine months ended September 30, 2018 was primarily related to stockholder dividend payments.

Dividends

Stockholder dividends paid were $21.8 million and $19.9 million for the nine months ended September 30, 2019 and 2018, respectively. On October 23, 2019, the Board of Directors declared a $0.22 dividend per share, payable November 20, 2019, to stockholders of record on November 6, 2019.

Share Repurchases

On February 21, 2018, the Board of Directors authorized a share repurchase program for repurchases of up to $50.0 million of our common stock from February 26, 2018 through February 26, 2020 (the 2018 Program). On April 24, 2019, the Board of Directors authorized a $50.0 million expansion of the 2018 Program, to $100.0 million, and extended the repurchase authority pursuant to the 2018 Program through June 30, 2020. The 2018 Program provides that shares may be purchased at prevailing market prices through a variety of methods, including open market or private transactions, in accordance with applicable laws and regulations and as determined by management. The timing and actual number of shares that may be repurchased will depend on a variety of factors, including the share price, corporate and regulatory requirements, and other market and economic conditions. Repurchases under the 2018 Program may be commenced, modified, or suspended from time to time without prior notice, and the program may be suspended or discontinued at any time. Through September 30, 2019, we repurchased a total of 1,266,287 shares of common stock under the 2018 Program at an average price of $41.06 per share, including commissions, for a total cost of $52.0 million.

Capital Resources

As of September 30, 2019, the capital resources available to us consisted of $1,160.4 million of stockholders' equity and the $139.4 million Deferred Gain.

Contractual Obligations and Commitments

The following table identifies our long-term debt and contractual obligations as of September 30, 2019.

	Payment Due By Period				
	Total	**Less Than 1-Year**	**1-3 Years**	**4-5 Years**	**More Than 5 Years**
			(in millions)		
Operating leases	$ 18.9	$ 4.9	$ 7.3	$ 3.6	$ 3.1
Non-cancellable contracts	20.4	6.2	8.6	5.4	0.2
Capital leases	0.6	0.3	0.3	—	—
Unpaid losses and LAE reserves [1][2]	2,197.3	370.4	451.5	276.4	1,099.0
Unfunded investment commitments	45.1	45.1	—	—	—
Total contractual obligations	$ 2,282.3	$ 426.9	$ 467.7	$ 285.4	$ 1,102.3

(1) Estimated losses and LAE reserve payment patterns have been computed based on historical information. Our calculation of loss and LAE reserve payments by period is subject to the same uncertainties associated with determining the level of reserves and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. Actual payments of losses and LAE by period will vary, perhaps materially, from the above table to the extent that current estimates of losses and LAE reserves vary from actual ultimate claims amounts due to variations between expected and actual payout patterns.

(2) The unpaid losses and LAE reserves are presented gross of reinsurance recoverables for unpaid losses, which were as follows for each of the periods presented above:

	Recoveries Due By Period				
	Total	**Less Than 1-Year**	**1-3 Years**	**4-5 Years**	**More Than 5 Years**
			(in millions)		
Reinsurance recoverables on unpaid losses and LAE	$ (527.1)	$ (34.5)	$ (60.1)	$ (54.0)	$ (378.5)

Investments

Our investment portfolio is structured to support our need for: (i) optimizing our risk-adjusted total return; (ii) providing adequate liquidity; (iii) facilitating financial strength and stability; and (iv) ensuring regulatory and legal compliance.

As of September 30, 2019, the total cost and amortized cost of our investments recorded at fair value was $2,593.6 million and its fair value was $2,765.5 million. These investments provide a steady source of income, which may fluctuate with changes in interest rates and our current investment strategies.

We also have a $6.7 million investment in FHLB stock which we record at cost. We receive periodic dividends from the FHLB for this investment, when declared, which can vary from period to period.

As of September 30, 2019, our investment portfolio consisted of 89% fixed maturity securities. We strive to limit interest rate risk associated with fixed maturity investments by managing the duration of these securities. Our fixed maturity securities (excluding cash and cash equivalents) had a duration of 3.6 at September 30, 2019. To minimize interest rate risk, our portfolio is weighted toward short-term and intermediate-term bonds; however, our investment strategy balances consideration of duration, yield, and credit risk. Our investment guidelines require that the minimum weighted average quality of our fixed maturity securities portfolio be "A+," using ratings assigned by Standard & Poor's (S&P) or an equivalent rating assigned by another nationally recognized statistical rating agency. Our fixed maturity securities portfolio had a weighted average quality of "A+" as of September 30, 2019, with 52.6% of the portfolio rated "AA" or better, based on market value. Other securities within fixed maturity securities consist of bank loans, which are classified as AFS and are reported at fair value.

We also have a portfolio of publicly traded equity securities. We strive to limit the exposure to equity price risk associated with equity securities by diversifying our holdings across several industry sectors. Equity securities represented 10% of our investment portfolio at September 30, 2019.

Our Other invested assets made up 1% of our investment portfolio as of September 30, 2019 and include private equity limited partnerships and convertible preferred shares of real estate investment trusts. Our investments in private equity limited partnerships totaled $4.7 million at September 30, 2019 and are generally not redeemable by the investees and cannot be sold without approval of the general partner. These investments have a fund term of 12 years, subject to three one-year extensions at the general partner's discretion. We expect to receive distributions of proceeds from dividends and interest from fund investments, as well as from the disposition of a fund investment or portion thereof, from time-to-time during the full course of the fund term. As of September 30, 2019, we had unfunded commitments to these private equity limited partnerships totaling $45.1 million. Our investments in convertible preferred shares of real estate investment trusts totaled $20.0 million at September 30, 2019 and are non-redeemable until conversion and are periodically evaluated for impairment based on the ultimate recovery of the investment.

We believe that our current asset allocation meets our strategy to preserve capital for claims and policy liabilities and to provide sufficient capital resources to support and grow our ongoing insurance operations.

The following table shows the estimated fair value, the percentage of the fair value to total invested assets at fair value, the average book yield, and the average tax equivalent yield (each based on the book value of each category of invested assets) as of September 30, 2019.

Category	Estimated Fair Value	Percentage of Total	Book Yield	Tax Equivalent Yield (1)
	(in millions, except percentages)			
U.S. Treasuries	$ 84.2	3.0%	2.5%	2.5%
U.S. Agencies	2.9	0.1	3.5	3.5
States and municipalities	492.7	17.8	3.2	3.8
Corporate securities	1,077.8	39.0	3.3	3.3
Residential mortgage-backed securities	480.4	17.4	2.9	2.9
Commercial mortgage-backed securities	105.3	3.8	3.2	3.2
Asset-backed securities	58.0	2.1	3.5	3.5
Other securities	179.5	6.5	4.9	4.9
Equity securities	284.7	10.3	4.2	5.2
Total investments at fair value	$ 2,765.5	100.0%		
Weighted average yield			3.4%	3.6%

(1) Computed using a statutory income tax rate of 21%

The following table shows the percentage of total estimated fair value of our fixed maturity securities as of September 30, 2019 by credit rating category, using the lower of ratings assigned by Moody's Investors Service or S&P.

Rating	Percentage of Total Estimated Fair Value
"AAA"	8.0%
"AA"	44.6
"A"	30.5
"BBB"	10.7
Below investment grade	6.2
Total	100.0%

Investments that we currently own could be subject to default by the issuer or could suffer declines in fair value that become other-than-temporary. We regularly assess individual securities as part of our ongoing portfolio management, including the identification of other-than-temporary declines in fair value. Our other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair value of investments below amortized cost, historical and projected financial performance and near-term prospects of the issuer, the outlook for industry sectors, credit rating, and macro-economic changes. We also make a determination as to whether it is not more likely than not that we will be required to sell the security before its fair value recovers to above cost, or maturity.

We believe that we have appropriately identified the declines in the fair values of our unrealized losses for the nine months ended September 30, 2019. We recognized no impairments on fixed maturity securities during the nine months ended September 30, 2019. We determined that the unrealized losses on fixed maturity securities were primarily the result of prevailing interest rates and not the credit quality of the issuers. The fixed maturity securities whose fair value was less than amortized cost were not determined to be other-than-temporarily impaired given the severity and duration of the impairment, the credit quality of the issuers, our intent to not sell the securities, and a determination that it is not more likely than not that we will be required to sell the securities at an amount less than its amortized cost.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

The unaudited interim consolidated financial statements included in this quarterly report include amounts based on the use of estimates and judgments of management for those transactions that are not yet complete. We believe that the estimates and judgments that were most critical to the preparation of the consolidated financial statements involved the following: (a) reserves for losses and LAE; (b) reinsurance recoverables; (c) recognition of premium income; (d) deferred income taxes; and (e) valuation of investments. These estimates and judgments require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. Our accounting policies are discussed under "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk, and equity price risk, and are described in detail in our Annual Report on Form 10-K. We have not experienced any material changes in market risk since December 31, 2018.

The primary market risk exposure to our investment portfolio, which consists primarily of fixed maturity securities, is interest rate risk. We have the ability to hold fixed maturity securities to maturity and we strive to limit interest rate risk by managing duration. As of September 30, 2019, our fixed maturity securities portfolio had a duration of 3.6. We continually monitor the impact of interest rate changes on our investment portfolio and liquidity obligations. Changes to our market risk, if any, since December 31, 2018 are reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements contained in this Form 10-Q.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we 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 (Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time-to-time, the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on our results of operations, liquidity, or financial position.

Item 1A. Risk Factors

We have disclosed in our Annual Report the most significant risk factors that can impact year-to-year comparisons and that may affect the future performance of the Company's business. On a quarterly basis, we review these disclosures and update the risk factors, as appropriate. As of the date of this report, there have been no material changes to the risk factors contained in our Annual Report.

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

The following table provides information with respect to the Company's repurchases of its common stock during the third quarter of 2019:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
				(in millions)
July 1 – July 31, 2019	—	$ —	—	$ 52.7
August 1 – August 31, 2019	110,632	42.22	110,632	48.0
September 1 – September 30, 2019	—	—	—	48.0
	110,632	$ 42.22	110,632	

On February 21, 2018, the Board of Directors announced a share repurchase program for repurchases of up to $50.0 million of our common stock from February 26, 2018 through February 26, 2020 (the 2018 Program). On April 24, 2019, the Board of Directors authorized a $50.0 million expansion of the 2018 Program, to $100.0 million, and extended the repurchase authority pursuant to the 2018 Program through June 30, 2020. The 2018 Program provides that shares may be purchased at prevailing market prices through a variety of methods, including open market or private transactions, in accordance with applicable laws and regulations and as determined by management. The timing and actual number of shares that may be repurchased will depend on a variety of factors, including the share price, corporate and regulatory requirements, and other market and economic conditions. Repurchases under the 2018 Program may be commenced, modified, or suspended from time to time without prior notice, and the program may be suspended or discontinued at any time.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein			
			Form	File No.	Exhibit	Filing Date
*10.1	Employment Agreement by and between Employers Holdings, Inc. and Katherine H. Antonello, dated June 27, 2019 and effective August 5, 2019	X				
31.1	Certification of Douglas D. Dirks Pursuant to Section 302	X				
31.2	Certification of Michael S. Paquette Pursuant to Section 302	X				
32.1	Certification of Douglas D. Dirks Pursuant to Section 906	X				
32.2	Certification of Michael S. Paquette Pursuant to Section 906	X				
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document.	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X				

*Represents management contracts and compensatory plans or arrangements.

SIGNATURES

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.

EMPLOYERS HOLDINGS, INC.

Date: October 24, 2019	/s/ Michael S. Paquette
	Michael S. Paquette
	Executive Vice President and Chief Financial Officer
	Employers Holdings, Inc.
	(Principal Financial and Accounting Officer)

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") by and between Employers Holdings, Inc., a Nevada corporation (the "Company") and Katherine H. Antonello (the "Employee") is entered into as of the 27th day of June, 2019, effective as of August 5, 2019 (the "Effective Date"). Effective as of the Effective Date, this Agreement shall replace and supersede, in its entirety, any prior employment agreement or agreements between the Employee and the Company (the "Prior Agreements") and the Prior Agreements shall be of no force or effect.

RECITALS

A. The Employee has knowledge and experience applicable to the position of Executive Vice President, Chief Actuary.

B. The Company desires to employ the Employee to perform certain services for the Company, its parent, if any, and their respective subsidiaries and affiliates (the "Company Affiliates"), as may be required or requested of the Employee in her position or positions with the Company and the Company Affiliates, and the Employee desires to be so employed by the Company and to perform such services for the Company and the Company Affiliates.

In consideration of the premises above and mutual covenants and promises set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the parties agree as follows:

TERMS

1. **Employment**.

The Company agrees to employ the Employee and the Employee accepts such employment upon the terms and conditions specified herein. The Employee agrees to devote substantially all of her time and effort during working hours in the performance of the duties called for herein and agrees that any other non-employment related duties (i.e., industry related groups, service on boards, etc.) will not be allowed to materially interfere with the performance of the duties called for herein.

2. **Term**.

The term of this Agreement shall commence on the Effective Date, and shall continue until December 31, 2021 (the "Initial Term") and, thereafter, shall automatically terminate unless the Company gives written notice to the Employee no later than six (6) months prior to the expiration of the Initial Term or any Additional Term (as defined below), as applicable, of an intent to renew this Agreement for successive two (2) year periods (each two (2) year period, an "Additional Term;" the Initial Term and any Additional Terms, collectively the "Term"); subject, however to earlier termination of the Employee's employment with the Company in accordance with this Agreement (the date of termination of this Agreement or, if earlier, termination of the Employee's employment, the "Termination Date"). The expiration of this Agreement at the end of the Term, in and of itself, shall not constitute, nor be construed or interpreted as, a termination of the Employee's employment that would make her eligible for benefits or payments under this Agreement. This Agreement shall expire upon the termination of the Employee's employment for any reason, subject to the provisions of subsection 10(h) below.

3. **Services and Duties**.

The Employee shall serve as Executive Vice President, Chief Actuary and/or such other position or positions as may be mutually agreed upon by the parties from time to time, and shall perform such duties as may be assigned by the Chief Executive Officer from time to time. At the request of the Board of Directors of the Company (the "Board"), the Employee shall also serve as a director of the Company and/or one or more of the Company Affiliates at no additional compensation. The Employee agrees that upon the termination of her employment with the Company, she shall resign from the Board and any and all boards of the Company Affiliates effective on the Termination Date.

4. **Compensation and Benefits**.

(a) During the Term, the Company shall pay to the Employee an annual salary of not less than $400,000 ("Base Salary"), which amount shall be paid according to the Company's regular payroll practices. The Company agrees to review the Base Salary on an annual basis and adjust the salary to comply with the executive compensation policy in effect at the time of the review. Any adjustment made to the annual salary will establish the new Base Salary for the Employee. All payments made pursuant to this Agreement, including but not limited to this subsection 4(a), shall be reduced by and subject to withholding for all federal, state, and local taxes and any other withholding required by applicable laws and regulations.

(b) The Company will provide an annual incentive (the "Annual Incentive") to the Employee during the Term based on the Employee's and the Company's performance, as determined by the Board (or a committee thereof) in its sole discretion. In this regard, the Board (or a committee thereof) shall set an annual incentive target of not less than fifty-five percent (55%) of Base Salary, and the Annual Incentive shall be paid in accordance with the Company's regular practice for its senior officers, as in effect from time to time. To the extent not duplicative of the specific benefits provided herein, the Employee shall be eligible to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to other senior officers of the Company at a level (in terms of the amount and types of benefits and incentive compensation that the Employee has the opportunity to receive and the terms thereof) determined in the sole discretion of the Board (or a committee thereof). In addition, (i) the Company will provide the Employee with an initial cash sign-on bonus in the aggregate amount of $100,000, payable over a period of continued employment, with the first payment of $20,000 paid at the first pay cycle following the Effective Date, and eight subsequent payments of $10,000 paid at the first pay cycle of each of the next eight months following the Effective Date; provided however, that such payments will be made only to the extent that the Employee has remained continuously employed until such payment date; (ii) the Employee will be eligible to participate in the Company's 2019 Annual Cash Bonus Program with the Employee's potential annual bonus target calculated at 55% of the Employee's actual base salary earned in 2019, and otherwise pursuant to the terms of the 2019 Annual Cash Bonus Program letter for Company Executive Vice Presidents, but taking into account participation mid-cycle; and (iii) effective as of the Effective Date (the "Date of Grant"), the Employee will be granted an award of performance shares (the "Performance Shares") pursuant to the terms of this subsection 4(b)(iii), and otherwise in the form of, and subject to such terms and conditions contained in, the form of Performance Share Agreement that has been approved by the Compensation Committee of the Board for this purpose. This grant is intended to conform to the terms of the grants made in March, 2019, but takes into account participation mid-cycle. The number of Performance Shares subject to such award shall be calculated by dividing $400,000 by the Fair Market Value (as defined in the Company's Amended and Restated Equity and Incentive Plan) of one share of common stock of the Company par value $.01 per share as of the Date of Grant, rounded down to the nearest whole number.

(c) The Employee agrees that the amounts payable and benefits provided under this Agreement, including but not limited to any amounts payable or benefits provided under this Section 4 and Section 7, constitute good, valuable and separate consideration for the non-competition, assignment and release of liability provisions contained herein. The Employee acknowledges that she is aware of the effect of the non-competition, assignment and release of liability provisions contained herein and agrees that the amounts payable and benefits provided under this Agreement, including but not limited to the amounts payable and benefits provided under this Section 4 and Section 7, if any, constitute sufficient consideration for her agreement to these provisions.

(d) In addition to the compensation called for in this Agreement, the Employee shall be entitled to receive any and all employee benefits and perquisites as the Company from time to time in its discretion determines to offer. In addition, the Employee shall be entitled to the applicable relocation and moving benefits described in Appendix A attached hereto.

5. **Insurance**.

The Employee agrees to submit to physical examinations at reasonable times as requested by the Company for the purpose of the Company's obtaining life insurance on the life of the Employee for the benefit of the Company; provided, however, that the Company shall bear the costs for such examinations and shall pay all premiums on any life insurance obtained as a result of such examinations. The Employee further agrees to submit to drug testing in accordance with the Company's policies and procedures.

6. **Termination**.

(a) The Company, at any time, may terminate this Agreement and the Employee's employment immediately for "Cause." Cause is defined as:

(i) A material breach of this Agreement by the Employee;

(ii) Failure or inability of the Employee to obtain or maintain any required licenses or certificates;

(iii) Willful violation by the Employee of any law, rule or regulation, including but not limited to any material insurance law or regulation, which violation may, as determined by the Company, adversely affect the ability of the Employee to perform her duties hereunder or may subject the Company to liability or negative publicity; or

(iv) Conviction or commission of or the entry of a guilty plea or plea of no contest to any felony or to any other crime involving moral turpitude.

(b) The Employee may terminate this Agreement and her employment with the Company immediately for "Good Reason," which shall mean the occurrence of any of the following events with respect to which the Employee has notified the Company of the existence thereof within no more than ninety (90) days of the initial existence thereof and which is not cured by the Company within thirty (30) days of the Company's receipt of written notice from the Employee of the events alleged to constitute such Good Reason:

(i) A material diminution in the Employee's base compensation;

(ii) A material diminution in the Employee's authority, duties or responsibilities; or

(iii) Any other action or inaction that constitutes a material breach by the Company of this Agreement.

(c) The Company may also terminate this Agreement and the Employee's employment upon the occurrence of one or more of the following events or reasons, subject to applicable law (or, in the case of subsection 6(c)(i) below, termination of this Agreement and the Employee's employment will be automatic):

(i) Death of the Employee;

(ii) The Employee is deemed to be disabled in accordance with the policies of the Company or the law or if the Employee is unable to perform the essential job functions of the Employee's position with the Company, with or without reasonable accommodation, for a period of more than 100 business days in any 120 consecutive business day period. The Employee is entitled to any and all short term or long term disability programs, like any other employee, in accordance with the terms of such programs and the policies of the Company; or

(iii) At any time for any other reason or no reason in the sole and absolute discretion of the Company.

7. **Payments Upon Termination**.

(a) *Qualifying Termination and Severance Pay*. If the Company terminates the Employee's employment prior to the expiration of the Term but other than during the CIC Period (as defined below) for any reason other than as specified above in subsection 6(a) for Cause, subsection 6(c)(i) by reason of the death of the Employee, or subsection 6(c)(ii) for disability, or if the Employee terminates her employment for Good Reason pursuant to subsection 6(b), the Employee shall receive the following severance pay (the "Severance Pay"):

(i) In lieu of any further salary payments to the Employee for periods subsequent to the Termination Date and in lieu of any severance benefit otherwise payable to the Employee, an amount equal to two (2) times Base Salary, payable in equal bi-weekly installments on the Company's regular payroll dates as in effect on the Termination Date, for twenty four (24) months following such Termination Date, with payments commencing on the payroll date applicable to the first full payroll period occurring following the Applicable Release Period (as defined below), which first payment date shall be no later than sixty (60) days following the Termination Date; provided, however, that (A) such payments shall be delayed to the extent required under subsection 7(c)(iv) or Section 26 below and (B) the amount of the first payment shall be equal to the total amount of bi-weekly installments that would have been paid had the first payment been made on the first full payroll date occurring following the Termination Date, with each subsequent payment equal to the bi-weekly installment. The payments shall be subject to normal payroll deductions.

(ii) Continuation of the medical, dental and vision insurance coverage in effect on the Termination Date for a period of eighteen (18) months following the Termination Date with the Company paying the employer portion of the premium and the Employee paying the employee portion, including dependents if applicable, of the premium during such eighteen (18) month period, provided that the Employee elects to continue such insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended ("COBRA"). The Employee is solely responsible for taking the actions necessary to exercise her rights under COBRA for the insurance coverage the Employee has in effect, including coverage for dependents if applicable, on the Termination Date.

(b) *Severance Pay as Liquidated Damages*. The parties agree, in the event of a material breach of this Agreement by the Company with respect to which the Employee has given notice and that is not cured, in either case, in accordance with subsection 6(b), following which the Employee terminates her employment for Good Reason, that actual damages are speculative and that the amount of the Severance Pay or, if applicable, the CIC Severance Pay (as defined below) set forth herein is liquidated damages and is a reasonable estimate of what damages would be for a material breach of this Agreement.

(c) *Conditions to Severance Pay or CIC Severance Pay; the Applicable Release Period*. The Employee agrees and acknowledges that the following must be satisfied by the Employee before she is entitled to the Severance Pay or, if applicable, the CIC Severance Pay, as provided in subsections (i), (ii) and (iii) herein:

(i) That the Employee returns any and all equipment, software, data, property and information of the Company or the Company Affiliates, including documents and records or copies thereof relating in any way to any proprietary information of the Company or any of the Company Affiliates whether prepared by the Employee or any other person or entity. That the Employee further agrees that she shall not retain any proprietary information of the Company or any of the Company Affiliates after the Termination Date;

(ii) That the Employee executes a separation agreement and release of claims, in a form to be determined by the Company in its sole discretion, which releases the Company and the Company Affiliates from liability for any and all claims, complaints and causes of action, whether based in law or equity, arising from, related to or associated with the Employee's employment by the Company or under this Agreement and that such release has become effective and non-revocable no later than sixty (60) days following the Termination Date (such deadline, the "Release Deadline"). If the release of claims does not become effective by the Release Deadline, the Employee will forfeit any rights to severance or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the release of claims becomes effective and irrevocable. That the Employee further acknowledges and agrees that she has not made and will not make any assignment of any claim, cause or right of action, or any right of any kind whatsoever, arising from, related to or associated with the employment of the Employee by the Company; and

(iii) That the Employee reaffirms the covenants contained herein, in writing, including, but not limited to, the covenants set forth in Section 10.

(iv) Notwithstanding anything in this Agreement to the contrary, in any case where the first and last days of the applicable release and nonrevocability periods provided for in the separation agreement and release of claims (the "Applicable Release Period") are in two separate taxable years, any payments required to be made to the Employee under this Agreement that are treated as deferred compensation for purposes of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and guidance promulgated thereunder ("Section 409A") shall be made in the later taxable year, as soon as practicable, but in no event later than thirty (30) days following the conclusion of the Applicable Release Period. In addition to the foregoing, the Applicable Release Period shall conclude no later than sixty (60) days following the Termination Date.

(d) *Voluntary Termination by the Employee*. The Employee may terminate her employment and this Agreement for reasons other than those identified in subsection 6(b) upon not less than sixty (60) days prior written notice. If the Employee terminates her employment and this Agreement pursuant to this subsection 7(d), she shall be entitled only to the following:

(i) Any unpaid salary through the Termination Date; and

(ii) Payment for any accrued and unused vacation as of the Termination Date.

(e) *Qualifying Change in Control Termination*. If, before the expiration of the Term, the Company terminates the Employee's employment within the period commencing six (6) months prior to and ending eighteen (18) months following a Change in Control (as defined below), such period referred to herein as the "CIC Period," for any reason other than as specified above in subsection 6(a) for Cause, subsection 6(c)(i) for the death of the Employee, or subsection 6(c)(ii) for disability, or if the Employee terminates her employment and this Agreement for Good Reason pursuant to subsection 6(b), the Employee shall receive the severance pay set forth in subsections (i) and (ii) below (the "CIC Severance Pay"), provided that if the Employee's employment is terminated during the six (6) month period prior to a Change in Control, the Employee shall be entitled to CIC Severance Pay only if such termination (x) was by the Company other than for Cause but at the request or direction of any person that has entered into an agreement with the Company the consummation of which would constitute a Change in Control, (y) was by the Employee for Good Reason and the circumstance or event that constitutes Good Reason occurred at the request or direction of such person or (z) was by the Company without Cause and the Employee reasonably demonstrates that such termination was otherwise in connection with or in anticipation of a Change in Control; and if the Employee is not entitled to CIC Severance Pay hereunder, then the Employee's termination of employment will not be deemed to have occurred during the CIC Period for purposes of subsection 7(a):

(i) In lieu of any further salary payments to the Employee for periods subsequent to the Termination Date and in lieu of any severance benefit otherwise payable to the Employee, a lump sum cash payment equal to two (2) times the sum of (A) Base Salary and (B) (i) if the Change in Control occurs in 2019 or 2020, $220,000, and (ii) if the Change in Control occurs in 2021, the average of $220,000 and the annual bonus amount earned by the Employee for 2020. Such payment shall be made as soon as practicable (but in no event later than sixty (60) days) following the Termination Date; provided, however, that such payment shall be delayed to the extent required under subsection 7(c)(iv) or Section 26 below; and

(ii) Continuation of the medical, dental and vision insurance coverage in effect on the Employee's Termination Date for a period of eighteen (18) months following the Termination Date with the Company paying the employer portion of the premium and the Employee paying the employee portion, including dependents if applicable, of the premium during such eighteen (18)-month period, provided that the Employee elects to continue such insurance coverage under COBRA. The Employee is solely responsible for taking the actions necessary to exercise her rights under COBRA for the insurance coverage the Employee has in effect, including coverage for dependents if applicable, on the Termination Date.

(f) *Definition of Change in Control*. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) Any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company; or

(ii) Any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 35% or more of the total voting power of the stock of the Company; or

(iii) A majority of members of the Board is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or

(iv) Any one person or group acquires (or has acquired during the immediately preceding twelve (12)-month period ending on the date of the most recent acquisition) assets of the Company with an aggregate gross fair market value of not less than forty percent (40%) of the aggregate gross fair market value of the assets of the Company immediately prior to such acquisition. For this purpose, gross fair market value shall mean the fair value of the affected assets determined without regard to any liabilities associated with such assets.

Notwithstanding the foregoing, (1) a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity that owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions, and (2) a "Change in Control" shall not be deemed to have occurred as result of any secondary offering of Company common stock to the general public through a registration statement filed with the Securities and Exchange Commission. The Board shall determine whether a Change in Control has occurred hereunder in a manner consistent with the provisions of Section 409A.

(g) *No Duplication of Payments or Benefits*. Notwithstanding any provision of this Agreement to the contrary, the Employee shall not be eligible to receive any payments or benefits under both subsections 7(a) and 7(e); but rather, to the extent the conditions set forth in subsection 7(a) and subsection 7(e) are satisfied, the Employee shall be eligible to receive payments and benefits under only subsection 7(e).

(h) *Golden Parachute (Section 280G) Safe Harbor*.

(i) If it is determined that any payment or benefit received or to be received by the Employee, whether pursuant to this Agreement or otherwise (the "Severance Payments"), is a "parachute payment" within the meaning of section 280G of the Code (all such payments and benefits, including the Severance Payments as applicable hereinafter called the "Total Payments") that will be subject (in whole or part) to the tax imposed under section 4999 of the Code (the "Excise Tax"), then if (A) the Total Payments exceed the largest amount that would result in no portion of the Total Payments being subject to the Excise Tax (the "Safe Harbor"), and (B) the reduction of the Total Payments to an amount equal to the Safe Harbor would provide the Employee with a greater after-tax amount than would be provided to the Employee if the Total Payments were not reduced, then the amounts payable to the Employee under this Agreement shall be reduced (but not below zero) to the Safe Harbor. If the Severance Payments are reduced pursuant to this subsection, then the non-cash portion of the Total Payments shall first be reduced, and the cash portion of the Total Payments shall thereafter be reduced (in each case in reverse order beginning with payments or benefits that are to be paid or provided the farthest in time from the Change in Control), so that the amount of the Total Payments is equal to the Safe Harbor. Any reduction pursuant to the preceding sentence shall take precedence over the provisions of any other plan, program, agreement or arrangement governing the Employee's rights and entitlements to any benefits or compensation.

(ii) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (A) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel ("Tax Counsel") selected by the Board in existence immediately prior to the Change in Control, does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code, including by reason of section 280G(b)(4)(A) of the Code, (B) the Severance Payments shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in clause (A)) in their entirety constitute reasonable compensation for services actually rendered within the meaning of section 280G(b)(4)(B) of the Code or are otherwise not subject to disallowance as deductions by reason of section 280G of the Code, in the opinion of Tax Counsel, and (C) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Company's independent auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. If the Employee disputes the Company's calculations (in whole or in part), the reasonable opinion of Tax Counsel with respect to the matter in dispute shall prevail.

(iii) In the event that a change is finally determined to be required in the amount of taxes paid by, or withheld on behalf of, the Employee, then appropriate adjustments will be made under this Agreement such that the net amount that is payable to the Employee reflects the intent of the parties pursuant to this Agreement. If the Company owes the Employee an additional payment under this subsection, such payment shall be made to the Employee promptly, but in no event more than sixty (60) days following the date the underpayment is finally determined, but no later than the calendar year following the calendar year in which the underpayment is finally determined. If the Employee owes an amount to the Company pursuant to this Section, then the Employee shall repay such amount to the Company promptly, but in no event more than sixty (60) days following the date that the overpayment by the Company is finally determined, but no later than the calendar year following the calendar year in which the overpayment is finally determined. Any repayment pursuant to this subsection (either by the Company or the Employee) shall include applicable interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code.

(iv) The Employee and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments. The Company also shall pay to the Employee all legal fees and expenses incurred by the Employee in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within sixty (60) business days after delivery of the Employee's written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require (but in no event shall any such payment be made after the end of the calendar year following the calendar year in which the expenses were incurred), provided that no such payment shall be made in respect of fees or expenses incurred by the Employee after the later of the tenth (10th) anniversary of the effective date of the Employee's termination with the Company or the Employee's death and, provided further, that, upon the Employee’s “separation from service” (as such term is defined under Section 409A) with the Company, in no event shall any additional such payments be made prior to the date that is six (6) months after the date of the Employee’s “separation from service” to the extent such payment delay is required under section 409A(a)(2)(B) of the Code.

8. **Licensing**.

The Employee has obtained and possesses, or will obtain and possess, and will maintain throughout the Term hereof, all licenses, approvals, permits, and authorization (the “Licenses”) necessary to perform the Employee’s duties hereunder. Any costs, attorneys’ fees, investigation fees or other expenses incurred in connection with obtaining or maintaining such Licenses shall be borne by the Company, provided that payment of such fees or costs by the Company shall be made no later than the end of the year following the year in which the expenses were incurred. The Employee warrants that the Employee is fully eligible, under all standards and requirements, to obtain, possess, and maintain such Licenses and that the Employee will commit no acts during the Term hereof that would jeopardize or eliminate the Employee’s ability to possess or maintain such Licenses.

9. **Rules and Regulations**.

The Employee shall observe, enforce, and comply with the policies, philosophies, strategies, rules, and regulations of the Company, as they may be promulgated and/or modified from time to time, and shall carry out and perform the orders, directions, and policies of the Company, as they may be stated and/or amended from time to time, either orally or in writing. A violation of this Section 9 by the Employee is a material breach of this Agreement.

10. **Restrictive Covenants**.

In consideration of the amounts payable and benefits provided under Section 4, and, if applicable, Section 7, the other compensation paid hereunder, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties, the parties agree to the following provisions of this Section 10:

(a) *Non-Competition*. The Employee understands and agrees that the Company and the Company Affiliates do business throughout the State of Nevada and other states. The Employee further understands and agrees that she is a high ranking officer of the Company and will have access to confidential and trade secret information and goodwill of the Company and the Company Affiliates that will allow the Employee to unfairly compete with the Company and the Company Affiliates justifying this restriction. If the Employee's employment is terminated (by either the Employee or the Company), during the Term, for any reason other than as specified above in subsection 6(c)(i) by reason of the death of the Employee, then for a period of eighteen (18) months commencing on the Termination Date, the Employee agrees that, without the written permission of the Company, she will not hold the same or a similar position (whether as owner, partner, controlling stockholder, controlling investor, employee, adviser, consultant, or otherwise) in any business that is in direct competition with the business being conducted by the Company or any of the Company Affiliates as of the Termination Date, in Nevada or in any other state in which the Company is conducting such business (the “Non-Compete Area”) as of the Termination Date.

(b) *Non-Solicitation*. Without limiting the generality of the foregoing, the Employee agrees that for a period of eighteen (18) months following the Employee's Termination Date (for any reason, by either the Employee or the Employer), she will not, without the prior written consent of the Company, directly or indirectly solicit or attempt to solicit, within the Non-Compete Area, (i) any business from any person or entity that the Company or any of the Company Affiliates called upon, solicited, or conducted business with as of such Termination Date, provided that the Employee was aware of the Company’s business with such person or entity, (ii) any persons or entities that have been customers of the Company or any of the Company Affiliates or (iii) recruit or solicit any person who has been or is an employee of the Company or any of the Company Affiliates, during the preceding one (1)-year period from the Termination Date. Nothing in this Section 10(b) prohibits the Employee from the placement of general advertisements and/or participation at job fairs or recruiting workshops that are not specifically targeted toward any employee or customer of the Company.

(c) In the event the Employee violates subsection 10(a) or 10(b), the applicable period of time during which the respective restriction applies will automatically be extended for the period of time from which the Employee began such violation until she permanently ceases such violation. If any provision of these covenants is invalid in whole or in part, it will be limited, whether as to time, area covered, or otherwise as and to the extent required for its validity under the applicable law and as so limited, will be enforceable.

(d) *Confidential Information*. The Employee acknowledges that she has had or will have access to the confidential information of the Company and the Company Affiliates (including, but not limited to, records regarding sales, price and cost information, marketing plans, customer names, customer lists, sales techniques, distribution plans or procedures, and other material relating to the business conducted by the Company and the Company Affiliates), proprietary, or trade secret information (the “Confidential Information”), and agrees, subject to her right to engage in Protected Activity as defined herein, never to use the Confidential Information other than for the sole benefit of the Company and the Company Affiliates and further agrees to never disclose such Confidential Information (except as may be required by regulatory authorities or as may be required by law) to any entity or person that is not an officer of the Company or a Company Affiliate at the time of such disclosure, without the prior written consent of the Company. The Employee further acknowledges that this covenant to maintain Confidential Information is necessary to protect the goodwill and proprietary interests of the Company and the Company Affiliates and the restriction against the disclosure of Confidential Information is reasonable in light of the consideration and other value the Employee has received or will receive pursuant to this Agreement and otherwise pursuant to her employment by the Company.

(e) From and following the Employee's termination of employment, the Employee agrees to cooperate with the Company and the Company Affiliates in any litigation, administrative proceeding, investigation or audit involving any matters with which the Employee has knowledge of from her employment with the Company. The Company shall reimburse the Employee for reasonable expenses, including reasonable compensation for services rendered at his hourly rate of compensation as of the Termination Date, incurred in providing such assistance and approved by the Company. The Company shall reimburse the Employee for such expenses incurred in accordance with the policies and procedures of the Company, but in no event no later than the end of the year following the year in which the expenses were incurred.

(f) In the event of a violation of this Section 10, the Company and the Company Affiliates shall be entitled to any form of relief at law or equity, and the parties agree and acknowledge that injunctive relief is an appropriate, but not exclusive, remedy to enforce the provisions hereof. The existence of any claim or cause of action of the Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense of the Company’s enforcement of the covenants set forth in this Section 10. The Employee hereby submits to the jurisdiction of the courts of the State of Nevada and federal courts therein for the purposes of any actions or proceedings instituted by the Company to enforce its rights under this Agreement, to seek money damages or seek injunctive relief. The Employee further acknowledges and agrees (i) that the obligations contained in Section 10 of this Agreement are necessary to protect the interests of the Company and the Company Affiliates, (ii) that the restrictions contained herein are fair, do not unreasonably restrict the Employee's further employment and business opportunities, and are commensurate with the compensation arrangements set out in this Agreement and (iii) that such compensation arrangements constitute separate consideration for the obligations set forth in this Section 10. The covenants contained in Section 10 shall each be construed as an agreement independent of any other provisions of this Agreement. Both parties intend to make the covenants of Section 10 binding only to the extent that it may be lawfully done under existing applicable laws. If a court of competent jurisdiction decides any part of any covenant is overly broad, thereby making the covenant unenforceable, the parties agree that such court shall substitute a reasonable, judicially enforceable limitation in place of the offensive part of the covenant and as so modified the covenant shall be as fully enforceable as set forth herein by the parties themselves in the modified form.

(g) The Employee acknowledges that it is possible that the corporate structure of the Company could change during the Term. The Employee hereby acknowledges and affirms that the Company may assign its rights under this Agreement, including but not limited to its rights to enforce the covenants set forth in this Section 10, to a third-party without the approval of or additional consideration to the Employee. The Employee acknowledges and agrees that the consideration called for herein is good and sufficient consideration for the Company's right to assign its rights under this Agreement.

(h) Subsections 10(a) through (g), inclusive, of this Agreement shall survive either termination of the employment relationship and/or termination of this Agreement for the full period set forth in subsections 10(a) through (g), inclusive.

11. **Work for Hire**.

The Employee agrees that any work, invention, idea or report that she produces or that results from or is suggested by the work the Employee does on behalf of the Company or any of the Company Affiliates is “work for hire” (hereinafter referred to as “Work”) and will be the sole property of the Company. The Employee agrees to sign any documents, during or after employment that the Company deems necessary to confirm its ownership of the Work, and the Employee agrees to cooperate with the Company to allow the Company to take advantage of its ownership of such Work.

12. **Assignment of Agreement**.

The Employee agrees that her services are unique and personal and that, accordingly, the Employee may not assign her rights or delegate her duties or obligations under this Agreement. The Company may assign its rights, duties, and obligations under this Agreement to any successor to its business. This Agreement shall inure to the benefit of and be binding upon the Company’s successors and assigns.

13. **Indemnification of the Employee**.

The Company shall indemnify the Employee and hold her harmless for acts or decisions made by her in good faith while performing services for the Company or any of the Company Affiliates to the maximum extent allowed by law. The Company shall also use its reasonable efforts to obtain coverage for her under any insurance policy now in force or hereinafter obtained during Term covering the officers and directors of the Company against lawsuits, subject to the business judgment of the Board. The Company shall pay all expenses, including attorneys’ fees of an attorney selected and retained by the Company to represent the Employee, actually and necessarily incurred by the Employee in connection with the defense of such act, suit, or proceeding and in connection with any related appeal, including the cost of court settlements, provided that, to the extent required by Section 409A, any such payment by the Company shall be made no later than the end of the year following the year in which the expenses were incurred.

14. **Notices**.

Any notice, document, or other communication that either party may be required or may desire to give to the other party shall be in writing, and any such notice may be given or delivered personally or by mail or facsimile. Any such notices given or delivered personally shall be given or delivered by hand to an officer of the entity to which they are being given or delivered or the individual, as the case may be, and shall be deemed given or delivered when so given or delivered by hand. Any such notices given or delivered by facsimile will be deemed given or delivered upon receipt by the sender of a successful facsimile transmission to the facsimile number below, and any such notices given or delivered by mail shall be deemed given or delivered three (3) days after it is deposited in the U.S. mail, certified or registered mail, return receipt requested, with all postage and fees prepaid, addressed to the person or entity in question as follows:

If to the Employee:

Katherine H. Antonello

To the address (or facsimile number, if applicable) on record with the Company

If to the Company:

Chief Executive Officer
Employers Holdings, Inc.
10375 Professional Circle
Reno, Nevada 89521-4802
Fax: (775) 886-5499

or, in either case, to such other address as either party may have previously notified the other pursuant to the provisions of this Section 14.

15. **Severability**.

In the event that any provision hereof shall be declared by a court of competent jurisdiction to be void or voidable as contrary to law or public policy, such declaration shall not affect the continuing validity or enforceability of any other provisions hereof insofar as it may be reasonable and practicable to continue to enforce such other provision in the absence of the provision which shall have been declared to be void and voidable.

16. **Remedy for Breach**.

Both parties recognize that the services to be performed by the Employee are special and unique. The Company will have the right to seek and obtain damages and any available equitable remedies for the Employee’s breach of this Agreement. The Employee's remedy for any breach of this Agreement is strictly limited to the Severance Pay or CIC Severance Pay, as the case may be, called for herein.

17. **Mitigation of Damages**.

The Employee shall not be required to mitigate damages or the amount of any payment provided under this Agreement by obtaining other employment or otherwise after the termination of employment hereunder, and any amounts earned by the Employee, whether from self-employment or other employment shall not reduce the amount of any Severance Pay or CIC Severance Pay, as the case may be, called for herein.

18. **Attorneys' Fees and Costs**.

In any claim or dispute between the parties arising out of or associated with this Agreement or the breach thereof or otherwise arising out of or associated with the Employee’s employment by the Company, the prevailing party shall be entitled to recover all reasonable attorneys' fees, expenses, and costs thereof or associated therewith, provided that, to the extent required by Section 409A, any such payment by the Company shall be made no later than the end of the year following the year in which such fees, expenses and costs were incurred. The term “prevailing party” means the party obtaining substantially the relief sought via litigation or through an action in arbitration.

19. **Integration, Amendment, and Waiver**.

This Agreement and such other written agreements referenced in this Agreement (other than the Prior Agreements), constitute the entire agreement between the parties pertaining to the subject matter contained in it except as expressly provided herein, and supersedes all prior agreements, representations, assurances, and understandings of the parties, including the Prior Agreements. No amendment of, addition to, or modification of this Agreement shall be binding unless executed in writing by the parties. Any term or provision of this Agreement may be waived in a signed writing at any time by the party that is entitled to the benefit thereof, provided, however, that any waiver shall apply only to the specific event or omission waived and shall not constitute a continuing waiver. Any term or provision of this Agreement may be amended or supplemented at any time by a written instrument executed by all the parties hereto.

20. **Captions**.

The captions and section headings of this Agreement are for convenience and reference only, and shall have no effect on the interpretation or construction of this Agreement.

21. **Applicable Law**.

The substantive laws of the State of Nevada shall govern the validity, construction, interpretation, performance, and effect of this Agreement, without regard to the conflicts of laws provisions thereof.

22. **Arbitration**.

Any controversy, cause of action or claim related to or arising out of or in connection with the Employee's employment with the Company, including but not limited to termination of such employment or under this Agreement, other than an action to enforce the provisions of Section 10 herein or the breach thereof, shall be settled by arbitration according to the rules of the American Arbitration Association applicable to disputes arising in Nevada and under Nevada law. Any party to the arbitration may enter judgment upon the award rendered by the arbitrator in any court having jurisdiction thereof. The arbitrator shall not be entitled to amend or alter the terms of this Agreement. Notwithstanding this Section 22, the Company shall be entitled to seek any available equitable remedy for enforcement of provisions of this Agreement.

23. **Authorization**.

The Company and the Employee, individually and severally, represent and warrant to the other party that it has the authorization, power and right to deliver, execute and fully perform the obligations under this Agreement in accordance with its terms. The Employee represents and warrants to the Company that there is no restriction or limitation, by reason of this Agreement or otherwise, upon the Employee's right or ability to enter into this Agreement and fulfill her obligations under this Agreement.

24. **Acknowledgment**.

The Employee acknowledges that she has been given a reasonable period of time to study this Agreement before signing it. The Employee certifies that she has fully read, and has received an explanation of, and completely understands the terms, nature, and effect of this Agreement. The Employee further acknowledges that she is executing this Agreement freely, knowingly, and voluntarily and that the Employee's execution of this Agreement is not the result of any fraud, duress, mistake, or undue influence whatsoever. In executing this Agreement, the Employee does not rely on any inducements, promises, or representations by the Company or any person other than the terms and conditions of this Agreement.

25. **Protected Activity Not Prohibited**.

The Employee understands that nothing in this Agreement shall in any way limit or prohibit the Employee from engaging in any Protected Activity. For purposes of this Agreement, "Protected Activity" shall mean filing a charge, complaint, or report with, or otherwise communicating, cooperating, or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board (the "Government Agencies"). The Employee understands that in connection with such Protected Activity, the Employee is permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company. Notwithstanding the foregoing, the Employee agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information to any parties other than the Government Agencies. The Employee further understands that "Protected Activity" does not include the disclosure of any Company attorney-client privileged communications. Any language in any other agreement between the Company and the Employee regarding the Employee's right to engage in Protected Activity that conflicts with, or is contrary to, this paragraph is superseded by this Agreement. In addition, pursuant to the Defend Trade Secrets Act of 2016, the Employee is notified that an individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official (directly or indirectly) or to an attorney *solely* for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if (and only if) such filing is made under seal. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

26. **Section 409A**.

Notwithstanding anything to the contrary in this Agreement, the payment of consideration, compensation, and benefits pursuant to this Agreement shall be interpreted and administered in a manner intended to avoid the imposition of additional taxes under Section 409A. Notwithstanding any provision to the contrary in this Agreement or otherwise, no payment or distribution under this Agreement or otherwise that constitutes an item of "deferred compensation" under Section 409A and becomes payable by reason of the termination of the Employee's employment hereunder shall be made to the Employee unless and until the termination of the Employee's employment constitutes a "separation from service" (as such term is defined in Section 409A).

In addition, no such payment or distribution of deferred compensation shall be made to the Employee prior to the earlier of (a) the expiration of the six (6) month period (the "Six Month Period") measured from the date of the Employee's “separation from service” (as such term is defined in Section 409A), and (b) the date of the Employee’s death, if the Employee is deemed at the time of such separation from service to be a “specified employee” within the meaning of that term under Section 409A (the “Six Month Delay”) and if such delayed commencement is otherwise required to avoid an “additional tax” under section 409A(a)(1)(B) of the Code. All payments and benefits that are delayed pursuant to the immediately preceding sentence shall be paid to the Employee in a lump sum upon expiration of such six (6) month period (or if earlier, upon the Employee’s death).

Notwithstanding the foregoing provisions, to the extent permitted under Section 409A, any separate payment or benefit under this Agreement or otherwise shall not be “deferred compensation” subject to Section 409A and the Six Month Delay to the extent provided in the exceptions in Treasury Regulation section 1.409A-1(b)(4) and (b)(9) and any other applicable exception or provision under Section 409A. Further, each individual installment payment that becomes payable under this Agreement and each payment of the Severance Pay or if applicable, the CIC Severance Pay shall be a “separate payment” under Section 409A. Specifically, to the extent the provisions of Treasury Regulation section 1.409A-1(b)(9) are applicable to the Severance Pay or if applicable, the CIC Severance Pay, the portion of such severance pay set forth in respectively, subsection 7(a)(i) or subsection 7(e)(i) above that is less than the limit prescribed under Treasury Regulation section 1.409A-1(b)(9)(iii)(A) (or any successor provision) (the “Separation Pay Amount”) shall be payable to the Employee in the manner prescribed in subsection 7(a)(i) or subsection 7(e)(i), as applicable, without regard to the Six Month Delay. Following the Six Month Delay, (1) to the extent applicable, the Employee shall receive a lump sum cash payment equal to the Severance Pay or CIC Severance Pay, as applicable, she otherwise would have received during the Six Month Period (absent the Six Month Delay) less the Separation Pay Amount and (2) the Employee shall receive the remainder of her Severance Pay or CIC Severance Pay, as applicable, in the manner prescribed by subsection 7(a) or subsection 7(e), as applicable.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the Effective Date.

COMPANY:		EMPLOYEE:	
By:	/S/ Douglas D. Dirks	By:	/S/ Katherine H. Antonello
	Name: Douglas D. Dirks		Name: Katherine H. Antonello

Chief Executive Officer

Appendix A: Relocation Benefits

The Company will provide assistance with relocation to Reno, Nevada. Relocation assistance includes the following:

- Movement of household goods and automobiles from your current residence or other real estate in lieu of your current home through a professional mover including packing, unpacking and professional storage of household goods for up to six (6) months, in an aggregate amount not to exceed $25,000;
- Reimbursement of an airline trip to prepare for/supervise movement of goods;
- Reimbursement of two house-hunting trips for you and one other person up to four days per trip;
- Reimbursement of reasonable expenses necessary to complete your move, such as airfare for you and your family, hotel costs and meals for the trip from your current residence;
- Reimbursement of temporary housing living expenses (rent, deposit, utilities) up to 6 months;
- If as a result of your relocation to the Reno, Nevada area, you choose to sell your current home in Boca Raton, Florida, or other real estate in lieu of your current home, the Company will pay realtor fees (not to exceed six percent (6%) of the sales price) and closing costs for the sale of your current house or other real estate in lieu of your current home, in the aggregate up to $45,000;
- If as a result of your relocation to the Reno, Nevada area, you choose to buy a home in the Reno, Nevada area, the Company will reimburse you for standard closing costs (excluding financing related costs) for the purchase of a home in the Reno area;
- Should your family remain in Boca Raton, Florida during your transition to Reno, Nevada the Company will provide airfare or reimbursement for two (2) trips for you to Boca Raton per month, not to exceed six (6) months from your start date, or alternatively, will provide you with a lump sum payment of $6,000.
- To the extent that the reimbursement of any of the relocation expenses results in taxable income to you (after taking into account any and all offsetting deductions), the Company will pay you an additional amount (the “Relocation Gross-Up”) such that the net after-tax amount of the reimbursement of the Relocation Expenses and the Relocation Gross-Up (at your then-current combined state and federal marginal income tax rates, taking into account the deductibility of state and local income taxes for federal income tax purposes and all other applicable deductions) is equal to the Relocation Expenses. Notwithstanding the foregoing, the Relocation Gross-Up shall not exceed $65,000. The Company will not gross-up any income associated with any profit resulting from the sale of your current house or other real estate in lieu of your current home. Any tax gross-up payment will be paid to you no later than the end of the taxable year next following the taxable year in which you remit the related taxes.

All relocation expenses must be incurred before December 31, 2020.

Exhibit 31.1

CERTIFICATIONS

I, Douglas D. Dirks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Employers Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 24, 2019

/s/ Douglas D. Dirks

Douglas D. Dirks
President and Chief Executive Officer
Employers Holdings, Inc.

Exhibit 31.2

CERTIFICATIONS

I, Michael S. Paquette, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Employers Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 24, 2019

/s/ Michael S. Paquette

Michael S. Paquette

Executive Vice President and Chief Financial Officer

Employers Holdings, Inc.

(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of Employers Holdings, Inc. (the Company) for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2019

/s/ Douglas D. Dirks

Douglas D. Dirks
President and Chief Executive Officer
Employers Holdings, Inc.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Form 10-Q of Employers Holdings, Inc. (the Company) for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 24, 2019

/s/ Michael S. Paquette

Michael S. Paquette
Executive Vice President and Chief Financial Officer
Employers Holdings, Inc.
(Principal Financial and Accounting Officer)