



Annual Report

Employers Holdings, Inc.

EMPLOYERS[®]

America's small business insurance specialist[®]

To fellow stockholders



Douglas D. Dirks
President & CEO



Robert J. Kolesar
Chairman of the Board

We are pleased to report that 2015 was our most successful year since our initial public offering in early 2007.

Strong Performance

Our strong financial and operating results in 2015 reflect our continued focus on our pricing and data driven underwriting strategies, early claims settlement, and our success in targeting profitable classes of business nationally. By successfully implementing our operating strategies, we have delivered increased profitability in 2015.

- Our book value per share (including the Loss Portfolio Transfer or “LPT” deferred gain) was \$29.50 at year-end. Our adjusted book value per share (including the LPT deferred gain and excluding unrealized gains) was \$26.90 at year-end, an increase of 8% since the end of 2014.

	Year-over-Year Change				
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2015	Dec. 31, 2014
Book value per share	\$ 29.50	\$ 28.38	\$ 26.13	4 %	9 %
Adjusted book value per share	\$ 26.90	\$ 24.99	\$ 23.24	8 %	8 %

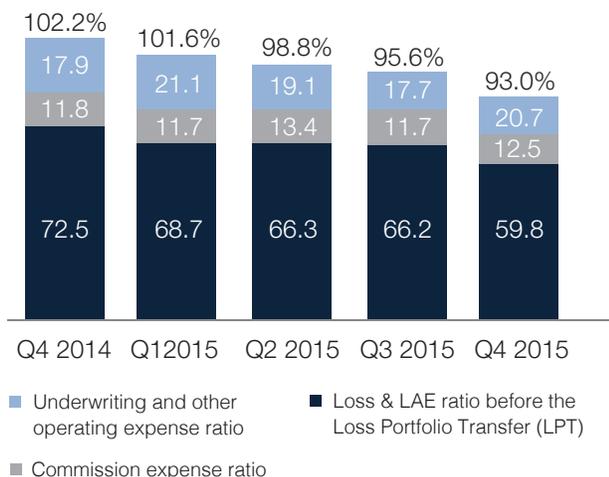
- Our net income (before the LPT) of \$74.0 million in 2015 increased 62% compared with 2014.
- We achieved underwriting income (before the LPT) of \$20 million in 2015 compared with an underwriting loss of \$34.4 million in 2014.
- Net investment income was flat year-over-year.
- Our operating return on equity (with adjustments for the LPT, “OROE”) was 9.8% in 2015, an increase of 5.1 percentage points year-over-year.

Avg. Adjusted Stockholders' Equity



- Our calendar year combined ratio (before the LPT) of 97.1 improved 7.9 points in 2015 compared with 2014.

Annual Combined Ratio (%)



- Since June of 2014 through year-end 2015, we non-renewed 10.7% of our available-to-renew premium in southern California, because of poor individual risk characteristics.
- In addition, over the same period of time, we walked away from 15.8% of our renewal book in southern California because we were unable to achieve the appropriate price based on our profit expectations.

In the full year, and less so in the fourth quarter of 2015, our growth in in-force policies and premium was negatively impacted by our initiatives to either non-renew or increase pricing for our higher loss business, particularly in southern California. We will continue to execute this disciplined pricing and risk selection strategy for new business acquisition and we expect the impact on non-renewals to stabilize.

Outside California, we have had success in growing revenue in classes of business with historically low ultimate loss ratios. Despite a declining rate environment in many states, new business growth in our eastern region increased over 10% at year-end relative to 2014. In addition, in states outside of California, we have increased policy count 5.8%, in-force premium by 4% and payroll exposure 6% on a year-over-year basis. This growth, coupled with the results of our initiatives in California, has reduced our business concentration in California by nearly three percentage points at year-end 2015. We have spoken previously about our diversification strategy of growing revenue outside of California and lessening our dependence on the southern California market. These results speak to the success we are having in achieving this objective.

A summary table of comparative results is shown below.

Financial Highlights

(in millions, except per share amounts and percentages)

	Years Ended December 31,		
	2015	2014	Change
Net written premiums	\$689.3	\$687.6	— %
Total revenues	\$752.1	\$773.5	(3)%
Operating income before the impact of the LPT	\$81.3	\$35.6	128%
Operating income before the impact of the LPT per diluted share	\$2.50	\$1.11	125%
Net income before the impact of the LPT	\$74.0	\$45.7	62%
Net income before the impact of the LPT per diluted share	\$2.27	\$1.43	59%
Net income	\$94.4	\$100.7	(6)%
Net income per diluted share	\$2.90	\$3.14	(8)%
Diluted weighted average shares outstanding	32,561,453	32,069,069	2%
Combined ratio before the impact of the LPT	97.1%	105%	(7.9) pts
Operating return on equity (with LPT adjustments)	9.8%	4.7%	5.1 pts

Markets

While California continues to produce some of the best business in our book, we have experienced some volatility in that market which we have addressed in recent years through strict underwriting actions. At year-end 2013, we experienced a sharp increase in litigated indemnity claims in southern California. This sudden adverse trend raised our loss costs. As a result, we began a number of pricing and underwriting initiatives which have produced the results we expected: a favorable shift in business mix by state and territory; improved pricing in southern California; and, to a lesser degree in the fourth quarter of 2015, the non-renewal of underperforming business in southern California.

As of December 31, 2015

	YOY % Change		
	Overall	California	Other
In-force premium	(1.3)	(5.0)	4.0
In-force policy count	(0.9)	(6.4)	5.8
Average in-force policy size	(0.4)	1.5	(1.7)
In-force payroll exposure	1.4	(5.7)	6.0
Net rate	(2.7)	0.7	(1.9)

We recognized improved overall retention rates in 2015. Our policy unit retention rate for our book of business across all states improved more than six points on a year-over-year basis, with an acceleration of that trend in the second half of 2015. We believe that this improvement, in part, speaks to our success in culling the under-performing business from our book, while retaining the profitable business that has positively impacted our bottom line results.

Our national footprint is growing. In 2015 we entered Michigan and, in early 2016, we started writing business in New York. While we expect to enter several additional states this year, we enter new markets prudently. For example, in New York, we first wrote business with existing long-term distribution partners, including national payroll partners as well as independent agents in bordering states that had New York opportunities. We expect our distribution channel to broaden later this year as we appoint New York domiciled agents.

Areas in Which We Do Business



Reserve Strength

We lowered loss reserves in 2015 by \$9 million due to favorable development in our voluntary business. Reserve releases, net of required contributions to assigned risk pools, were \$7.2 million in 2015.

Our indemnity claims frequency (the number of claims expressed as a percentage of payroll) continued to decrease year-over-year in 2015. Our loss experience indicated a slight upward movement in medical and indemnity costs per claim that were reflected in our current accident year loss estimates. Our total claims costs were reduced by cost savings associated with increased claims settlement activity beginning in 2014 and continuing through 2015.

We reallocated reserves from pre-tax to taxable years which reduced our tax expense in 2015; we believe these adjustments encompass the known redundancies remaining in the pre-tax, non-LPT accident years.

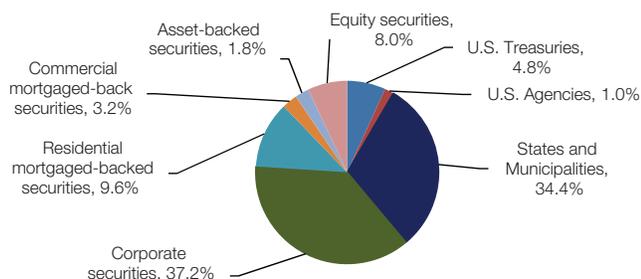
Capital Position

We continue to actively manage our capital and our balance sheet remains strong.

The market value of our investment portfolio was \$2.5 billion at year-end 2015, an increase of 1.6 percent since year-end 2014. The average credit quality of the fixed income portfolio was unchanged at AA- with duration of 4.3. Equity securities represented 8 percent of our investment portfolio.

In the full year, we recognized \$17.2 million of other-than-temporary impairments of equity securities primarily as a result of the continued downturn in the energy and commodity sectors. We believe in the long-term benefits of investing in these sectors; however, we anticipate that the unprecedented volatility experienced over the past six months will continue and we remain vigilant to the domestic and global developments impacting energy and other commodities.

High Quality Investment Portfolio



Note the financial and operating data presented in this letter is largely non-GAAP. For definitions of these non-GAAP terms and reconciliations to GAAP numbers, please see the earnings press release related to the fourth quarter and full year 2015 results for Employers Holdings, Inc. dated February 17, 2016; this press release can be found on the Company's website at www.employers.com ("Investors" section) or as Exhibit 99.1 filed with the Securities & Exchange Commission on February 17, 2016.

To fellow stockholders (continued)

We have a comfortable capital position relative to capital required for our financial strength ratings and our financial leverage remains modest. In the fourth quarter of 2015, we repaid \$60 million remaining on the Wells Fargo Amended Credit Facility and chose not to enter into a new facility. Instead, in January of 2016, each of our insurance subsidiaries became members of the Federal Home Loan Bank of San Francisco which allows them access to collateralized advances to enhance liquidity management as needed. As of the end of March, 2016, none of our insurance subsidiaries had advances outstanding under these credit facilities. At the holding company, we had approximately \$95 million in unrestricted cash and securities at December 31st, 2015.

Capital Programs

We are confident in our strong financial position and in our ability to generate capital. Consistent with our goal to create shareholder value over the longer term and in light of our strong financial position and operating performance, we recently announced two new capital actions which provide the means to supplement our return to shareholders – a 50% increase in the cash dividend in the first quarter of this year and a two-year \$50 million share repurchase program through February 22nd of 2018. These actions reflect the continued confidence of management and the Board of Directors in the strength of our balance sheet, our underwriting results and our ongoing commitment to maximize shareholder value.

In 2016

While we are pleased with our reported results in 2015, we are focused on our future performance and are committed to build upon our recent success.

The impact of our pricing and underwriting initiatives on California premium is lessening. However, we expect that current market conditions, including competitive pressures and softening rates, will challenge organic growth throughout 2016. And while we expect these conditions to persist throughout this year, we are encouraged by the stronger-than-expected renewal and new business production that we observed in January, which is historically one of the industry's highest production months. In addition, final audit premium has been strong, generally reflecting improvements in our insureds payrolls.

We believe the markets in which we operate remain relatively stable, however, we are aware that things can change quickly. We have proven that as a workers' compensation specialty writer, we can negotiate market turns quickly and successfully.

Throughout the remaining months of 2016, we will work to retain our best business and seek new business opportunities that meet our desired return objectives by continuing to focus on disciplined risk selection and pricing across all of our markets. In addition, we will remain focused on creating value for our customers and for our shareholders.

On behalf of the Board of Directors and all of the men and women of EMPLOYERS, we thank you for your support.

Douglas D. Dirks, President & CEO

Robert J. Kolesar, Chairman of the Board

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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
(State or other jurisdiction
of incorporation or organization)

04-3850065
(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015 was \$729,797,712.

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

<u>Class</u>	<u>February 10, 2016</u>
Common Stock, \$0.01 par value per share	32,216,480 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the 2016 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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FORWARD-LOOKING STATEMENTS

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. Undue reliance should not be placed 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, expected losses, 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 set forth in Item 1A, “Risk Factors” and the other documents that we have filed with the Securities and Exchange Commission.

NOTE REGARDING RELIANCE ON STATEMENTS IN OUR CONTRACTS

The agreements included or incorporated by reference as exhibits to this Annual Report on Form 10-K may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of “materiality” that are different from “materiality” under the applicable securities laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

Notwithstanding the inclusion of the foregoing cautionary statements, we acknowledge that we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

PART I

Item 1. Business

General

Employers Holdings, Inc. (EHI) is a holding company incorporated in Nevada in 2005. Unless otherwise indicated, all references to “we,” “us,” “our,” the “Company” or similar terms refer to EHI together with its subsidiaries. We had 716 full-time employees at December 31, 2015 and our principal executive offices are located at 10375 Professional Circle in Reno, Nevada.

Our insurance subsidiaries have each been assigned an A.M. Best Company (A.M. Best) rating of “A-” (Excellent), with a “negative” financial outlook.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports, and Proxy Statements for our Annual Meetings of Stockholders are available free of charge on our website at www.employers.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). Our website also provides access to reports filed by our Directors, executive officers and certain significant stockholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and charters for the Audit, Board Governance and Nominating, and Compensation committees of our Board of Directors are available on our website. Copies of these documents may also be obtained free of charge by written request to Investor Relations, 10375 Professional Circle, Reno, Nevada 89521-4802. The SEC also maintains a website at www.sec.gov that contains the information that we file electronically with the SEC.

Strategy

Business Strategy

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, and developing important alternative distribution channels. We continue to execute a number of strategic initiatives, including: focusing on internal and customer facing business process excellence; emphasizing the settlement of open claims; diversifying our risk exposure across our markets; utilizing a three-company pricing platform; utilizing territorial multipliers in California; non-renewing underperforming business; and targeting profitable classes of business across all of our markets.

Capital Strategy

We believe that we have a strong capital position. We periodically reassess our capital needs to ensure an optimal use of capital consistent with our goal to create shareholder value over the long-term. Our capital strategy is focused on supporting our business operations by maintaining capital levels commensurate with our desired ratings from independent rating agencies, satisfying regulatory constraints and legal requirements, and sustaining a level of financial flexibility to prudently manage our business through insurance and economic cycles while allowing us to take advantage of investment opportunities, including mergers and acquisitions and related financings, as and when they arise.

We expect to return capital not needed for these purposes to our common stockholders in the form of dividends and common stock repurchases. We believe that, generally over time, the combination of dividends to common stockholders and common stock repurchases will not exceed operating income. The timing and actual numbers of shares that may be repurchased in the future will depend on a variety of factors, including our financial position, earnings, share price, corporate and regulatory requirements, and other market and economic conditions. Additional information regarding our capital is set forth under “Part II, Item 7—Liquidity and Capital Resources.”

Description of Business

We are a specialty provider of workers' compensation insurance focused on select small businesses in low to medium hazard industries. We employ a disciplined, conservative underwriting approach designed to individually select specific types of businesses, predominantly those in the lowest four of the seven workers' compensation insurance industry defined hazard groups, that we believe will have fewer and less costly claims relative to other businesses in the same hazard groups. Workers' compensation is provided for 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 operate as a single reportable segment and conduct operations in 33 states and the District of Columbia, with a concentration in California, where over one-half of our business is generated. We had total assets of \$3.8 billion at December 31, 2015 and 2014. The following table highlights key results of our operations for the last three years.

	Years Ended December 31,		
	2015	2014	2013
	(in millions, except ratios)		
Net premiums written	\$ 689.3	\$ 687.6	\$ 678.5
Total revenues	752.1	773.5	723.5
Net income	94.4	100.7	63.8
Combined ratio ⁽¹⁾	94.1%	97.0%	103.9%
Impact of the Loss Portfolio Transfer Agreement (LPT Agreement) ⁽²⁾	3.0	8.0	5.9
Combined ratio before the impact of the LPT Agreement ⁽²⁾	<u>97.1%</u>	<u>105.0%</u>	<u>109.8%</u>

- (1) The combined ratio, a key measurement of underwriting profitability, is the sum of the loss and loss adjustment expenses (LAE), commission expenses, and underwriting and other operating expenses, measured as a percentage of earned premium.
- (2) The impact of the LPT Agreement includes: (a) amortization of Deferred reinsurance gain–LPT Agreement (Deferred Gain); (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to Contingent commission receivable–LPT Agreement. Deferred Gain reflects the unamortized gain from our LPT Agreement. Under GAAP, this gain is deferred and 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 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, as the case may be, to net income. Combined ratio before impact of the LPT Agreement is not a measurement of financial performance under GAAP, but rather reflects the difference in accounting treatment between statutory accounting principles and GAAP, and should not be considered in isolation or as an alternative to the combined ratio or any other measure of performance derived in accordance with GAAP.

Our insurance subsidiaries are domiciled in the following states:

	State of Domicile
Employers Insurance Company of Nevada (EICN)	Nevada
Employers Compensation Insurance Company (ECIC)	California
Employers Preferred Insurance Company (EPIC)	Florida
Employers Assurance Company (EAC)	Florida

Products and Services

Workers' compensation provides insurance coverage for the statutorily prescribed benefits that employers are required to provide to their employees who may be injured or suffer illness in the course of employment. The level of benefits varies by state, the nature and severity of the injury or disease, and the wages of the injured worker. Each state has a statutory, regulatory, and adjudicatory system that sets the amount of wage replacement to be paid, determines the level of medical care required to be provided, establishes the degree of permanent impairment, and specifies the options in selecting healthcare providers. These state laws generally require two types of benefits for injured employees: (a) medical benefits, including expenses related to the diagnosis and treatment of an injury, disease, or both, as well as any required rehabilitation, and (b) indemnity payments, which consist of temporary wage replacement, permanent disability payments, and death benefits to surviving family members.

Disciplined Underwriting

Our strategy is to focus on disciplined underwriting and continue to pursue profitable growth opportunities across market cycles. We carefully monitor market trends to assess new business opportunities that we expect will meet our pricing and risk standards. We price our policies based on the specific risks associated with each potential insured rather than solely on the industry class in which a potential insured is classified. Our disciplined underwriting approach is a critical element of our culture and we believe that it has allowed us to offer competitive prices, diversify our risks, and out-perform the industry.

We execute our underwriting processes through automated systems and experienced underwriters with specific knowledge of local markets. We have developed automated underwriting templates for specific classes of business that produce faster quotes when certain underwriting criteria are met. Our underwriting guidelines consider many factors, such as type of business, nature of operations, and risk exposures, and are designed to minimize or prevent underwriting of certain classes of business.

Loss Control

Our loss control professionals provide consultation to policyholders to assist them in preventing losses and containing costs once claims occur. They also assist our underwriting personnel in evaluating potential and current policyholders and are an important part of our underwriting discipline.

Premium Audit

We conduct premium audits on substantially all of our policyholders annually upon the policy expiration. Premium audits allow us to comply with applicable state and reporting bureau requirements and to verify that policyholders have accurately reported their payroll and employee job classifications. We also selectively perform interim audits on certain classes of business or if unusual claims are filed or concerns are raised regarding projected annual payrolls, which could result in substantial variances at final audit.

Claims and Medical Case Management

The role of our claims department is to actively and efficiently investigate, evaluate, and pay claims, and to aid injured workers in returning to work in accordance with applicable laws and regulations. We have implemented rigorous claims guidelines and control procedures in our claims units and have claims operations throughout the markets we serve. We also provide medical case management services for those claims that we determine will benefit from such involvement.

We utilize an outcome-based medical network that incorporates predictive analytics to identify medical providers who achieve superior clinical outcomes for our injured workers that allows us to optimize our provider network and enhance the quality of care. We have also implemented a proactive pharmacy benefit management program that, along with our outcome based medical network, focuses on reducing claims costs and accelerating injured workers' return to work.

In addition to our medical networks, we work closely with local vendors, including attorneys, medical professionals, pharmacy benefits managers, and investigators, to bring local expertise to our reported claims. We pay special attention to reducing costs and have established discounting arrangements with the aforementioned service providers. We use preferred provider organizations, bill review services, and utilization management to closely monitor medical costs. We actively pursue fraud and subrogation recoveries to mitigate claims costs. Subrogation rights are based upon state and federal laws, as well as the insurance policies we issue. Our fraud and subrogation efforts are handled through dedicated units.

Our claims department also provides claims management services for those claims incurred by the Nevada State Industrial Insurance System (the Fund) and assumed by EICN and subject to a 100% retroactive reinsurance agreement (the LPT Agreement) with dates of injury prior to July 1, 1995. Additional information regarding the LPT Agreement is set forth under “–Reinsurance–LPT Agreement.” We receive a management fee from the third party reinsurers equal to 7% of the loss payments on these claims.

Information Technology

Core Operating Systems

We have an efficient, cost-effective and scalable infrastructure that complements our geographic reach and business model and have developed a highly automated underwriting system. This technology applies our underwriting standards and guidelines and allows for the electronic submission, review, and quoting of insurance applications. This policy administration system reduces transaction costs and provides for more efficient and timely processing of applications for small policies that meet our underwriting standards. We believe this approach saves our independent agents and brokers considerable time in processing customer applications and maintains our competitiveness in our target markets. We will continue to invest in technology and systems across our business to maximize efficiency, facilitate customer self-service, and create increased capacity that will allow us to lower our expense ratios while growing premiums.

Business Continuity/Disaster Recovery

We maintain business continuity and disaster recovery plans for our critical business functions, including the restoration of information technology infrastructure and applications. We have two data centers that act as production facilities and as disaster recovery sites for each other. In addition, we utilize an off-site data storage facility for critical customer and systems data.

Customers and Workers' Compensation Premiums

The workers' compensation insurance industry classifies risks into seven hazard groups, as defined by the National Council on Compensation Insurance (NCCI), based on severity of claims, with businesses in the first or lowest group having the lowest claims costs.

We target select small businesses engaged in low to medium hazard industries. Our historical loss experience has been more favorable for lower industry defined hazard groups than for higher hazard groups. Further, we believe it is generally less costly to service and manage the risks associated with these lower hazard groups. Our underwriters use their local market expertise and disciplined underwriting to select specific types of businesses and risks within the classes of business we underwrite that allow us to generate loss ratios that are better than the industry average.

The following table sets forth our in-force premiums by hazard group and as a percentage of our total in-force premiums as of December 31:

Hazard Group	2015	Percentage of 2015 Total	2014	Percentage of 2014 Total	2013	Percentage of 2013 Total
(in millions, except percentages)						
A	\$ 159.6	25.8%	\$ 165.6	26.4%	\$ 146.2	23.7%
B	159.2	25.7	159.3	25.4	130.0	21.1
C	203.5	32.8	207.5	33.0	239.5	38.8
D	86.0	13.9	82.6	13.2	80.9	13.1
E	9.7	1.6	11.0	1.7	18.6	3.0
F	1.4	0.2	1.8	0.3	2.1	0.3
G	0.1	<0.1	0.1	<0.1	0.1	<0.1
Total	<u>\$ 619.5</u>	<u>100.0%</u>	<u>\$ 627.9</u>	<u>100.0%</u>	<u>\$ 617.4</u>	<u>100.0%</u>

In-force premiums for our top ten types of insureds and as a percentage of our total in-force premiums as of December 31, 2015 were as follows:

Employer Classifications	In-force Premiums	Percentage of Total
(in millions, except percentages)		
Restaurants	\$ 157.9	25.5%
Automobile Service or Repair Shops	50.5	8.2
Hotels, Motels, and Clubs	47.2	7.6
Dentists, Optometrists, and Physicians	34.1	5.5
Gasoline Stations	23.9	3.9
Real Estate Management	21.4	3.5
Wholesale Stores	20.6	3.3
Schools – Colleges and Religious Organizations	16.3	2.6
Apparel Manufacturing	16.2	2.6
Groceries and Provisions	15.3	2.5
Total	<u>\$ 403.4</u>	<u>65.2%</u>

We currently write business in 33 states and the District of Columbia. Our business is concentrated in California, which makes the results of our operations more dependent on the trends that are unique to that state and that may differ from national trends. State legislation, local competition, economic and employment trends, and workers' compensation medical costs trends can be material to our financial results.

As of December 31, 2015, our policyholders had average annual in-force premiums of \$7,332. We are not dependent on any single policyholder and the loss of any single policyholder would not have a material adverse effect on our business.

Our in-force premiums and number of policies in-force were as follows as of December 31:

State	2015		2014		2013	
	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force
(dollars in millions)						
California	\$ 352.2	44,080	\$ 370.8	47,093	\$ 367.8	48,032
Other	267.3	40,416	257.1	38,209	249.6	36,024
Total	<u>\$ 619.5</u>	<u>84,496</u>	<u>\$ 627.9</u>	<u>85,302</u>	<u>\$ 617.4</u>	<u>84,056</u>

From 2013 through 2015, our total in-force premiums and number of policies in-force have remained relatively flat, while in-force premiums and policy count in California decreased 4.2% and 8.2%, respectively, reflecting our efforts to continue to diversify and grow our business in profitable markets. We cannot be certain how these trends will ultimately impact our consolidated financial position and results of operations.

Our premiums are generally a function of the applicable premium rate, the amount of the insured's payroll, and if applicable, a factor reflecting the insured's historical loss experience (experience modification factor). Premium rates vary by state according to the nature of the employees' duties and the business of the employer. The premium is computed by applying the applicable premium rate to each class of the insured's payroll after it has been appropriately classified. Total policy premium is determined

after applying an experience modification factor and a further adjustment, known as a schedule rating adjustment, and other adjustments, which may be made in certain circumstances, to increase or decrease the policy premium. Schedule rating adjustments are made based on individual risk characteristics of the insured and subject to maximum amounts as established in our premium rate filings.

Our premium rates are based upon actuarial analyses for each state in which we do business, except in “administered pricing” states, primarily Florida and Wisconsin, where premium rates are set by state insurance regulators.

Our net rate (total in-force premiums divided by total insured payroll exposure) increased 0.7%, 11.2%, and 12.9% in California during the years ended December 31, 2015, 2014, and 2013, respectively. Net rate is a function of a variety of factors, including rate changes, underwriting risk profiles and pricing, and changes in business mix related to economic and competitive pressures. Pricing in California reflects changes to schedule rating, filed rates, and experience modifiers. We began leveraging territorial multipliers and multiple insurance subsidiaries, each with different rate filings, to provide additional pricing options in California for policies incepting on or after June 1, 2014.

Losses and LAE Reserves and Loss Development

We are directly liable for losses and LAE under the terms of the insurance policies our insurance subsidiaries write. Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to us, and our payment of that loss. Loss reserves are reflected on our consolidated balance sheets under the line item caption “Unpaid losses and loss adjustment expenses.” Estimating reserves is a complex process that involves a considerable degree of judgment by management and is inherently uncertain. Loss reserve estimates represent a significant risk to our business, which we attempt to mitigate by frequently and routinely reviewing loss cost trends.

For a detailed description of our reserves, the judgments, key assumptions and actuarial methodologies that we use to estimate our reserves, and the role of our consulting actuary, see “Item 7—Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations—Critical Accounting Policies—Reserves for Losses and LAE” and Note 9 in the Notes to our Consolidated Financial Statements.

The following tables show changes in the historical loss reserves, on a gross basis and net of reinsurance, at December 31 for each of the 10 years prior to 2015 for EICN and ECIC, and for each of the years ended December 31, 2008 through December 31, 2014 for EPIC and EAC. This information is presented on a GAAP basis and the paid and reserve data is presented on a calendar year basis.

The top line of each table shows the net and gross reserves for unpaid losses and LAE recorded at each year-end. Such amounts represent an estimate of unpaid losses and LAE occurring in that year as well as future payments on claims occurring in prior years. The upper portion of these tables (net and gross cumulative amounts paid, respectively) presents the cumulative amounts paid during subsequent years on those losses for which reserves were carried as of each specific year. The lower portions (net and gross reserves re-estimated, respectively) show the re-estimated amounts of the previously recorded reserves based on experience as of the end of each succeeding year. The re-estimated amounts change as more information becomes known about the actual losses for which the initial reserve was carried. An adjustment to the carrying value of unpaid losses for a prior year will also be reflected in the adjustments for each subsequent year. The net and gross cumulative redundancy (deficiency) line represents the cumulative change in estimates since the initial reserve was established. It is equal to the difference between the initial reserve and the latest re-estimated reserve amount. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

	2005	2006	2007	2008	2009	2010	2011	2012 ⁽¹⁾	2013 ⁽¹⁾	2014	2015
Net reserves for losses and LAE	(in millions)										
Originally estimated	\$ 1,208.5	\$ 1,209.7	\$ 1,217.1	\$ 1,430.1	\$ 1,373.2	\$ 1,323.7	\$ 1,331.5	\$ 1,426.2	\$ 1,587.4	\$ 1,700.2	\$ 1,719.3
Net cumulative amounts paid as of:											
One year later	106.9	109.1	127.9	214.5	206.7	218.6	225.5	261.7	319.7	355.2	
Two years later	175.5	186.0	219.5	342.2	361.0	371.1	390.5	456.5	558.7		
Three years later	229.9	249.1	295.6	449.9	472.8	485.6	515.1	610.8			
Four years later	279.4	302.9	354.9	532.1	557.8	577.0	619.4				
Five years later	321.1	345.8	405.6	598.5	628.9	656.4					
Six years later	354.8	384.5	448.1	656.1	692.1						
Seven years later	384.9	417.6	484.7	708.4							
Eight years later	412.2	447.6	521.3								
Nine years later	437.3	475.9									
Ten years later	459.8										
Net reserves re-estimated as of:											
One year later	1,101.4	1,149.6	1,151.2	1,378.8	1,359.0	1,324.8	1,333.3	1,433.2	1,592.0	1,693.1	
Two years later	1,049.6	1,085.4	1,100.7	1,352.0	1,340.4	1,313.1	1,334.0	1,429.8	1,603.8		
Three years later	1,004.6	1,035.0	1,079.9	1,320.0	1,324.8	1,312.3	1,329.6	1,428.7			
Four years later	970.7	1,010.4	1,046.6	1,303.0	1,305.2	1,302.5	1,305.2				
Five years later	949.4	973.9	1,038.7	1,277.7	1,291.3	1,258.7					
Six years later	917.8	962.8	1,004.4	1,263.7	1,235.2						
Seven years later	907.6	921.9	987.2	1,199.6							
Eight years later	869.8	904.1	927.3								
Nine years later	849.8	837.1									
Ten years later	786.0										
Net cumulative redundancy (deficiency):	422.5	372.6	289.8	230.5	138.0	65.0	26.3	(2.5)	(16.4)	7.1	—
Gross reserves - December 31	2,350.0	2,307.8	2,269.7	2,506.5	2,425.7	2,279.7	2,272.4	2,231.5	2,330.5	2,369.7	2,347.5
Reinsurance recoverable, gross	1,141.5	1,098.1	1,052.6	1,076.4	1,052.5	956.0	940.8	805.4	743.1	669.5	628.2
Net reserves - December 31	1,208.5	1,209.7	1,217.1	1,430.1	1,373.2	1,323.7	1,331.5	1,426.2	1,587.4	1,700.2	1,719.3
Gross re-estimated reserves	1,716.5	1,726.2	1,782.0	2,073.3	2,067.9	2,030.9	2,038.5	2,128.5	2,279.8	2,342.5	2,347.5
Re-estimated reinsurance recoverables	930.6	889.1	854.7	873.7	832.7	772.3	733.4	699.9	676.1	649.5	628.2
Net re-estimated reserves	785.9	837.1	927.3	1,199.6	1,235.2	1,258.6	1,305.1	1,428.6	1,603.7	1,693.0	1,719.3
Gross reserves for losses and LAE											
Originally estimated	2,350.0	2,307.8	2,269.7	2,506.5	2,425.7	2,279.7	2,272.4	2,231.5	2,330.5	2,369.7	2,347.5
Gross cumulative amounts paid as of:											
One year later	152.0	152.9	170.6	258.4	269.8	260.8	263.6	296.9	355.4	386.3	
Two years later	264.4	272.5	304.1	449.2	466.4	451.4	463.7	527.3	625.5		
Three years later	361.5	377.5	422.9	599.2	616.2	601.0	624.0	712.7			
Four years later	453.0	473.8	522.3	719.4	736.3	728.1	759.4				
Five years later	537.2	557.0	609.8	821.0	843.2	838.6					
Six years later	611.1	632.5	686.1	914.3	937.4						
Seven years later	677.5	699.3	754.2	997.6							
Eight years later	738.7	760.9	819.8								
Nine years later	795.4	817.5									
Ten years later	846.1										
Gross reserves re-estimated as of:											
One year later	2,233.1	2,233.2	2,200.7	2,470.7	2,373.5	2,299.7	2,164.6	2,196.1	2,282.7	2,342.5	
Two years later	2,170.3	2,162.7	2,148.4	2,405.8	2,370.6	2,178.1	2,123.4	2,139.2	2,279.8		
Three years later	2,119.8	2,110.6	2,110.2	2,386.4	2,245.5	2,136.2	2,067.7	2,128.5			
Four years later	2,084.9	2,074.5	2,094.1	2,260.0	2,185.5	2,076.4	2,038.5				
Five years later	2,053.9	2,050.2	1,983.2	2,194.8	2,122.7	2,030.9					
Six years later	2,027.7	1,936.4	1,906.2	2,132.8	2,067.9						
Seven years later	1,918.3	1,857.2	1,840.9	2,073.3							
Eight years later	1,846.3	1,791.6	1,782.0								
Nine years later	1,778.9	1,726.2									
Ten years later	1,716.5										
Gross cumulative redundancy:	\$ 633.5	\$ 581.6	\$ 487.7	\$ 433.2	\$ 357.8	\$ 248.8	\$ 233.9	\$ 103.0	\$ 50.7	\$ 27.2	\$ —

(1) The net cumulative deficiency for the 2013 and 2012 accident years included \$(3.2) million and \$(2.9) million, respectively, related to assigned risk business.

Reinsurance

Reinsurance is a transaction between insurance companies in which an original insurer, or ceding company, remits a portion of its premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the risk. Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage in excess of a specified amount, or retention, and up to a specified amount. Any liability exceeding the coverage limits of the reinsurance program is retained by the ceding company. The ceding company also bears the credit risk of a reinsurer's insolvency. Consistent with general industry practices, we purchase excess of loss reinsurance to protect against the impact of large individual, irregularly-occurring losses, and aggregate catastrophic losses from natural perils and terrorism, excluding nuclear, biological, chemical, and radiological events. Such reinsurance reduces the magnitude of such losses on our net income and the capital of our insurance subsidiaries.

Excess of Loss Reinsurance

Our current reinsurance program applies to all covered losses occurring between 12:01 a.m. July 1, 2015 and 12:01 a.m. July 1, 2016. The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in five layers of coverage. Our reinsurance coverage is \$193.0 million in excess of our \$7.0 million retention on a per occurrence basis, subject to certain exclusions. We are solely responsible for any losses we suffer above \$200.0 million except those covered by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA of 2015). See "—Terrorism Risk Insurance Program." Covered losses which occur prior to expiration or cancellation of the agreement continue to be obligations of the subscribing reinsurers, subject to the other conditions in the agreement. The subscribing reinsurers may terminate the agreement only for our breach of the obligations of the agreement. We are responsible for the losses if the subscribing reinsurer cannot or refuses to pay.

The agreement includes certain exclusions for which our subscribing reinsurers are not liable for losses, including but not limited to losses arising from the following: reinsurance assumed by us under pooling arrangements; financial guarantee and insolvency; certain nuclear risks; liability as a member, subscriber, or reinsurer of any pool, syndicate, or association, but not assigned risk plans; liability arising from participation or membership in any insolvency fund; loss or damage caused by war other than acts of terrorism or civil commotion; workers' compensation business covering persons employed in Minnesota; and any loss or damage caused by any act of terrorism involving biological, chemical, nuclear, or radioactive pollution or contamination. Our underwriting guidelines generally require that insured risks fall within the coverage provided in the reinsurance program. Executive review and approval would be required if we were to write risks outside the reinsurance program.

The agreement provides that we, or any subscribing reinsurer, may request commutation of any outstanding claim or claims 10 years after the effective date of termination or expiration of the agreements and provides a mechanism for the parties to achieve valuation for commutation. We may require a special commutation of the percentage share of any loss in the reinsurance program of any subscribing reinsurer that is in runoff.

LPT Agreement

In 1999, the Fund entered into a retroactive 100% quota share reinsurance 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 agreement is commuted, or terminated, upon the mutual agreement of the parties, or the reinsurers' aggregate maximum limit of liability is exhausted, whichever occurs earlier. 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.

Under the LPT Agreement, the Fund initially ceded \$1.5 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995, for consideration of \$775.0 million in cash. The LPT Agreement, which ceded to the reinsurers substantially all of the Fund's outstanding losses as of June 30, 1999 for claims with original dates of injury prior to July 1, 1995, provides coverage for losses up to \$2.0 billion, excluding losses for burial and transportation expenses. The estimated remaining liabilities subject to the LPT Agreement were approximately \$498.0 million and \$534.8 million, as of December 31, 2015 and 2014, respectively (See Note 10 in the Notes to our Consolidated Financial Statements). Losses and LAE paid with respect to the LPT Agreement totaled approximately \$695.2 million and \$668.4 million through December 31, 2015 and 2014, respectively.

The reinsurers agreed to assume responsibilities for the claims at the benefit levels which existed in June 1999. The LPT Agreement required each reinsurer to place assets supporting the payment of claims by them in a trust that requires collateral be held at a specified level. The level must not be less than the outstanding reserve for losses and a loss expense allowance equal to 7% of estimated paid losses discounted at a rate of 6%. If the assets held in trust fall below this threshold, we may require the reinsurers to contribute additional assets to maintain the required minimum level of collateral. The value of these assets as of December 31, 2015 and 2014 was \$1.4 billion and \$1.5 billion, respectively.

The reinsurers currently party to the LPT Agreement are ACE Bermuda Insurance Limited, XL Re Limited, and National Indemnity Company. The contract provides that during the term of the agreement all reinsurers need to maintain a rating of not less than

“A-” (Excellent) as determined by A.M. Best. Currently, each of the reinsurers party to the LPT Agreement has a rating that satisfies this requirement.

We account for the LPT Agreement as retroactive reinsurance. Upon entry into the LPT Agreement, an initial deferred reinsurance gain was recorded as a liability on our consolidated balance sheet as Deferred Gain. We are also 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. As of December 31, 2015, our estimate of ultimate expected contingent profit commission was \$65.6 million, of which \$36.4 million has been settled as of December 31, 2015.

Recoverability of Reinsurance

Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance; however, it does not discharge the ceding company from its primary liability to its policyholders in the event the reinsurer cannot or refuses to pay its obligations under such reinsurance. We monitor the financial strength of our reinsurers and do not believe that we are currently exposed to any material credit risk through our reinsurance arrangements because our reinsurance is recoverable from large, well-capitalized reinsurance companies. At December 31, 2015, \$1.4 billion was in trust accounts for reinsurance related to the LPT Agreement and an additional \$3.7 million, not related to the LPT Agreement, was collateralized by cash or letters of credit.

The following table provides certain information regarding our ceded reinsurance recoverables for losses and LAE as of December 31, 2015.

Reinsurer	A.M. Best Rating ⁽¹⁾	Total Losses and LAE Paid	Total Unpaid Losses and LAE	Total
(in millions)				
ACE Bermuda Insurance Limited	A++	\$ 0.7	\$ 49.8	\$ 50.5
American Healthcare Indemnity Company	B++	—	2.5	2.5
Aspen Insurance UK Limited	A	—	6.5	6.5
Everest Reinsurance Company	A+	—	1.8	1.8
Finial Reinsurance	A-	0.2	5.3	5.5
Hannover Ruck SE	A+	0.1	17.3	17.4
Lloyd's Syndicates	A	0.1	48.7	48.8
Markel Bermuda Limited	A	—	2.4	2.4
Munich Reinsurance America, Inc	A+	0.1	6.8	6.9
National Indemnity Company	A++	3.7	273.9	277.6
National Union Fire Insurance Co of Pittsburgh	A	—	1.5	1.5
Partner Reinsurance Europe SE	A	—	1.4	1.4
ReliaStar Life Insurance Company	A	0.1	1.7	1.8
Safety National Casualty Corporation	A+	—	2.4	2.4
St Paul Fire & Marine Insurance Company	A++	—	4.3	4.3
Swiss Reinsurance America Corporation	A+	0.1	13.1	13.2
Tokio Marine America Insurance Company (TMAIC) (US)	A++	—	8.1	8.1
XL Re Limited	A	2.3	174.3	176.6
All Other	Various	0.3	6.4	6.7
Total		<u>\$ 7.7</u>	<u>\$ 628.2</u>	<u>\$ 635.9</u>

(1) A.M. Best's highest financial strength ratings for insurance companies are “A++” and “A+” (Superior), “A” and “A-” (Excellent), and “B++” and “B+” (Good).

We review the aging of our reinsurance recoverables on a quarterly basis. At December 31, 2015, 0.1% of our reinsurance recoverables on paid losses were greater than 90 days overdue.

Terrorism Risk Insurance Program

The Terrorism Risk Insurance Act of 2002 (2002 Act) was initially enacted in November 2002, modified and extended in 2005, again in 2007, and most recently in 2015. Now known as the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA of 2015), the program is designed to allow the insurance industry and the federal government to share losses from declared terrorist events according to a specific formula, and is in effect until December 31, 2020.

The workers' compensation laws of the various states generally do not permit the exclusion of coverage for losses arising from terrorism or nuclear, biological, chemical, or radiological attacks. In addition, we are not able to limit our losses arising from any one catastrophe or from any one claimant. Our reinsurance policies exclude coverage for losses arising out of nuclear, biological,

chemical, or radiological attacks. Under TRIPRA of 2015, federal protection may be provided to the insurance industry for certain acts of foreign and domestic terrorism, including nuclear, biological, chemical, or radiological attacks.

The impacts of any future terrorist acts are unpredictable, and the ultimate impact on our insurance subsidiaries, if any, of losses from any future terrorist acts will depend upon their nature, extent, location, and timing. We monitor the geographic concentration of our policyholders to help mitigate the risk of loss from terrorist acts.

Investments

As of December 31, 2015, the total amortized cost of our investment portfolio was \$2.4 billion and the fair value of the portfolio was \$2.5 billion. These investments provide a source of income, which may fluctuate with changes in interest rates and our current investment strategies that may also impact the fair value of our portfolio. Our investment strategy balances consideration of duration, yield, and credit risk.

We seek to maximize total investment returns within the constraints of prudent portfolio management. The asset allocation is reevaluated by management and reviewed by the Finance Committee of the Board of Directors on a quarterly basis. We employ Conning Inc. (Conning) as our independent investment manager. Conning follows our written investment guidelines based upon strategies approved by our Board of Directors. We also utilize Conning's investment advisory services. These services include investment accounting and portfolio modeling using Dynamic Financial Analysis (DFA). The DFA tool is utilized in developing a tailored set of portfolio targets and objectives, which in turn, are considered when constructing an optimal portfolio.

Additional information regarding our investment portfolio, including our approach to managing investment risk, is set forth under "Item 7 –Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations –Liquidity and Capital Resources –Investments" and "Item 7A –Quantitative and Qualitative Disclosures about Market Risk."

Marketing and Distribution

We market our workers' compensation insurance products through independent local, regional, and national agents and brokers and through alternative distribution channels, including our partner ADP, Inc. (ADP) and national, regional, and local trade groups and associations.

Independent Insurance Agents and Brokers

We establish and maintain strong, long-term relationships with independent insurance agencies that actively market our products and services. We offer ease of doing business, provide responsive service, and pay competitive commissions. Our sales representatives and underwriters work closely with independent agencies to market and underwrite our business. This results in enhanced understanding of the businesses and risks we underwrite and the needs of prospective customers. We do not delegate underwriting authority to agents or brokers. We are not dependent on any one agency and the loss of any one agency would not be material.

We had 5,123 independent agencies that marketed and sold our insurance products at December 31, 2015. Independent agencies generated 75.8%, 76.2%, and 76.7% of in-force premiums at December 31, 2015, 2014, and 2013, respectively, and our largest agency generated 1.0% of in-force premiums at each of December 31, 2015, 2014, and 2013.

Alternative Distribution Channels

We have developed and continue to add to important distribution channels for our products and services that serve as an alternative to our strong independent agency distribution channel. These alternative distribution channels utilize partnerships and alliances with entities such as payroll companies and health care and property and casualty insurers for which we provide workers' compensation insurance coverage. Our small business, low to medium hazard workers' compensation insurance products are jointly offered and marketed with and through our partners and alliances.

Alternative distribution channels generated 23.9%, 23.6%, and 23.0% of our in-force premiums as of December 31, 2015, 2014, and 2013, respectively.

In 2015, a concentration of our business was generated by ADP. ADP is the largest payroll services provider in the United States servicing small and medium-sized businesses. As part of its services, ADP sells our workers' compensation insurance product along with its payroll and accounting services through its insurance agency and field sales staff primarily to small businesses. ADP generated 11.5%, 11.3%, and 10.7% of our in-force premiums as of December 31, 2015, 2014, and 2013, respectively. The majority of this business is written through ADP's small business unit, which has accounts of 1 to 50 employees. We pay ADP fees that are a percentage of premiums received for services provided through the ADP program.

Our relationship with ADP is non-exclusive; however, we believe we are a key partner of ADP for our selected markets and classes of business. Our agreement with ADP may be terminated at any time by either party without cause upon 120 days notice.

Competition and Market Conditions

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, and state insurance pools. Many of our competitors are significantly larger, are more widely known, and/or possess considerably greater financial resources. Our primary competitors in California are AmTrust Financial Services, Inc., Berkshire Hathaway Homestate Companies, California State Compensation Insurance Fund, The Hartford Financial Services Group, Inc., ICW Group, and Travelers Insurance Group Holdings, Inc.

The workers' compensation sector continued to see average medical and indemnity claims costs increase, while the industry overall saw a decline in claim frequency in 2014, the most recent year for which industry data is available. We continue to have concerns related to the volatility and uncertainty in the financial markets and economic conditions generally.

In California, the Workers' Compensation Insurance Rating Bureau (WCIRB) reported indemnity claim frequency for accident years 2013 and 2014 continued to increase, contrary to the trends observed in other states. The WCIRB attributed the elevated claim frequency in 2013 and 2014 to late reported claims, cumulative trauma injuries, and claims from the Los Angeles Basin.

Regulation

State Insurance Regulation

Insurance companies are subject to regulation and supervision by the insurance regulator in the state in which they are domiciled and, to a lesser extent, other states in which they conduct business. Our insurance subsidiaries are subject to regulation by the states in which our insurance subsidiaries are domiciled or transact business. These state agencies have broad regulatory, supervisory, and administrative powers, including among other things, the power to grant and revoke licenses to transact business, license agencies, set the standards of solvency to be met and maintained, determine the nature of, and limitations on, investments and dividends, approve policy forms and rates in some states, periodically examine financial statements, determine the form and content of required financial statements, set the rates that we may charge in some states, and periodically examine market conduct.

Detailed annual and quarterly financial statements, prepared in accordance with statutory accounting principles (SAP), and other reports are required to be filed with the insurance regulator in each of the states in which we are licensed to transact business. The California Department of Insurance (California DOI), Florida Office of Insurance Regulation (Florida OIR), and Nevada Division of Insurance (Nevada DOI) periodically examine the statutory financial statements of their respective domiciliary insurance companies. In 2015, the California DOI and Nevada DOI completed financial examinations for ECIC and EICN, respectively. There were no material findings. The Florida OIR is in the process of completing its regularly scheduled exams of EPIC and EAC.

Many states have laws and regulations that limit an insurer's ability to withdraw from a particular market. For example, states may limit an insurer's ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance regulator. The state insurance regulator may disapprove a plan that may lead to market disruption. We are subject to laws and regulations of this type, and these laws and regulations may restrict our ability to exit unprofitable markets.

Holding Company Regulation. Nearly all states have enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance regulator of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting an insurer must have fair and reasonable terms, the charges or fees for services performed must be reasonable, the insurer's total statutory surplus following any transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs, and are subject to other standards and requirements established by law and regulation. Notice to state insurance regulators is required prior to the consummation of certain affiliated and other transactions involving our insurance subsidiaries and such transactions may be disapproved by the state insurance regulators.

Pursuant to applicable insurance holding company laws, EICN is required to register with the Nevada DOI, ECIC is required to register with the California DOI, and EPIC and EAC are required to register with the Florida OIR. Under these laws, the respective state insurance departments may examine us at any time, require disclosure of material transactions and require prior notice for, or approval of, certain transactions.

Change of Control. Our insurance subsidiaries are domiciled in Florida, California and Nevada. The insurance laws of these states generally require that any person seeking to acquire control of a domestic insurance company obtain the prior approval of the state's insurance commissioner. In Florida, "control" is generally presumed to exist through the direct or indirect ownership of 5% or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company. In California and Nevada, "control" is presumed to exist through the direct or indirect ownership of 10% or more of the voting

securities of a domestic insurance company or of any entity that controls a domestic insurance company. In addition, insurance laws in many states in which we are licensed require pre-notification to the state's insurance commissioner of a change in control of a non-domestic insurance company licensed in those states.

Statutory Accounting and Solvency Regulations. State insurance regulators closely monitor the financial condition of insurance companies reflected in financial statements based on SAP and can impose significant financial and operating restrictions on an insurance company that becomes financially impaired under SAP guidelines. State insurance regulators can generally impose restrictions or conditions on the activities of a financially impaired insurance company, including: the transfer or disposition of assets; the withdrawal of funds from bank accounts; payment of dividends or other distributions; the extension of credit or the advancement of loans; and investments of funds, including business acquisitions or combinations.

Financial, Dividend, and Investment Restrictions. State laws require insurance companies to maintain minimum levels of surplus and place limits on the amount of premiums a company may write based on the amount of that company's surplus. These limitations may restrict the rate at which our insurance operations can grow.

State laws also require insurance companies to establish reserves for payments of policyholder liabilities and impose restrictions on the kinds of assets in which insurance companies may invest. These restrictions may require us to invest in assets more conservatively than we would if we were not subject to state law restrictions and may prevent us from obtaining as high a return on our assets as we might otherwise be able to realize absent the restrictions.

The ability of EHI to pay dividends on our common stock and to pay other expenses will be dependent to a significant extent upon the ability of EICN and EPIC to pay dividends to their immediate holding company, Employers Group, Inc. (EGI) and, in turn, the ability of EGI to pay dividends to EHI. Additional information regarding financial, dividend, and investment restrictions is set forth in Note 15 in the Notes to our Consolidated Financial Statements.

Insurance Assessments. All of the states where our insurance subsidiaries are licensed to transact business require property and casualty insurers doing business within the state to pay various insurance assessments. We accrue a liability for estimated insurance assessments as direct premiums are written, losses are recorded, or as other events occur in accordance with various states' laws and regulations, and defer these costs and recognize them as an expense as the related premiums are earned. Various mechanisms exist in some of these states for assessed insurance companies to recover certain assessments. Additional information regarding insurance assessments is set forth in Note 12 in the Notes to our Consolidated Financial Statements.

Pooling Arrangements. As a condition to conduct business in some states, insurance companies are required to participate in mandatory workers' compensation shared market mechanisms, or pooling arrangements, which provide workers' compensation insurance coverage to private businesses that are otherwise unable to obtain coverage due, for example, to their prior loss experiences.

The National Association of Insurance Commissioners (NAIC). The NAIC is a group formed by state insurance regulators to discuss issues and formulate policy with respect to regulation, reporting, and accounting of and by U.S. insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states and, to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which insurance laws are enacted. Model Insurance Laws, Regulations, and Guidelines (Model Laws) have been promulgated by the NAIC as a minimum standard by which state regulatory systems and regulations are measured. Adoption of state laws that provide for substantially similar regulations to those described in the Model Laws is a requirement for accreditation of state insurance regulatory agencies by the NAIC.

Under the Model Laws, insurers are required to maintain minimum levels of capital based on their investments and operations. These risk-based capital (RBC) requirements provide a standard by which regulators can assess the adequacy of an insurance company's capital and surplus relative to its operations. An insurance company must maintain capital and surplus of at least 200% of the RBC computed by the NAIC's RBC model, known as the "Authorized Control Level" of RBC. At December 31, 2015, each of our insurance subsidiaries had total adjusted capital in excess of the minimum RBC requirements.

The key financial ratios of the NAIC's Insurance Regulatory Information System (IRIS) were developed to assist state regulators in overseeing the financial condition of insurance companies. These ratios are reviewed by financial examiners of the NAIC and state insurance regulators for the purposes of detecting financial distress and preventing insolvency and to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies 13 key financial ratios and specifies a "usual range" for each. Departure from the usual ranges on four or more of the ratios can lead to inquiries from individual state insurance regulators as to certain aspects of an insurer's business. None of our insurance subsidiaries are currently subject to any action by any state regulator with respect to IRIS ratios.

Item 1A. Risk Factors

Investing in our common stock involves risks. In evaluating our company, you should carefully consider the risks described below, together with all the information included or incorporated by reference in this report. The risks facing our company include, but

are not limited to, those described below. Additional risks that we are not presently aware of or that we currently believe are immaterial may also impair our business operations. The occurrence of one or more of these events could significantly and adversely affect our business, financial condition, results of operations, cash flows, and stock price, and you could lose all or part of your investment.

Our liability for losses and LAE is based on estimates and may be inadequate to cover our actual losses and expenses.

We must establish and maintain reserves for our estimated losses and LAE. We establish loss reserves in our financial statements that represent an estimate of amounts needed to pay and administer claims with respect to insured claims that have occurred, including claims that have occurred but have not yet been reported to us. Loss reserves are estimates of the ultimate cost of individual claims based on actuarial estimation techniques, are inherently uncertain, and do not represent an exact measure of liability.

Several factors contribute to the inherent uncertainty in establishing estimated losses, including the length of time to settle long-term, severe cases, claim cost inflation (deflation) trends, and uncertainties in the long-term outcome of legislative reforms. Judgment is required in applying actuarial techniques to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. In certain states, we have a relatively short operating history and must rely on a combination of industry experience and our specific experience regarding claims emergence and payment patterns, medical cost inflation, and claim cost trends, adjusted for future anticipated changes in claims-related and economic trends, as well as regulatory and legislative changes, to establish our best estimate of reserves for losses and LAE. As we receive new information and update our assumptions over time regarding the ultimate liability, our loss reserves may prove to be inadequate to cover our actual losses, and we have in the past made, and may in the future make, adjustments to our reserves based on a number of factors. Any changes in these estimates could be material and could have an adverse effect on our results of operations and financial condition during the period the changes are made.

The insurance business is subject to extensive regulation and legislative changes, which impact the manner in which we operate our business.

Our insurance business is subject to extensive regulation by the applicable state agencies in the jurisdictions in which we operate, most significantly by the insurance regulators in California, Florida, and Nevada, the states in which our insurance subsidiaries are domiciled. As of December 31, 2015, over one-half of our in-force premiums were generated in California. Accordingly, we are particularly affected by regulation in California. The passage of any form of rate regulation in California could impair our ability to operate profitably in California, and any such impairment could have a material adverse effect on our financial condition and results of operations.

More generally, insurance regulators have broad regulatory powers designed to protect policyholders and claimants, and not stockholders or other investors. Regulations vary from state to state, but typically address or include:

- standards of solvency, including RBC measurements;
- restrictions on the nature, quality, and concentration of investments;
- restrictions on the types of terms that we can include in the insurance policies we offer;
- mandates that may affect wage replacement and medical care benefits paid under the workers' compensation system;
- requirements for the handling and reporting of claims and procedures for adjusting claims;
- restrictions on the way rates are developed and premiums are determined;
- the manner in which agents may be appointed;
- establishment of liabilities for unearned premiums, unpaid losses and LAE;
- limitations on our ability to transact business with affiliates;
- mergers, acquisitions, and divestitures involving our insurance subsidiaries;
- licensing requirements and approvals that affect our ability to do business;
- compliance with all applicable privacy laws;
- potential assessments for the settlement of covered claims under insurance policies issued by impaired, insolvent, or failed insurance companies or other assessments imposed by regulatory agencies; and
- the amount of dividends that our insurance subsidiaries may pay to EGI and, in turn, the ability of EGI to pay dividends to EHI.

Workers' compensation insurance is statutorily provided for in all of the states in which we do business. State laws and regulations specify the form and content of policy coverage and the rights and benefits that are available to injured workers, their representatives, and medical providers. In "administered pricing" states, insurance rates are set by the state insurance regulators and are adjusted periodically. Rate competition is generally not permitted in these states. Of the states in which we currently operate, Florida, Wisconsin, and Idaho are administered pricing states. Additionally, we are exposed to the risk that other states in which we operate will adopt administered pricing laws.

Legislation and regulation impact our ability to investigate fraud and other abuses of the workers' compensation system in the states in which we do business. Our relationships with medical providers are also impacted by legislation and regulation, including penalties for failure to make timely payments.

Federal legislation typically does not directly impact our workers' compensation business, but our business can be indirectly affected by changes in healthcare, occupational safety and health, and tax and financial regulations. Since healthcare costs are the largest component of our loss costs, we may be impacted by changes in healthcare legislation, such as the ongoing implementation of the Affordable Care Act, which could affect healthcare costs and delivery in the future. There is also the possibility of federal regulation of insurance.

This extensive regulation of our business may affect the cost or demand for our products and may limit our ability to obtain rate increases or to take other actions that we might desire to maintain our profitability. In addition, we may be unable to maintain all required approvals or comply fully with applicable laws and regulations, or the relevant governmental authority's interpretation of such laws and regulations. If that were to occur, we might lose our ability to conduct business in certain jurisdictions. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations or interpretations by regulatory authorities could impact our operations, require us to bear additional costs of compliance, and impact our profitability.

If we fail to price our insurance policies appropriately, our business competitiveness, financial condition, and results of operations could be materially adversely affected.

Premiums are based on the particular class of business and our estimates of expected losses and LAE and other expenses related to the policies we underwrite. We analyze many factors when pricing a policy, including the policyholder's prior loss history and industry classification. Inaccurate information regarding a policyholder's past claims experience could put us at risk for mispricing our policies, which could have a material adverse effect on our business, financial condition, and results of operations. For example, when initiating coverage on a policyholder, we must rely on the information provided by the policyholder or the policyholder's previous insurer(s) to properly estimate future claims expense. In order to set premium rates accurately, we must utilize an appropriate pricing model which correctly assesses risks based on their individual characteristics and takes into account actual and projected industry characteristics.

Our concentration in California ties our performance to the business, economic, demographic, natural perils, competitive, and regulatory conditions in that state.

Our business is concentrated in California, where we generated 57% of our in-force premiums as of December 31, 2015. Accordingly, the loss environment and unfavorable business, economic, demographic, natural perils, competitive, and regulatory conditions in California could negatively impact our business.

Many California businesses are dependent on tourism revenues, which are, in turn, dependent on a robust economy. A downturn in the national economy or the economy of California, or any other event that causes deterioration in tourism, could adversely impact small businesses, such as restaurants, that we have targeted as customers. The departure from California or insolvency of a significant number of small businesses could also have a material adverse effect on our financial condition and results of operations. California is also exposed to climate and environmental changes, natural perils such as earthquakes, and susceptible to the possibility of pandemics or terrorist acts. Accordingly, we could suffer losses as a result of catastrophic events in this state. Additionally, the workers' compensation industry has seen an increase in claims litigation in California. Because of the concentration of our business in California, we may be exposed to losses and business, economic, and regulatory risks or risk from natural perils that are greater than the risks associated with companies with greater geographic diversification.

We rely on independent insurance agents and brokers.

We market and sell our insurance products primarily through independent, non-exclusive insurance agents and brokers. These agents and brokers are not obligated to promote our products and can and do sell our competitors' products. In addition, these agents and brokers may find it easier to promote the broader range of programs of some of our competitors than to promote our single-line workers' compensation insurance products. The loss of a number of our independent agents and brokers or the failure or inability of these agents to successfully market our insurance programs could have a material adverse effect on our business, financial condition, and results of operations.

We rely on our relationship with our principal distribution partner.

We have an agreement with our principal distribution partner, ADP, to market and service our insurance products through its sales forces and insurance agencies. ADP generated 11.5% of our total in-force premiums as of December 31, 2015. Our agreement with ADP is not exclusive, and ADP may terminate the agreement without cause upon 120 days notice. The termination of this agreement, our failure to maintain a good relationship with ADP, or its failure to successfully market our products may materially reduce our revenues and could have a material adverse effect on our results of operations. In addition, we are subject to the risk that ADP may face financial difficulties, reputational issues, or problems with respect to its own products and services, which may lead to decreased sales of our products and services. Moreover, if ADP consolidates or aligns itself with another company or

changes its products that are currently offered with our workers' compensation insurance products, we may lose business or suffer decreased revenues.

We are also subject to credit risk with respect to ADP, as it collects premiums on our behalf for the workers' compensation products that are marketed together with its own products. Any failure to remit such premiums to us or to remit such amounts on a timely basis could have an adverse effect on our results of operations.

A downgrade in our financial strength rating could reduce the amount of business that we are able to write or result in the termination of certain of our agreements with our strategic partners.

Rating agencies rate insurance companies based on financial strength as an indication of an ability to pay claims. Our insurance subsidiaries are currently assigned a group letter rating of "A-" (Excellent) by A.M. Best, which is the rating agency that we believe has the most influence on our business. This rating is assigned to companies that, in the opinion of A.M. Best, have demonstrated an excellent overall performance when compared to industry standards. A.M. Best considers "A-" (Excellent) rated companies to have an excellent ability to meet their ongoing obligations to policyholders. This rating does not refer to our ability to meet non-insurance obligations.

The financial strength ratings of A.M. Best and other rating agencies are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Insurance financial strength ratings are directed toward the concerns of policyholders and insurance agents and are not intended for the protection of investors or as a recommendation to buy, hold, or sell securities. Our competitive position relative to other companies is determined in part by our financial strength rating. A reduction in our A.M. Best rating could adversely affect the amount of business we could write, as well as our relationships with independent agents and brokers and our principal distribution partners, reinsurers, and other business partners.

A.M. Best is in the process of making revisions to its capital adequacy model, which is expected to be completed in late 2016, which could increase the capital and other requirements employed in their models for maintenance of certain rating levels. Additionally, A.M. Best may increase the frequency and scope of their reviews, and request additional information from the companies that they rate, including additional information regarding the valuation of investment securities held. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies.

If we are unable to obtain reinsurance or collect on ceded reinsurance, our ability to write new policies and to renew existing policies could be adversely affected and our financial condition and results of operations could be materially adversely affected.

At December 31, 2015, we had \$635.9 million of reinsurance recoverables for paid and unpaid losses and LAE, of which \$7.7 million was due to us on paid claims.

We purchase reinsurance to protect us against the costs of severe claims and catastrophic events, including natural perils and acts of terrorism, excluding nuclear, biological, chemical, and radiological events. On July 1, 2015, we entered into a new reinsurance program that is effective through June 30, 2016. The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in five layers of coverage. Our reinsurance coverage is \$193.0 million in excess of our \$7.0 million retention on a per occurrence basis, subject to certain exclusions.

The availability, amount, and cost of reinsurance depend on market conditions and our loss experience and may vary significantly. We cannot be certain that our reinsurance agreements will be renewed or replaced prior to their expiration upon terms satisfactory to us. If we are unable to renew or replace our reinsurance agreements upon terms satisfactory to us, our net liability on individual risks would increase and we would have greater exposure to large and catastrophic losses, which could have a material adverse effect on our financial condition and results of operations.

In addition, we are subject to credit risk with respect to our reinsurers, and they may refuse to pay or delay payment of losses we cede to them. We remain liable to our policyholders even if we are unable to make recoveries that we believe we are entitled to under our reinsurance contracts. Losses may not be recovered from our reinsurers until claims are paid and, in the case of long-term workers' compensation cases, the creditworthiness of our reinsurers may change before we can recover amounts that we are entitled to. The inability of any of our reinsurers to meet their financial obligations could have a material adverse effect on our financial condition and results of operations.

We obtained reinsurance covering the losses incurred prior to July 1, 1995, and we could be liable for all of those losses if the coverage provided by the LPT Agreement proves inadequate or we fail to collect from the reinsurers that are party to such transaction.

On January 1, 2000, EICN assumed all of the assets, liabilities, and operations of the Fund, including losses incurred by the Fund prior to such date. EICN also assumed the Fund's rights and obligations associated with the LPT Agreement that the Fund entered into with third party reinsurers with respect to its losses incurred prior to July 1, 1995, see "Item 1 –Business –Reinsurance –LPT Agreement." We could be liable for all of those losses if the coverage provided by the LPT Agreement proves inadequate or we fail to collect from the reinsurers party to such transaction. As of December 31, 2015, the estimated remaining liabilities subject

to the LPT Agreement were \$498.0 million. If we are unable to collect on these reinsurance recoverables, our financial condition and results of operations could be materially adversely affected.

The reinsurers under the LPT Agreement agreed to assume responsibilities for the claims at the benefit levels which existed in June 1999. Accordingly, if the Nevada legislature were to increase the benefits payable for the pre-July 1, 1995 claims, we would be responsible for the increased benefit costs to the extent of the legislative increase. If the credit rating of any of the third party reinsurers that are party to the LPT Agreement were to fall below "A-" (Excellent) as determined by A.M. Best or one of the reinsurers becomes insolvent, we would be responsible for replacing any such reinsurer or would be liable for the claims that otherwise would have been transferred to such reinsurer. For example, in 2002, the rating of one of the original reinsurers under the LPT Agreement, Gerling Global International Reinsurance Company Ltd. (Gerling), dropped below the mandatory "A-" (Excellent) rating to "B+" (Good). Accordingly, we entered into an agreement to replace Gerling with National Indemnity Company at a cost to us of \$33.0 million. We can give no assurance that circumstances requiring us to replace one or more of the current reinsurers under the LPT Agreement will not occur in the future, that we will be successful in replacing such reinsurer or reinsurers in such circumstances, or that the cost of such replacement or replacements will not have a material adverse effect on our results of operations or financial condition.

The LPT Agreement also required the reinsurers to each place assets supporting the payment of claims by them in individual trusts that require that collateral be held at a specified level. The collateralization level must not be less than the outstanding reserve for losses and a loss expense allowance equal to 7% of estimated paid losses discounted at a rate of 6%. If the assets held in trust fall below this threshold, we can require the reinsurers to contribute additional assets to maintain the required minimum level. The value of these assets at December 31, 2015 was \$1.4 billion. If the value of the collateral in the trusts drops below the required minimum level and the reinsurers are unable to contribute additional assets, we could be responsible for substituting a new reinsurer or paying those claims without the benefit of reinsurance. One of the reinsurers has collateralized its obligations under the LPT Agreement by placing shares of stock of a publicly held corporation, with a value of \$1.3 billion at December 31, 2015, in a trust to secure the reinsurer's obligation of \$273.9 million. The value of this collateral is subject to fluctuations in the market price of such stock. The other reinsurers have placed treasury and fixed maturity securities in trusts to collateralize their obligations.

Intense competition and the fact that we write only a single line of insurance could adversely affect our ability to sell policies at rates we deem adequate.

The market for workers' compensation insurance products is highly competitive. Competition in our business is based on many factors, including premiums charged, services provided, financial ratings assigned by independent rating agencies, speed of claims payments, reputation, policyholder dividends, perceived financial strength, and general experience. In some cases, our competitors offer lower priced products than we do. If our competitors offer more competitive premiums, policyholder dividends, or payment plans, services or commissions to independent agents, brokers, and other distributors, we could lose market share, have to reduce our premium rates, or increase commission rates, which could adversely affect our profitability. We compete with regional and national insurance companies, professional employer organizations, third-party administrators, self-insured employers, and state insurance funds. Our main competitors vary from state to state, but are usually those companies that offer a full range of services in underwriting, loss control, and claims. We compete on the basis of the services that we offer to our policyholders and on ease of doing business rather than solely on price.

Many of our competitors are significantly larger and possess greater financial, marketing, and management resources than we do. Some of our competitors benefit financially by not being subject to federal income tax. Intense competitive pressure on prices can result from the actions of even a single large competitor. Competitors with more surplus than us have the potential to expand in our markets more quickly than we can. Greater financial resources also permit an insurer to gain market share through more competitive pricing, even if that pricing results in reduced underwriting margins or an underwriting loss.

Many of our competitors are multi-line carriers that can price the workers' compensation insurance they offer at a loss in order to obtain other lines of business at a profit. This creates a competitive disadvantage for us, as we only offer a single line of insurance. For example, a business may find it more efficient or less expensive to purchase multiple lines of commercial insurance coverage from a single carrier.

The property and casualty insurance industry is cyclical in nature and is characterized by periods of so-called "soft" market conditions, in which premium rates are stable or falling, insurance is readily available, and insurers' profits decline, and by periods of so-called "hard" market conditions, in which rates rise, insurance may be more difficult to find, and insurers' profits increase. According to the Insurance Information Institute, since 1970, the property and casualty insurance industry experienced hard market conditions from 1975 to 1978, 1984 to 1987, and 2001 to 2004. Although the financial performance of an individual insurance company is dependent on its own specific business characteristics, the profitability of most workers' compensation insurance companies generally tends to follow this cyclical market pattern. We believe the workers' compensation industry currently has excess underwriting capacity resulting in lower rate levels and smaller profit margins. We continue to experience price competition in our target markets.

Because of cyclicalities in the workers' compensation market, due in large part to competition, capacity, and general economic factors, we cannot predict the timing or duration of changes in the market cycle. This cyclical pattern has in the past and could in the future adversely affect our financial condition and results of operations. If we are unable to compete effectively, our business, financial condition, and results of operations could be materially adversely affected.

We may be unable to realize our investment objectives and economic conditions in the financial markets could lead to investment losses.

Investment income is an important component of our revenue and net income. Our investment portfolio is managed by an independent asset manager that operates under investment guidelines approved by our Board of Directors. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks that are beyond our control, including risks related to general economic conditions, interest rate fluctuations, and market volatility. Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. These and other factors affect the capital markets and, consequently, the value of our investment portfolio.

We are exposed to significant financial risks related to the capital markets, including 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 interest rate risk, credit risk, and equity price risk. For more information regarding market risk, see "Item 7A—Quantitative and Qualitative Disclosures About Market Risk."

The outlook for our investment income is dependent on the future direction of interest rates, maturity schedules, and cash flow from operations that is available for investment. The fair values of fixed maturity securities that are "available-for-sale" fluctuate with changes in interest rates and cause fluctuations in our stockholders' equity. Any significant decline in our investment income or the value of our investments as a result of changes in interest rates, deterioration in the credit of companies or municipalities in which we have invested, decreased dividend payments, general market conditions, or events that have an adverse impact on any particular industry or geographic region in which we hold significant investments could have an adverse effect on our net income and, as a result, on our stockholders' equity and policyholder surplus.

The valuation of our investments, including the determination of the amount of impairments, include estimates and assumptions and could result in changes to investment valuations that may adversely affect our financial condition and results of operations. The use of internally developed valuation techniques may have a material effect on the estimated fair value amounts of our investments and our financial condition.

Additionally, we regularly review our entire investment portfolio, including the identification of other-than-temporary declines in fair value. The determination of the amount of impairments taken on our investments is based on our periodic evaluation and assessment of our investments and known and inherent risks associated with the various asset classes. There can be no assurance that we have accurately determined the level of other-than-temporary impairments reflected in our financial statements and additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

We may require additional capital in the future, which may not be available to us or may be available only on unfavorable terms.

Our future capital requirements will depend on many factors, including state regulatory requirements, our ability to write new business successfully, and to establish premium rates and reserves at levels sufficient to cover losses. If we have to raise additional capital, equity or debt financing may not be available on terms that are favorable to us. In the case of equity financings, there could be dilution to our stockholders and the securities may have rights, preferences, and privileges senior to our common stock. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to implement our future growth or operating plans and our business, financial condition, and results of operations could be materially adversely affected.

The capital and credit markets continue to experience volatility and disruption that have negatively affected market liquidity conditions. In some cases, the markets have produced downward pressure on stock prices and limited the availability of credit for certain issuers without regard to those issuers' underlying financial strength. As a result, we may be forced to delay raising capital or be unable to raise capital on favorable terms, or at all, which could decrease our profitability, significantly reduce our financial flexibility, and cause rating agencies to reevaluate our financial strength ratings.

We are a holding company with no direct operations. We depend on the ability of our subsidiaries to transfer funds to us to meet our obligations, and our insurance subsidiaries' ability to pay dividends to us is restricted by law.

EHI is a holding company that transacts substantially all of its business through operating subsidiaries. Its primary assets are the shares of stock of our insurance subsidiaries. The ability of EHI to meet its operating and financing cash needs depends on the surplus and earnings of our subsidiaries, and upon the ability of our insurance subsidiaries to pay dividends to EGI and, in turn, the ability of EGI to pay dividends to EHI.

Payments of dividends by our insurance subsidiaries are restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. As a result, we may not be able to receive dividends from these subsidiaries and we may not receive dividends in the amounts necessary to meet our obligations or to pay dividends on our common stock.

We rely on our information technology and telecommunication systems, and the failure of these systems or cyber attacks on our systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, administer and make payments on claims, facilitate collections, and to automatically underwrite and administer the policies we write. The failure of any of our systems could interrupt our operations or materially impact our ability to evaluate and write new business. Our information technology and telecommunications systems interface with and depend on third-party systems, and we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions.

Certain events outside of our control, including cyber attacks on our systems, could render our systems inoperable such that we would be unable to service our agents, insureds, and injured workers, or meet certain regulatory requirements. If such an event were to occur and our systems were unable to be restored or secured within a reasonable timeframe, our business, financial condition, and results of operations could be adversely affected. Additionally, cyber attacks resulting in a breach of security could jeopardize the privacy, confidentiality, and integrity of our data or our customers' data, which could harm our reputation and expose us to possible liability.

Acts of terrorism and catastrophes could materially adversely impact our financial condition and results of operations.

Under our workers' compensation policies and applicable laws in the states in which we operate, we are required to provide workers' compensation benefits for losses arising from acts of terrorism. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location, and timing of such an act. We would be particularly adversely affected by a terrorist act affecting any metropolitan area where our policyholders have a large concentration of workers.

Notwithstanding the protection provided by the reinsurance we have purchased and any protection provided by the 2002 Act, or its extension, TRIPRA of 2015, the risk of severe losses to us from acts of terrorism has not been eliminated because our excess of loss reinsurance treaty program contains various sub-limits and exclusions limiting our reinsurers' obligation to cover losses caused by acts of terrorism. Our excess of loss reinsurance treaties do not protect against nuclear, biological, chemical, or radiological events. If such an event were to impact one or more of the businesses we insure, we would be entirely responsible for any workers' compensation claims arising out of such event, subject to the terms of the 2002 Act and TRIPRA of 2015 and could suffer substantial losses as a result.

Our operations also expose us to claims arising out of catastrophes because we may be required to pay benefits to workers who are injured in the workplace as a result of a catastrophe. Catastrophes can be caused by various unpredictable events, either natural or man-made. Any catastrophe occurring in the communities in which we operate or that have significant impacts on one or more of our targeted classes of business could expose us to potentially substantial losses and, accordingly, could have a material adverse effect on our financial condition and results of operations.

Administrative proceedings or legal actions involving our insurance subsidiaries could have a material adverse effect on our business, financial condition and results of operations.

Our insurance subsidiaries are involved in various administrative proceedings and legal actions in the normal course of their insurance operations. Our subsidiaries have responded to the actions and intend to defend against these claims. These claims concern issues including eligibility for workers' compensation insurance coverage or benefits, the extent of injuries, wage determinations, disability ratings, and bad faith and extra-contractual liability. Adverse decisions in multiple administrative proceedings or legal actions could require us to pay significant amounts in the aggregate or to change the manner in which we administer claims, which could have a material adverse effect on our financial condition and results of operations.

Our business is largely dependent on the efforts of our management because of its industry expertise, knowledge of our markets, and relationships with the independent agents and brokers that sell our products.

Our success depends in substantial part upon our ability to attract and retain qualified executive officers, experienced underwriting and claims personnel, and other skilled employees who are knowledgeable about our business. The current success of our business is dependent in significant part on the efforts of Douglas D. Dirks, our President and Chief Executive Officer, and Terry Eleftheriou, our Executive Vice President and Chief Financial Officer. Many of our regional and local officers are also important to our operations because of their industry expertise, knowledge of our markets, and relationships with the independent agents and brokers who sell our products. We have entered into employment agreements with certain of our key executives. Currently, we maintain key man life insurance for our Chief Executive Officer. If we were to lose the services of members of our management team or

key regional or local officers, we may be unable to find replacements satisfactory to us and our business. As a result, our operations may be disrupted and our financial performance and results of operations may be adversely affected.

Assessments and other surcharges for guaranty funds, second injury funds, and other mandatory pooling arrangements may reduce our profitability.

All states require insurance companies licensed to do business in their state to bear a portion of the unfunded obligations of insolvent insurance companies. These obligations are funded by assessments that can be expected to continue in the future in the states in which we operate. Many states also have laws that establish second injury funds to provide compensation to injured employees for aggravation of a prior condition or injury, which are funded by either assessments based on paid losses or premium surcharge mechanisms. In addition, as a condition to the ability to conduct business in some states, insurance companies are required to participate in mandatory workers' compensation shared market mechanisms or pooling arrangements, which provide workers' compensation insurance coverage from private insurers. The effect of these assessments and mandatory shared market mechanisms or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

State insurance laws, certain provisions of our charter documents, and Nevada corporation law could prevent or delay a change of control that could be beneficial to us and our stockholders.

Our insurance subsidiaries are domiciled in Florida, California, and Nevada. The insurance laws of these states generally require that any person seeking to acquire control of a domestic insurance company obtain the prior approval of the state's insurance commissioner. In Florida, "control" is generally presumed to exist through the direct or indirect ownership of 5% or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company. In California and Nevada, "control" is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company. In addition, insurance laws in many states in which we are licensed require pre-notification to the state's insurance commissioner of a change in control of a non-domestic insurance company licensed in those states. Because we have insurance subsidiaries domiciled in Florida, California, and Nevada, any transaction that would constitute a change in control of us would generally require the party acquiring control to obtain the prior approval of the insurance commissioners of these states and may require pre-notification of the change of control in these or other states in which we are licensed to transact business. The time required to obtain these approvals may result in a material delay of, or deter, any such transaction. These laws may discourage potential acquisition proposals or tender offers, and may delay, deter, or prevent a change of control, even if the acquisition proposal or tender offer is favorable to our stockholders.

Provisions of our amended and restated articles of incorporation and amended and restated by-laws could discourage, delay, or prevent a merger, acquisition, or other change in control of us, even if our stockholders might consider such a change in control to be favorable. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect Directors and take other corporate actions. In particular, our amended and restated articles of incorporation and amended and restated by-laws include provisions:

- dividing our Board of Directors into three classes;
- eliminating the ability of our stockholders to call special meetings of stockholders;
- permitting our Board of Directors to issue preferred stock in one or more series;
- imposing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at the stockholder meetings;
- prohibiting stockholder action by written consent, thereby limiting stockholder action to that taken at an annual or special meeting of our stockholders; and
- providing our Board of Directors with exclusive authority to adopt or amend our by-laws.

These provisions may make it difficult for stockholders to replace Directors and could have the effect of discouraging a future takeover attempt that is not approved by our Board of Directors, but which stockholders might consider favorable. Additionally, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are 79,533 square feet located in leased premises in Reno, Nevada. As of February 1, 2016, we leased 212,750 square feet of office space in 8 states. We believe that our existing office space is adequate for our current needs. We will continue to enter into or exit lease agreements to address future space requirements, as necessary.

Item 3. Legal Proceedings

From time to time, we are 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 result of operations, liquidity, or financial position.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders, and Stockholder Dividends

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "EIG." There were 1,080 holders of record as of February 10, 2016. High and low sales prices and cash dividends declared for the last two fiscal years were as follows:

Quarter Ended	2015			2014		
	Stock Price		Cash Dividends Declared	Stock Price		Cash Dividends Declared
	High	Low		High	Low	
March 31	\$ 27.22	\$ 20.62	\$ 0.06	\$ 31.60	\$ 18.91	\$ 0.06
June 30	27.65	22.28	0.06	23.14	19.17	0.06
September 30	26.40	21.46	0.06	22.26	18.89	0.06
December 31	28.35	20.86	0.06	23.70	18.81	0.06

We currently expect that cash dividends will continue to be paid in the future; however, any determination to pay additional or future dividends will be at the discretion of our Board of Directors and will be dependent upon:

- the surplus and earnings of our subsidiaries and their ability to pay dividends and/or other statutorily permissible payments to us;
- our results of operations and cash flows;
- our financial position and capital requirements;
- general business conditions;
- any legal, tax, regulatory, and/or contractual restrictions on the payment of dividends; and
- any other factors our Board of Directors deems relevant.

Issuer Purchases of Equity Securities

On February 16, 2016, the Board of Directors authorized a share repurchase program for up to \$50.0 million of our common stock from February 22, 2016 through February 22, 2018 (the 2016 Program). We expect that shares of common stock 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 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 2016 Program may be commenced, modified, or suspended from time-to-time without prior notice.

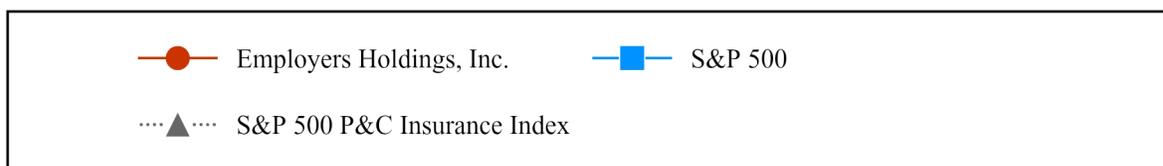
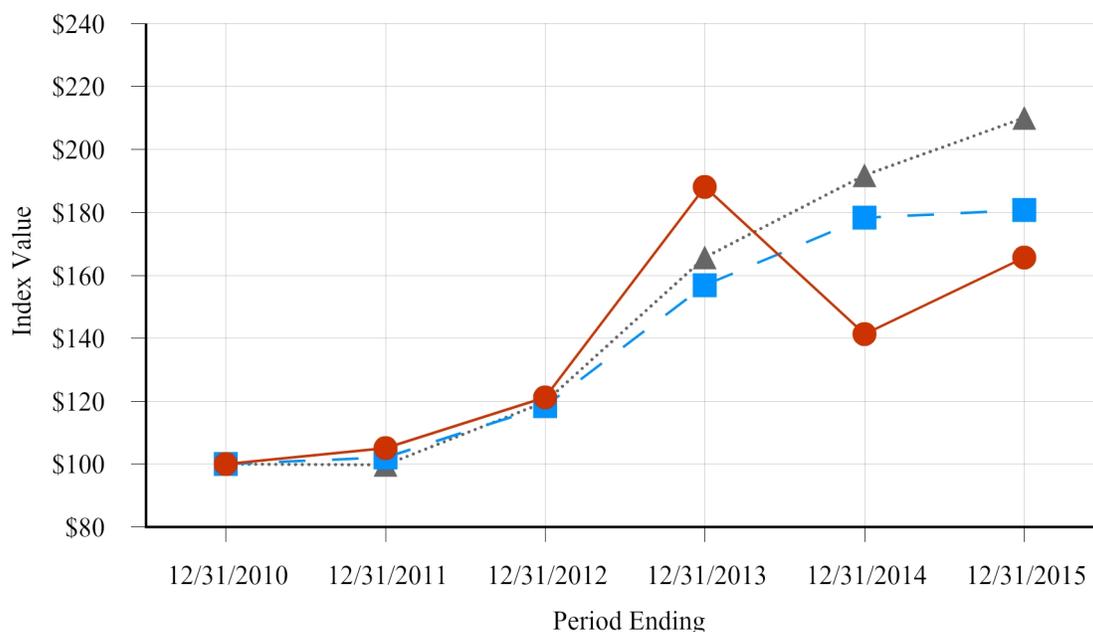
There were no unregistered sales or purchases of equity securities during the three months ended December 31, 2015.

Performance Graph

The following information compares the cumulative total return on \$100 invested in the common stock of EHI, ticker symbol EIG, for the period commencing on December 31, 2010 and ending on December 31, 2015 with the cumulative total return on \$100 invested in each of the Standard and Poor's 500 Index (S&P 500) and the Standard and Poor's 500 Property-Casualty Insurance Index (S&P P&C Insurance Index). The calculation of cumulative total return assumes the reinvestment of dividends. The following graph and related information shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any filing pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into such filing.

Employers Holdings, Inc. Cumulative Total Return Performance

Total Return Performance



	Period Ending					
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Employers Holdings, Inc.	\$ 100.00	\$ 105.05	\$ 121.17	\$ 188.07	\$ 141.30	\$ 165.65
S&P 500	100.00	102.11	118.45	156.82	178.29	180.75
S&P P&C Insurance Index	100.00	99.75	119.81	165.69	191.78	210.05

Item 6. Selected Financial Data

The following selected historical consolidated financial data should be read in conjunction with "Item 7—Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
(in millions, except per share amounts and ratios)					
Income Statement Data					
Revenues:					
Net premiums earned	\$ 690.4	\$ 684.5	\$ 642.3	\$ 501.5	\$ 363.4
Net investment income	72.2	72.4	70.8	72.4	80.1
Net realized (losses) gains on investments	(10.7)	16.3	9.5	5.0	20.2
Other income	0.2	0.3	0.9	0.3	0.5
Total revenues	752.1	773.5	723.5	579.2	464.2
Net income before income taxes	99.4	106.6	53.1	97.6	46.5
Income tax expense (benefit)	5.0	5.9	(10.7)	(9.3)	(2.1)
Net income	\$ 94.4	\$ 100.7	\$ 63.8	\$ 106.9	\$ 48.6
Earnings per common share					
Basic	\$ 2.94	\$ 3.19	\$ 2.05	\$ 3.40	\$ 1.30
Diluted	2.90	3.14	2.00	3.37	1.30
Selected Operating Data					
Gross premiums written ⁽¹⁾	\$ 697.7	\$ 697.7	\$ 689.9	\$ 580.3	\$ 418.5
Net premiums written ⁽²⁾	\$ 689.3	\$ 687.6	\$ 678.5	\$ 569.7	\$ 410.0
Combined ratio ⁽³⁾	94.1%	97.0%	103.9%	95.3%	114.0%
Net income before impact of the LPT Agreement ⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ 74.0	\$ 45.7	\$ 25.9	\$ 7.0	\$ 29.3
Earnings per common share before impact of the LPT Agreement⁽⁶⁾					
Basic	\$ 2.31	\$ 1.45	\$ 0.83	\$ 0.22	0.79
Diluted	2.27	1.43	0.81	0.22	0.78
Cash dividends declared per common share	0.24	0.24	0.24	0.24	0.24
As of December 31,					
	2015	2014	2013	2012	2011
	(in millions)				
Balance Sheet Data					
Cash and cash equivalents	\$ 56.6	\$ 103.6	\$ 34.5	\$ 140.7	\$ 252.3
Total investments	2,487.2	2,448.4	2,344.8	2,149.5	1,950.7
Reinsurance recoverable on paid and unpaid losses	635.9	680.2	751.1	814.9	951.5
Total assets	3,755.8	3,769.7	3,643.5	3,511.3	3,482.3
Unpaid losses and loss adjustment expense	2,347.5	2,369.7	2,330.5	2,231.5	2,272.4
Deferred reinsurance gain—LPT Agreement ⁽⁴⁾⁽⁵⁾	189.5	207.0	249.1	281.0	366.0
Notes payable	32.0	92.0	102.0	112.0	122.0
Total liabilities	2,995.0	3,082.9	3,074.8	2,971.9	3,020.4
Total stockholders' equity	760.8	686.8	568.7	539.4	461.9
Other Financial Data					
Total stockholders' equity including deferred reinsurance gain—LPT Agreement ⁽⁴⁾⁽⁵⁾⁽⁷⁾	\$ 950.3	\$ 893.8	\$ 817.8	\$ 820.4	\$ 827.9

- (1) Gross premiums written is the sum of direct premiums written and assumed premiums written before the effect of ceded reinsurance. Direct premiums written are the premiums on all policies our insurance subsidiaries have issued during the year. Assumed premiums written are premiums that our insurance subsidiaries have received from any authorized state-mandated pools.
- (2) Net premiums written is the sum of direct premiums written and assumed premiums written less ceded premiums written. Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts. (See Note 10 in the Notes to our Consolidated Financial Statements.)
- (3) Combined ratio is the sum of the losses and LAE, commission expense, and underwriting and other operating expenses, divided by net premiums earned. Because we only have one operating segment, holding company expenses are included in the combined ratio.
- (4) In connection with our January 1, 2000 assumption of the assets, liabilities and operations of the Fund, our Nevada insurance subsidiary assumed the Fund's rights and obligations associated with the LPT Agreement, a retroactive 100% quota share reinsurance agreement with third party reinsurers, which substantially reduced our exposure to losses for pre-July 1, 1995 Nevada insured risks. Pursuant to the LPT

Agreement, the Fund initially ceded \$1.5 billion in liabilities for incurred but unpaid losses and LAE, which represented substantially all of the Fund's outstanding losses as of June 30, 1999 for claims with original dates of injury prior to July 1, 1995.

- (5) Deferred reinsurance gain–LPT Agreement reflects the unamortized gain from our LPT Agreement. Under GAAP, this gain is deferred and 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 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 reevaluations result 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, as the case may be, to net income.
- (6) We define net income before impact of the LPT Agreement as net income before the impact of: (a) amortization of Deferred Gain; (b) adjustments to the LPT Agreement ceded reserves; and (c) adjustments to Contingent commission receivable–LPT Agreement. These are not measurements of financial performance under GAAP, but rather reflect the difference in accounting treatment between SAP and GAAP, and should not be considered in isolation or as an alternative to 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 operating performance to be used by analysts, investors, and other interested parties in evaluating us.

The LPT Agreement was a non-recurring transaction which does not affect our ongoing operations and consequently we believe these presentations are useful in providing a meaningful understanding of our operating performance. In addition, we believe these non-GAAP measures, as we have defined them, are helpful to our management in identifying trends in our performance because the items excluded have limited significance in our current and ongoing operations.

The table below shows the reconciliation of net income to net income before impact of the LPT Agreement for the periods presented:

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(in millions)				
Net income	\$ 94.4	\$ 100.7	\$ 63.8	\$ 106.9	\$ 48.6
Less amortization of the Deferred Gain related to losses	9.5	11.2	12.9	15.4	17.1
Less amortization of the Deferred Gain related to contingent commission	1.9	1.9	1.7	1.6	1.1
Less impact of LPT Reserve Adjustments ^(a)	6.4	31.1	19.0	73.3	—
Less impact of LPT Contingent Commission Adjustments ^(b)	2.6	10.8	4.3	9.6	1.1
Net income before impact of the LPT Agreement	<u>\$ 74.0</u>	<u>\$ 45.7</u>	<u>\$ 25.9</u>	<u>\$ 7.0</u>	<u>\$ 29.3</u>

(a) Any adjustment to the estimated reserves ceded under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also included in losses and LAE incurred in the consolidated statement 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 (LPT Reserve Adjustment). (See Note 2 in the Notes to our Consolidated Financial Statements.)

(b) Any adjustment to the contingent profit commission under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also recognized in losses and LAE incurred in the consolidated statement 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. (LPT Contingent Commission Adjustment). (See Note 2 in the Notes to our Consolidated Financial Statements.)

- (7) We define Total stockholders' equity including the Deferred Gain as total equity plus the Deferred Gain. Total stockholders' equity including the Deferred Gain is not a measurement of financial position under GAAP and should not be considered in isolation or as an alternative to total equity or any other measure of financial health derived in accordance with GAAP.

We present Total stockholders' equity including the Deferred Gain because we believe that it is an important supplemental measure of financial position to be used by analysts, investors, and other interested parties in evaluating us. The LPT Agreement was a non-recurring transaction and the treatment of the Deferred Gain does not result in ongoing cash benefits or charges to our current operations and consequently we believe this presentation is useful in providing a meaningful understanding of our financial position.

The table below shows the reconciliation of Total stockholders' equity to Total stockholders' equity including the Deferred Gain for the periods presented:

	As of December 31,				
	2015	2014	2013	2012	2011
	(in millions)				
Total stockholders' equity	\$ 760.8	\$ 686.8	\$ 568.7	\$ 539.4	\$ 461.9
Deferred Gain	189.5	207.0	249.1	281.0	366.0
Total stockholders' equity including the Deferred Gain	<u>\$ 950.3</u>	<u>\$ 893.8</u>	<u>\$ 817.8</u>	<u>\$ 820.4</u>	<u>\$ 827.9</u>

Item 7. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes thereto included in Item 8 and Item 15 of this report. In addition to historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties and other factors described in Item 1A of this report. Our actual results in future periods may differ from those referred to herein due to a number of factors, including the risks described in the sections entitled "Risk Factors" and "Forward-Looking Statements" elsewhere in this report.

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 in 33 states and the District of Columbia, with a concentration in California, where over one-half of our business is generated. Our revenues are primarily comprised of net premiums earned, net investment income, and net realized gains on investments.

We target small businesses, as we believe that this market is traditionally characterized by fewer competitors, 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. 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.

Results of Operations

A primary measure of our performance is our ability to increase Adjusted stockholders' equity over the long-term. The following table shows a reconciliation of our stockholders' equity on a GAAP basis to our Adjusted stockholders' equity and the number of common shares outstanding.

	December 31,	
	2015	2014
	(in millions, except share data)	
GAAP stockholders' equity	\$ 760.8	\$ 686.8
Deferred reinsurance gain—LPT Agreement	189.5	207.0
Less: Accumulated other comprehensive income, net	83.6	106.9
Adjusted stockholders' equity ⁽¹⁾	<u>\$ 866.7</u>	<u>\$ 786.9</u>
Common shares outstanding	32,216,480	31,493,828

(1) Adjusted stockholders' equity is a non-GAAP measure that is defined as total stockholders' equity plus the Deferred reinsurance gain—LPT Agreement (Deferred Gain), less Accumulated other comprehensive income, net. We believe that Adjusted stockholders' equity is an important supplemental measure of our capital position.

Overall, net income was \$94.4 million, \$100.7 million, and \$63.8 million in 2015, 2014, and 2013, respectively and we recognized underwriting income (losses) of \$40.4 million, \$20.6 million, and \$(24.9) million for the same periods, respectively. Underwriting income or loss is determined by deducting losses and LAE, commission expense, and underwriting and other operating expenses from net premiums earned. Key factors that affected our financial performance during 2015 and 2014, each compared to the previous year, respectively, include:

- Net premiums earned increased 1% and 7%;
- Losses and LAE decreased 5% and 2%;
- Underwriting and other operating expenses increased 5% and 3%;
- Net realized (losses) gains on investments of \$(10.7) million, \$16.3 million, and \$9.5 million in 2015, 2014, and 2013, respectively; and
- Income tax expense was \$5.0 million and \$5.9 million in 2015 and 2014, respectively, while we had an income tax benefit of \$10.7 million in 2013.

In 2015, we continued to execute a number of strategic initiatives, including: focusing on internal and customer facing business process excellence; emphasizing the settlement of open claims; diversifying our risk exposure across our markets; utilizing a three-company pricing platform; utilizing territorial multipliers in California; non-renewing under-performing business; and targeting profitable classes of business across all of our markets.

The following items were included in our 2015 results of operations: (1) favorable prior year accident year loss development of \$7.2 million, including a \$9.0 million favorable development on our voluntary business, partially offset by a \$1.8 million unfavorable development on our assigned risk business, which decreased our losses and LAE by the same amount; (2) favorable development in the estimated reserves ceded under the LPT Agreement that resulted in a \$6.4 million cumulative adjustment to the Deferred Gain and reduced our losses and LAE by the same amount (LPT Reserve Adjustment); (3) an increase in the contingent commission receivable under the LPT Agreement that resulted in a \$2.6 million cumulative adjustment, which reduced our losses and LAE by the same amount (LPT Contingent Commission Adjustment); and (4) a reallocation of \$56.3 million of reserves from non-taxable periods prior to January 1, 2000, which reduced our tax expenses by \$15.3 million and reduced our effective tax rate by 15.4 percentage points. Collectively, these items increased net income by \$31.5 million for the year ended December 31, 2015.

The following items were included in our 2014 results of operations: (1) favorable development in the estimated reserves ceded under the LPT Agreement that resulted in a \$31.1 million LPT Reserve Adjustment; (2) an increase in the contingent commission receivable under the LPT Agreement that resulted in a \$10.8 LPT Contingent Commission Adjustment; and (3) a reallocation of \$13.1 million of reserves from non-taxable periods prior to January 1, 2000, which reduced our effective tax rate by 3.4 percentage points, or \$3.6 million. Collectively, these items increased net income by \$45.5 million for the year ended December 31, 2014.

The following items were included in our 2013 results of operations: (1) unfavorable prior accident year loss development of \$6.9 million, including \$5.0 million related to California loss reserves for the 2009 through 2011 accident years and \$1.9 million related to our assigned risk business, which increased our losses and LAE by the same amount; (2) favorable development in the estimated reserves ceded under the LPT Agreement, which resulted in a \$19.0 million LPT Reserve Adjustment; (3) an increase in the contingent commission receivable under the LPT Agreement that resulted in a \$4.3 million LPT Contingent Commission Adjustment; and (4) a reallocation of reserves from non-taxable periods prior to January 1, 2000, which reduced our effective tax rate by 13.9 percentage points, or \$7.4 million. Collectively, these items increased net income by \$23.8 million for the year ended December 31, 2013.

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

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Gross premiums written	\$ 697.7	\$ 697.7	\$ 689.9
Net premiums written	<u>\$ 689.3</u>	<u>\$ 687.6</u>	<u>\$ 678.5</u>
Net premiums earned	\$ 690.4	\$ 684.5	\$ 642.3
Net investment income	72.2	72.4	70.8
Net realized (losses) gains on investments	(10.7)	16.3	9.5
Other income	0.2	0.3	0.9
Total revenues	<u>752.1</u>	<u>773.5</u>	<u>723.5</u>
Losses and LAE	429.4	453.4	463.6
Commission expense	85.4	81.4	78.3
Underwriting and other operating expenses	135.2	129.1	125.3
Interest expense	2.7	3.0	3.2
Income tax expense (benefit)	5.0	5.9	(10.7)
Total expenses	<u>657.7</u>	<u>672.8</u>	<u>659.7</u>
Net income	<u>\$ 94.4</u>	<u>\$ 100.7</u>	<u>\$ 63.8</u>
Less amortization of the Deferred Gain related to losses	9.5	11.2	12.9
Less amortization of the Deferred Gain related to contingent commission	1.9	1.9	1.7
Less impact of LPT Reserve Adjustments ⁽¹⁾	6.4	31.1	19.0
Less impact of LPT Contingent Commission Adjustments ⁽²⁾	2.6	10.8	4.3
Net income before impact of the LPT Agreement ⁽³⁾	<u>\$ 74.0</u>	<u>\$ 45.7</u>	<u>\$ 25.9</u>

(1) Any adjustment to the estimated reserves ceded under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is included in losses and LAE incurred in the 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. (See Note 2 in the Notes to our Consolidated Financial Statements.)

(2) Any adjustment to the contingent profit commission under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also recognized in losses and LAE incurred in the 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. (See Note 2 in the Notes to our Consolidated Financial Statements.)

- (3) We define net income before impact of the LPT Agreement as net income before the impact of: (a) amortization of Deferred Gain; (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to Contingent commission receivable –LPT Agreement. Deferred Gain reflects the unamortized gain from our LPT Agreement. Under GAAP, this gain is deferred and 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 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 net income. Net income before impact of the LPT Agreement is not a measurement of financial performance under GAAP, but rather reflects the 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 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 effect 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 excluded item has limited significance in our current and ongoing operations.

Gross Premiums Written

Gross premiums written were \$697.7 million, \$697.7 million, and \$689.9 million for the years ended December 31, 2015, 2014, and 2013, respectively. During this period, overall premiums have remained relatively flat; however, certain strategic initiatives, including diversifying our risk exposure across our markets and non-renewing under-performing business, have resulted in premium declines in California, while premiums in other states grew.

Net Premiums Earned

Net premiums earned were \$690.4 million, \$684.5 million, and \$642.3 million for the years ended December 31, 2015, 2014, and 2013, respectively. The increase in 2015 was primarily related to increased final premium audit billings during the second half of 2015, while the increase in 2014 was primarily due to increasing policy count and higher net rate. Additionally, we saw an increase in premiums from renewals in the fourth quarter of 2015.

The following table shows the percentage change in our in-force premiums, policy count, average policy size, payroll exposure upon which our premiums are based, and net rate as of December 31, 2015 and 2014, respectively, overall and for California, where 57% of our premiums are generated:

	Percentage Change 2015 Over 2014			Percentage Change 2014 Over 2013		
	Overall	California	All Other States	Overall	California	All Other States
In-force premiums	(1.3)%	(5.0)%	4.0%	1.7%	0.8%	3.0%
In-force policy count	(0.9)	(6.4)	5.8	1.5	(2.0)	6.1
Average in-force policy size	(0.4)	1.5	(1.7)	0.2	2.8	(2.9)
In-force payroll exposure	1.4	(5.7)	6.0	(2.1)	(9.3)	3.2
Net rate ⁽¹⁾	(2.7)	0.7	(1.9)	3.9	11.2	(0.2)

- (1) Net rate, defined as total in-force premiums divided by total insured payroll exposure, is a function of a variety of factors, including rate changes, underwriting risk profiles and pricing, and changes in business mix related to economic and competitive pressures.

Net Investment Income and Net Realized Gains on Investments

We invest our holding company assets, statutory surplus, and the funds supporting our insurance liabilities, including unearned premiums and unpaid losses and LAE. We invest in fixed maturity securities, equity securities, 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 was \$72.2 million, \$72.4 million, and \$70.8 million for the years ended December 31, 2015, 2014, and 2013, respectively. The average pre-tax book yield on invested assets was 3.2%, 3.2%, and 3.4% at December 31, 2015, 2014, and 2013, respectively, while the tax-equivalent yield on invested assets was 3.8%, 3.8%, and 4.0% as of the same dates, respectively.

Realized 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.

Net realized (losses) gains on investments were \$(10.7) million, \$16.3 million, and \$9.5 million for the years ended December 31, 2015, 2014, and 2013, respectively. Net realized losses on investments in 2015 were primarily the result of other-than-temporary impairments of certain equity securities during the fourth quarter due to the continued downturn in the energy sector. The higher net realized gains on investments for the year ended December 31, 2014 was primarily related to a re-balancing of our investment portfolio. Additional information regarding our Investments is set forth under “–Liquidity and Capital Resources–Investments” and Note 6 in the Notes to our Consolidated Financial Statements.

Combined Ratio

The combined ratio, a key measurement of underwriting profitability, is the sum of the loss and LAE ratio, the commission expense ratio, and underwriting and other operating expenses ratio. When the combined ratio is below 100%, we have recorded underwriting income, and conversely, when the combined ratio is greater than 100%, we have recorded an underwriting loss, and cannot be profitable without investment income. Because we only have one operating segment, holding company expenses are included in our calculation of the combined ratio, which increased the combined ratio by 2.0, 2.0, and 1.9 percentage points for the years ended December 31, 2015, 2014, and 2013, respectively.

The following table provides the calculation of our calendar year combined ratios.

	Years Ended December 31,		
	2015	2014	2013
Loss and LAE ratio	62.2%	66.2%	72.2%
Underwriting and other operating expenses ratio	19.5	18.9	19.5
Commission expense ratio	12.4	11.9	12.2
Combined ratio	<u>94.1%</u>	<u>97.0%</u>	<u>103.9%</u>

Loss and LAE Ratio. This is the ratio of losses and LAE to net premiums earned.

We analyze our loss and LAE ratios on both a calendar year and accident year basis. A calendar year loss and LAE ratio is calculated by dividing the losses and LAE incurred during the calendar year, regardless of when the underlying insured event occurred, by the net premiums earned during that calendar year. The calendar year loss and LAE ratio includes changes made during the calendar year in reserves for losses and LAE established for insured events occurring in the current and prior years. A calendar year loss and LAE ratio is calculated using premiums and losses and LAE that are net of amounts ceded to reinsurers. The calendar year loss and LAE ratio for a particular year will not change in future periods.

The accident year loss and LAE ratio is calculated by dividing the losses and LAE, regardless of when such loss and LAE are incurred, for insured events that occurred during a particular year by the net premiums earned for that year. The accident year losses and LAE ratio is calculated using premiums and losses and LAE that are net of amounts ceded to reinsurers. The accident year loss and LAE ratio for a particular year can decrease or increase when recalculated in subsequent periods as the reserves established for insured events occurring during that year develop favorably or unfavorably, and is an operating ratio based on our statutory financial statements and is not derived from our GAAP financial information.

We analyze our calendar year loss and LAE ratio to measure our profitability in a particular year and to evaluate the adequacy of our premium rates charged in a particular year to cover expected losses and LAE from all periods, including development (whether favorable or unfavorable) of reserves established in prior periods. In contrast, we analyze our accident year loss and LAE ratios to evaluate our underwriting performance and the adequacy of the premium rates we charged in a particular year in relation to ultimate losses and LAE from insured events occurring during that year. The loss and LAE ratios provided in this report are calendar year basis, except where they are expressly identified as accident year loss and LAE ratios.

Losses and LAE represents our largest expense item and includes claim payments made, amortization of the Deferred Gain, LPT Reserve Adjustments, LPT Contingent Commission Adjustments, 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) continued to decrease year-over-year in 2015 and 2014; however, our loss experience indicates a slight upward movement in medical and indemnity costs per claim that are reflected in our current accident year loss estimates. In California, we experienced increased costs per claim associated with an increase in the number of cumulative trauma claims filed during 2015 and 2014, compared to 2013. Total claims costs

have also been reduced by cost savings associated with increased claims settlement activity beginning in 2014 and continuing through 2015. We believe our current accident year loss estimate is adequate; however, ultimate losses will not be known with any certainty for many years. We assume that increasing medical and indemnity cost trends will continue to impact our long-term claims costs and current accident year loss estimate, which may be offset by rate increases. Additional information regarding our reserves for losses and LAE is set forth under “–Critical Accounting Policies–Reserves for Losses and LAE.”

Overall, losses and LAE were \$429.4 million, \$453.4 million, and \$463.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. The decreases from 2013 through 2015 were primarily due to a decrease in the current accident year loss estimate, partially offset by higher net premiums earned over that period. Additionally, there were favorable LPT Reserve Adjustments of \$6.4 million, \$31.1 million, and \$19.0 million that decreased losses and LAE by those amounts for the years ended December 31, 2015, 2014, and 2013, respectively. In 2015, we had \$7.2 million of favorable prior accident year loss development, which included \$9.0 million of favorable prior accident year loss development on our voluntary risk business, which was partially offset by \$1.8 million of unfavorable loss development related to our assigned risk business. Prior accident year loss development in 2014 was primarily related to our assigned risk business. Unfavorable prior accident year development in 2013 included \$5.0 million related to California loss reserves for the 2009 through 2011 accident years and \$1.9 million related to our assigned risk business. Our current accident year loss estimates were 66.2%, 73.6%, and 77.0% for the years ended December 31, 2015, 2014, and 2013, respectively. The decreasing trend in our current accident year loss estimates reflects the impact of key business initiatives, including: emphasizing the settlement of open claims; diversifying our risk exposure across our markets; non-renewing underperforming business; and targeting profitable classes of business across all of our markets.

Excluding the impact from the LPT Agreement, losses and LAE would have been \$449.8 million, \$508.4 million, and \$501.5 million, or 65.2%, 74.3%, and 78.1% of net premiums earned, for the years ended December 31, 2015, 2014, and 2013, respectively.

The table below reflects losses and LAE reserve adjustments and the impact of the LPT on net income before taxes.

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Prior accident year favorable (unfavorable) development, net	\$ 7.2	\$ (4.6)	\$ (7.0)
Amortization of the Deferred Gain related to losses	\$ 9.5	\$ 11.2	\$ 12.9
Amortization of the Deferred Gain related to contingent commission	1.9	1.9	1.7
Impact of LPT Reserve Adjustments	6.4	31.1	19.0
Impact of LPT Contingent Commission Adjustments	2.6	10.8	4.3
Total impact of the LPT	20.4	55.0	37.9
Total losses and LAE reserve adjustments	\$ 27.6	\$ 50.4	\$ 30.9

Underwriting and Other Operating Expenses Ratio. The underwriting and other operating expenses ratio is the ratio of underwriting and other operating expenses to net premiums earned and measures an insurance company's operational efficiency in producing, underwriting, and administering its insurance business.

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 costs are more fixed in nature and become a smaller percentage of net premiums earned as premiums increase.

Our underwriting and other operating expenses ratio was 19.5%, 18.9%, and 19.5%, and our underwriting and other operating expenses were \$135.2 million, \$129.1 million, and \$125.3 million for the years ended December 31, 2015, 2014, and 2013, respectively. During the year ended December 31, 2015, our bad debt allowance increased \$2.8 million, our compensation-related expenses increased \$1.5 million, professional fees increased \$1.2 million, and IT expense increased \$0.9 million, partially offset by a \$0.8 million decrease in our premium taxes and assessments, compared to 2014. During the year ended December 31, 2014, premium taxes and assessments increased \$1.6 million as net premiums earned increased, professional fees increased \$1.0 million, and policyholder dividends increased \$0.8 million, compared to 2013.

Commission Expense Ratio. The commission expense ratio is the ratio of commission expense to net premiums earned and measures the cost of compensating agents and brokers for the business we have underwritten.

Commission expense includes direct commissions to our agents and brokers for the premiums that they produce for us, as well as incentive payments, other marketing costs, and fees.

Our commission expense ratio was 12.4%, 11.9%, and 12.2%, and our commission expense was \$85.4 million, \$81.4 million, and \$78.3 million for the years ended December 31, 2015, 2014, and 2013, respectively. The increase in the commission expense ratio in 2015 was primarily due to higher agency incentives, compared to 2014. The decrease in our commission expense ratio in 2014, compared to 2013, was primarily due to lower base commissions paid and lower agency incentives.

Interest Expense

We incur interest expenses on notes payable. Interest expense was \$2.7 million, \$3.0 million, and \$3.2 million for the years ended December 31, 2015, 2014, and 2013, respectively. The decrease in interest expense from 2013 through 2015 was primarily due to the reduction in principal balance on our credit facility with Wells Fargo by \$10.0 million in the fourth quarters of each of 2013 and 2014. The remaining \$60.0 million principal balance on our credit facility was repaid in the fourth quarter of 2015. Interest paid on the credit facility during the years ended December 31, 2015, 2014, and 2013 totaled \$1.3 million, \$1.4 million, and \$1.6 million, respectively.

Income Tax Expense (Benefit)

Income tax expense (benefit) was \$5.0 million, \$5.9 million, and \$(10.7) million for the years ended December 31, 2015, 2014, and 2013, respectively. The effective tax rate was 5.0%, 5.5%, and (20.2)% for the years ended December 31, 2015, 2014, and 2013, respectively. The decrease in income tax expense in 2015, compared to 2014, was primarily due to the reallocation of \$56.3 million in reserves from non-taxable periods prior to January 1, 2000, which reduced our effective tax rate by 15.4 percentage points for the year. The increase in income tax expense in 2014, compared to 2013, was primarily due to increased underwriting income. Underwriting income was \$40.4 million, \$20.6 million, and \$(24.9) million in 2015, 2014, and 2013, respectively.

For additional information regarding our income tax expense (benefit) see Note 8 in the Notes to our Consolidated Financial Statements.

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 insurance 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.

Based on reported capital, surplus, and dividends paid within the last 12 months, the maximum dividends that may be paid by EICN and EPIC in 2016, without prior approval by the respective state insurance regulator, are \$49.7 million and \$28.1 million, respectively.

The holding company had \$27.1 million of cash and cash equivalents and fixed maturity securities maturing within the next 24 months at December 31, 2015. Total cash and investments at the holding company was \$95.2 million at December 31, 2015. We believe that the liquidity needs of the holding company over the next 24 months will be met with cash, investments, and dividends from our insurance subsidiaries.

Operating Subsidiaries' Liquidity

The primary sources of cash for our insurance operating subsidiaries are funds generated from underwriting operations, investment income, maturities and sales of investments, and capital contributions from the parent holding company. The primary uses of cash are payments of claims and operating expenses, purchases of investments, and payments of dividends to the parent holding company, which are subject to state insurance laws and regulations.

Our insurance subsidiaries had \$344.4 million of cash and cash equivalents and fixed maturity securities maturing within the next 24 months at December 31, 2015. We believe that our subsidiaries' liquidity needs over the next 24 months will be met with cash from operations, investment income, and maturing investments.

Each of our insurance subsidiaries, EICN, ECIC, EPIC, and EAC, became a member of the Federal Home Loan Bank of San Francisco (FHLB) in January 2016. Membership allows our 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 subsidiaries has advances outstanding under the FHLB facility.

We purchase reinsurance to protect us against the costs of severe claims and catastrophic events. On July 1, 2015, we entered into a new reinsurance program that is effective through June 30, 2016. The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in five layers of coverage. Our reinsurance coverage is \$193.0 million in excess of our \$7.0 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.

Our insurance subsidiaries are required by law to maintain a certain minimum level of surplus on a statutory basis. Surplus is calculated by subtracting total liabilities from total admitted assets. The amount of capital in our insurance subsidiaries is maintained relative to standardized capital adequacy measures such as risk-based capital (RBC), as established by the National Association of Insurance Commissioners. The RBC standard was designed to provide a measure by which regulators can assess the adequacy of an insurance company's capital and surplus relative to its operations. An insurance company must maintain capital and surplus of at least 200% of RBC. Each of our insurance subsidiaries had total adjusted capital in excess of the minimum RBC requirements that correspond to any level of regulatory action at December 31, 2015.

Various state regulations require us to keep securities or letters of credit on deposit with certain states in which we do business. Securities having a fair market value of \$881.2 million and \$783.9 million were on deposit at December 31, 2015 and 2014, respectively. These laws and regulations govern both the amount and types of fixed maturity securities that are eligible for deposit. Additionally, 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. We held fixed maturity securities and restricted cash and cash equivalents that had a fair value of \$32.7 million and \$33.3 million in trust for the benefit of ceding reinsurers at December 31, 2015 and 2014, respectively.

Sources of Liquidity

We monitor cash flows at both the consolidated and subsidiary levels. 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 additional information regarding our cash flows, see Item 8, Consolidated Statement of Cash Flows.

	Years Ended December 31,		
	2015	2014	2013
Cash and cash equivalents provided by (used in):	(in millions)		
Operating activities	\$ 116.4	\$ 171.9	\$ 166.5
Investing activities	(101.2)	(86.7)	(260.1)
Financing activities	(62.2)	(16.1)	(12.6)
Increase (decrease) in cash and cash equivalents	<u>\$ (47.0)</u>	<u>\$ 69.1</u>	<u>\$ (106.2)</u>

Operating Activities

Net cash provided by operating activities in 2015 included net premiums received of \$678.9 million, and investment income received of \$84.9 million. These were partially offset by claims payments of \$427.7 million (net of \$33.9 million recovered from reinsurers), underwriting and other operating expenses paid of \$121.3 million (including premium taxes paid of \$21.2 million), and commissions paid of \$82.9 million.

Net cash provided by operating activities in 2014 included net premiums received of \$673.7 million, and investment income received of \$82.7 million. These were partially offset by claims payments of \$386.6 million (net of \$33.2 million recovered from reinsurers), underwriting and other operating expenses paid of \$122.6 million (including premium taxes paid of \$27.1 million), and commissions paid of \$78.9 million.

Net cash provided by operating activities in 2013 included net premiums received of \$624.0 million, and investment income received of \$78.8 million. These were partially offset by claims payments of \$332.8 million (net of \$33.1 million recovered from reinsurers), underwriting and other operating expenses paid of \$131.2 million (including premium taxes paid of \$22.7 million), and commissions paid of \$75.1 million.

Investing Activities

Net cash used in investing activities in 2015, 2014, and 2013 was primarily related to the investment of premiums received and the reinvestment of funds from maturities, redemptions, and interest income.

Financing Activities

Net cash used in financing activities in 2015, 2014, and 2013 was primarily to pay stockholder dividends and to pay down the line of credit provided by our credit facility.

Dividends. Dividends paid to stockholders were \$7.7 million, \$7.6 million, and \$7.5 million in 2015, 2014, and 2013, respectively. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial position, earnings, capital requirements of our operating subsidiaries, legal and regulatory requirements, and any other factors our Board of Directors deems relevant. On February 16, 2016, the Board of Directors declared a \$0.09 dividend per share, payable March 15, 2016, to stockholders of record on March 1, 2016.

Share Repurchases. On February 16, 2016, the Board of Directors authorized a share repurchase program for up to \$50.0 million of our common stock from February 22, 2016 through February 22, 2018 (the 2016 Program). We expect that shares of common stock 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 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 2016 Program may be commenced, modified, or suspended from time-to-time without prior notice.

Capital Resources

Our capital structure is comprised of outstanding debt and stockholders' equity. As of December 31, 2015, our capital structure consisted of \$32.0 million in surplus notes maturing in 2034, and \$950.3 million of stockholders' equity, including the Deferred Gain. Outstanding debt was 3.3% of total capitalization, including the Deferred Gain, as of December 31, 2015.

Ordinary Share Capital. The following table shows our beginning and ending stockholders' equity balance.

	December 31,		
	2015	2014	2013
	(in millions)		
Beginning Balance	\$ 686.8	\$ 568.7	\$ 539.4
Stock-based compensation	4.6	6.0	5.6
Stock options exercised	7.6	2.2	7.4
Vesting of restricted stock units, net of shares withheld to satisfy minimum tax withholding	(2.7)	(0.6)	(0.9)
Dividend to common stockholders	(7.7)	(7.6)	(7.5)
Excess tax benefit from stock-based compensation	1.1	0.9	—
Net income for the year	94.4	100.7	63.8
Change in net unrealized gains on investments, net of taxes	(23.3)	16.5	(39.1)
Ending Balance	<u>\$ 760.8</u>	<u>\$ 686.8</u>	<u>\$ 568.7</u>

The following table shows our stockholders' equity including the Deferred Gain, with a reconciliation to our stockholders' equity on a GAAP basis.

	2015	2014
	(in millions)	
GAAP stockholders' equity	\$ 760.8	\$ 686.8
Deferred reinsurance gain—LPT Agreement	189.5	207.0
Stockholders' equity including the Deferred Gain	<u>950.3</u>	<u>893.8</u>

Outstanding Debt. In December 2010, we entered into a credit facility under which we were provided with: (a) \$100.0 million line of credit through December 31, 2011; (b) \$90.0 million line of credit from January 1, 2012 through December 31, 2012; (c) \$80.0 million line of credit from January 1, 2013 through December 31, 2013; (d) \$70 million line of credit from January 1, 2014 through December 31, 2014; and (e) \$60 million line of credit from January 1, 2015 through December 31, 2015. Amounts outstanding bear interest at a rate equal to, at our option: (a) a fluctuating rate of 1.75% above prime rate or (b) a fixed rate that is 1.75% above the LIBOR rate then in effect. In accordance with the terms of the contract, we repaid the remaining outstanding principal balance of \$60.0 million of the line of credit provided by the credit facility during the fourth quarter of 2015.

EPIC has a total of \$32.0 million in three surplus notes issued as part of pooled transactions. The notes mature in 2034 and became callable by the Company in the second quarter of 2009.

Our total outstanding debt was \$32.0 million and \$92.0 million as of December 31, 2015 and 2014, respectively. Interest and fees on debt obligations totaled \$2.8 million, \$2.8 million, and \$3.1 million in 2015, 2014, and 2013, respectively.

Contractual Obligations and Commitments. The following table identifies our long-term debt and contractual obligations as of December 31, 2015.

	Payment Due By Period				
	Total	Less Than 1-Year	1-3 Years	4-5 Years	More Than 5 Years
	(in millions)				
Operating leases	\$ 19.9	\$ 4.9	\$ 8.3	\$ 5.6	\$ 1.1
Purchased liabilities	7.9	4.4	2.7	0.8	—
Notes payable ⁽¹⁾	59.1	1.5	2.9	2.9	51.8
Capital leases	0.8	0.3	0.5	—	—
Losses and LAE reserves ⁽²⁾⁽³⁾	2,347.5	383.4	481.2	286.6	1,196.3
Total contractual obligations	<u>\$ 2,435.2</u>	<u>\$ 394.5</u>	<u>\$ 495.6</u>	<u>\$ 295.9</u>	<u>\$ 1,249.2</u>

- (1) Notes payable obligations reflect payments for the principal and estimated interest expense based on LIBOR rates plus a margin. The estimated interest expense was based on the contractual obligations of the debt outstanding as of December 31, 2015. The interest rates range from 4.4% to 4.7%.
- (2) 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. For a discussion of our reserving process, see "—Critical Accounting Policies—Reserves for Losses and LAE." 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.
- (3) The 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	\$ (628.2)	\$ (31.3)	\$ (59.3)	\$ (55.1)	\$ (482.5)

Investments

The cost or amortized cost of our investment portfolio was \$2.4 billion and the fair value was \$2.5 billion as of December 31, 2015.

We employ an investment strategy that emphasizes asset quality and considers the durations, maturities, and anticipated cash flows of securities against anticipated claim payments, other expenditures and liabilities, and capital and liquidity needs. Our investment portfolio is structured so that investments mature periodically in reasonable relation to current expectations of future claim payments. Currently, we make claim payments from positive cash flow from operations and use excess cash to invest in operations, invest in marketable securities, return capital to our stockholders, and fund growth.

We seek to maximize total investment returns within the constraints of prudent portfolio management. The asset allocation is reevaluated by management and reviewed by the Finance Committee of the Board of Directors on a quarterly basis. We employ Conning Inc. (Conning) to act as our independent investment manager. Conning follows our written investment guidelines based upon strategies approved by the Board of Directors. In addition to the construction and management of the portfolio, we utilize the investment advisory services of Conning.

As of December 31, 2015, our investment portfolio, which is classified as available-for-sale, consisted of 92.0% fixed maturity securities whose fair values may fluctuate due to prevailing market interest rates. We strive to limit interest rate risk by managing the duration of our fixed maturity securities. Our fixed maturity securities (excluding cash and cash equivalents) had a duration of 4.3 at December 31, 2015. 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 "AA-," using ratings assigned by Standard & Poor's (S&P). Our fixed maturity securities portfolio had a weighted average quality of "AA-" as of December 31, 2015, with 57.8% of the portfolio rated "AA" or better, based on market value.

We carry our portfolio of equity securities on our balance sheet at fair value. We seek to minimize our exposure to equity price risk by investing primarily in the equity securities of mid-to-large capitalization issuers and by diversifying our equity holdings across several industry sectors. Equity securities represented 8.0% of our investment portfolio at December 31, 2015.

Given current economic uncertainty and continuing market volatility, we believe that our current asset allocation best meets our strategy to preserve capital for policyholders, to provide sufficient income to support our insurance operations, and to effectively grow book value over a long-term investment horizon.

The following table shows the estimated fair value, the percentage of the fair value to total invested assets, the average book yield, and the average tax equivalent yield based on the fair value of each category of invested assets as of December 31, 2015.

Category	Estimated Fair Value	Percentage of Total	Book Yield	Tax Equivalent Yield
		(in millions, except percentages)		
U.S. Treasuries	\$ 120.2	4.8%	1.9%	1.9%
U.S. Agencies	24.4	1.0	4.7	4.7
States and municipalities	854.5	34.4	3.2	4.7
Corporate securities	925.3	37.2	3.1	3.1
Residential mortgaged-backed securities	237.9	9.6	3.3	3.3
Commercial mortgaged-backed securities	80.3	3.2	2.5	2.5
Asset-backed securities	45.9	1.8	1.0	1.0
Equity securities	198.7	8.0	5.4	7.1
Total investments	\$ 2,487.2	100.0%		
Weighted average yield			3.2%	3.8%

The following table shows the percentage of total estimated fair value of our fixed maturity securities as of December 31, 2015 by credit rating category, using the lower of ratings assigned by Moody's Investor Service and/or S&P.

Rating	Percentage of Total Estimated Fair Value
"AAA"	10.1%
"AA"	47.7
"A"	29.0
"BBB"	13.0
Below Investment Grade	0.2
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 above cost, or maturity.

Based on our review of fixed maturity and equity securities, we believe that we appropriately identified the declines in the fair values of our unrealized losses for the years ended December 31, 2015, 2014, and 2013. 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, 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 until fair value recovers to above cost, or maturity.

Based on reviews of the equity securities, the Company recognized impairments of \$17.2 million, \$0.5 million, and \$0.1 million in the fair values of twenty-seven, seven, and one equity securities for the years ended December 31, 2015, 2014, and 2013, respectively, primarily as a result of the severity and duration of the change in fair values of those securities. The remaining unrealized losses on equity securities were not considered to be other than temporary due to the financial condition and near-term prospects of the issuers. The other-than-temporary impairments of equity securities in 2015 were primarily due to the continued downturn in the energy sector during the fourth quarter.

For additional information regarding our investments, including the cost or amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of our investments, the amortized cost and estimated fair value of fixed maturity securities by contractual maturity, and net realized and unrealized investment gains (losses) on fixed maturity and equity securities, see Note 6 in the Notes to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

The preparation of financial statements in accordance with GAAP requires both the use of estimates and judgment relative to the application of appropriate accounting policies. Our accounting policies are described in the Notes to our Consolidated Financial Statements, but we believe that the following matters are particularly important to understand our financial statements because changes in these estimates or changes in the assumptions used to make them could have a material impact on our results of operations, financial condition, and cash flows.

Reserves for Losses and LAE

Accounting for workers' compensation insurance requires us to estimate the liability for the expected ultimate cost of unpaid losses and LAE (loss reserves) as of a balance sheet date. Loss reserve estimates are inherently uncertain because the ultimate amount we pay for many of the claims we have incurred as of the balance sheet date will not be known for many years. Our estimate of loss reserves is intended to equal the difference between the expected ultimate losses and LAE of all claims that have occurred as of a balance sheet date and amounts already paid. We establish loss reserves based on our own analysis of emerging claims experience and environmental conditions in our markets and review of the results of various actuarial projections. Our aggregate carried reserve for unpaid losses and LAE is the sum of our reserves for each accident year and represents our best estimate of outstanding loss reserves.

The amount by which estimated losses in the aggregate differ from those previously estimated for a specific time period is known as reserve "development." Reserve development is unfavorable when losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on open claims, causing the previously estimated loss reserves to be "deficient." Reserve development is favorable when estimates of ultimate losses indicate a decrease in established reserves, causing the previously estimated loss reserves to be "redundant." Development is reflected in our operating results through an adjustment to incurred losses and LAE during the period in which it is recognized.

Although claims for which reserves are established may not be paid for several years or more, we do not discount loss reserves in our financial statements for the time value of money, in accordance with GAAP.

The three main components of our reserves for unpaid losses and LAE are case reserves, incurred but not reported (IBNR) loss reserves, and LAE reserves.

When claims are reported to us, we establish individual estimates of the ultimate cost of each claim (case reserves). These case reserves are continually monitored and revised in response to new information and for amounts paid.

IBNR is an actuarial estimate of future payments on claims that have occurred but have not yet been reported to us. In addition to this provision for late reported claims, we also estimate, and make a provision for, the extent to which the case reserves on known claims may develop and for additional payments on closed claims, known as "reopening." IBNR reserves apply to the entire body of claims arising from a specific time period, rather than a specific claim. Most of our IBNR reserves relate to estimated future claim payments on recorded open claims.

LAE reserves are our estimate of the future expenses of investigating, administering, and settling claims that will be paid to manage claims that have occurred, including legal expenses. LAE reserves are established in the aggregate, rather than on a claim-by-claim basis. LAE reserves are categorized between Defense and Cost Containment (DCC) and Adjusting and Other (AO).

A portion of our obligations for losses and LAE are ceded to unaffiliated reinsurers. The amount of reinsurance that will be recoverable on our losses and LAE reserves includes both the reinsurance recoverable from our excess of loss reinsurance contracts, as well as reinsurance recoverable under the terms of the LPT Agreement.

Our reserves for unpaid losses and LAE (gross and net of reinsurance), including the main components of such reserves, were as follows:

	As of December 31,	
	2015	2014
	(in millions)	
Case reserves	\$ 1,046.4	\$ 1,088.2
IBNR	991.0	982.7
LAE reserves	310.1	298.8
Gross unpaid losses and LAE reserves	2,347.5	2,369.7
Less reinsurance recoverables on unpaid losses and LAE, gross	628.2	669.5
Net unpaid losses and LAE reserves	<u>\$ 1,719.3</u>	<u>\$ 1,700.2</u>

We use actuarial methods to analyze and estimate the aggregate amount of unpaid losses and LAE. Management considers the results of various actuarial projection methods and their underlying assumptions, among other factors, in establishing reserves for unpaid losses and LAE.

Judgment is required in the actuarial estimation of loss reserves, including the selection of various actuarial methodologies to project the ultimate cost of claims. Specifically, judgment is required in the following areas: the selection of projection parameters based on historical company data, the use of industry data and other benchmarks; the identification and quantification of potential changes in parameters from historical levels to current and future levels due to changes in future claims development expectations; and the weighting of differing reserve indications resulting from alternative methods and assumptions. The adequacy of our ultimate loss reserves is inherently uncertain and represents a significant risk to our business. We attempt to mitigate this risk through our claims management processes and by monitoring and reacting to statistics relating to the cost and duration of claims.

We retain an independent actuarial consulting firm (Consulting Actuary) to perform comprehensive studies of our loss and LAE reserves on a semi-annual basis. The role of the Consulting Actuary is to conduct sufficient analyses to produce a range of reasonable estimates, as well as a point estimate, of our liability for unpaid losses and LAE, and to present those results to our Internal Actuary and to management as supplemental data used in selecting management's best estimate of ultimate losses.

Our Internal Actuary has been named as the Appointed Actuary for financial statement periods ending on or after December 31, 2015 and all reserve figures shown as of December 31, 2015 are based on our internal actuarial analysis. In prior years, the Consulting Actuary was the Appointed Actuary and reserve figures for those years are based on those analyses.

We compile and aggregate our claims data by grouping the claims according to the year in which the claim occurred ("accident year") when analyzing claim payment and emergence patterns and trends over time. Additionally, claims data is aggregated and compiled separately for different types of claims, claimant benefits, or methods of claim closure and for different states, territories within states, or groups of states in which we do business.

Our Internal Actuary and the Consulting Actuary prepare reserve estimates for all accident years using our own historical claims data, industry data and many of the generally accepted actuarial methodologies for estimating loss reserves, such as paid loss development methods, incurred loss development methods, and Bornhuetter-Ferguson methods. These methods vary in their responsiveness to different information, characteristics, and dynamics in the data, and the results assist the actuary in considering these characteristics and dynamics in the historical data. The methods employed for each segment of claims data, and the relative weight accorded to each method, vary depending on the nature of the claims segment and on the age of the claims.

Each actuarial methodology requires the selection and application of various parameters and assumptions. The key parameters and assumptions include: the pattern with which our aggregate claims data will be paid or will emerge over time; the magnitude and changes in claim settlement activity, claims cost inflation rates; the effects of legislative benefit changes and/or judicial changes; and trends in the frequency of claims, both overall and by severity of claim. We believe the pattern with which our aggregate claims data will be paid or emerge over time, claim settlement activity, claims cost inflation rates, and claim frequencies are the most important parameters and assumptions.

For Nevada losses occurring in 2007 or prior, one method involves adjusting historical data for inflation. The inflation rates used in the analysis are judgmentally selected based on historical year-to-year movements in the cost of claims observed in our insurance subsidiaries' data and industry-wide data, as well as on broader inflation indices. The results of this method would differ if different inflation rates were selected.

In projections using December 31, 2015 data, the method that uses explicit medical cost inflation assumptions included medical cost inflation factors ranging from 2.0% to 5.0%. The selection of medical cost inflation assumptions used has been based on observed recent and longer-term historical medical cost inflation in our claims data and in the U.S. economy more generally. The rate of medical cost inflation, as reflected in our historical medical payments per claim, has averaged approximately 3.0% over

the past 15 years. The rate of medical cost inflation in the general U.S. economy, as measured by the consumer price index-medical care, has averaged approximately 3.7% over the past 15 years.

Management, along with our Internal Actuary and the Consulting Actuary, separately analyze LAE and estimate unpaid LAE. These analyses rely primarily on examining the relationship between the aggregate amounts that have been spent on LAE historically, compared with the volume of claims activity for the corresponding historical calendar periods. The portion of unpaid LAE that will be recoverable from reinsurers is estimated based on the contractual reinsurance terms.

The ranges of estimates of loss reserves produced by our Internal Actuary and the Consulting Actuary are intended to represent the range in which it is most likely that the ultimate losses will fall. These ranges are narrower than the range of indications produced by the individual methods applied because it is not likely that the high or low result will emerge for every claim segment and accident year. Each actuary's point estimate of loss reserves is based on a judgmental selection for each claim segment from within the range of results indicated by the different actuarial methods.

Management formally establishes loss reserves for financial statement purposes on a quarterly basis. In doing so, we make reference to the most current analyses of our Internal Actuary and of the Consulting Actuary, including a review of the assumptions and the results of the various actuarial methods used. Comprehensive studies are conducted as of June 30 and December 31 by both our Internal Actuary and the Consulting Actuary. On the alternate quarters, the results of the preceding quarter's studies are updated for actual claim payment activity by our Internal Actuary.

The aggregate carried reserve calculated by management represents our best estimate of our outstanding unpaid losses and LAE. In establishing management's best estimate of unpaid losses and LAE at December 31 for the last three years, management and our Internal Actuary reviewed and considered the following: (a) our Internal Actuary's and the Consulting Actuary's assumptions, point estimates, and ranges; (b) the inherent uncertainty of workers' compensation liabilities for unpaid losses and LAE; and (c) the potential for legislative and/or judicial reversal of California workers' compensation reforms. Management did not quantify a specific loss reserve increment for each uncertainty, but rather established an overall provision for loss reserves that represented management's best estimate of unpaid losses and LAE in light of the historical data, actuarial assumptions, point estimate and range, and current facts and circumstances.

The table below provides the actuarial range of estimated liabilities for net unpaid losses and LAE that management considered when selecting its best estimate and our carried reserves.

	As of December 31,		
	2015	2014	2013
	(in millions)		
Low end of actuarial range	\$ 1,549.7	\$ 1,575.6	\$ 1,466.0
Carried reserves	1,719.3	1,700.2	1,587.4
High end of actuarial range	1,898.9	1,979.9	1,815.1

As of December 31, 2015, California and Nevada represented approximately 78% of our reserves for unpaid losses and LAE on our consolidated balance sheet.

In California, where our operations began in 2002, the actuaries' and management's initial expectations of ultimate losses and patterns of loss emergence and payment were based on benchmarks derived from analyses of historical insurance industry data in California. No historical data from our California insurance subsidiary existed prior to July 1, 2002; however, some historical data was available for the prior years for some of the market segments we entered in California, but was limited as to the number of loss reserve evaluation points available. The industry-based benchmarks were judgmentally adjusted for the anticipated impact of significant environmental changes, specifically the enactment of major changes to the statutory workers' compensation benefit structure and the manner in which claims are administered and adjudicated in California. The actual emergence and payment of claims by our California insurance subsidiary have been more favorable than those initial expectations through 2008, due in part to the impact of the enactment of major changes in the California workers' compensation environment. Our recent loss experience, from 2010 through 2015, indicates an upward trend in medical and indemnity costs that are reflected in our loss reserves; however, our indemnity claims frequency (the number of claims expressed as a percentage of payroll) decreased year-over-year in 2015 and 2014. Our reserve estimates assume that increasing medical cost trends will continue and will impact our long-term claims costs and loss reserves.

In Nevada, we have compiled a lengthy history of workers' compensation claims payment patterns based on the business of the Nevada State Industrial Insurance System (the Fund) and EICN, but the emergence and payment of claims in recent years has been more favorable than in the long-term history in Nevada with the Fund. The expected patterns of claim payments and emergence used in the projection of our ultimate claim payments are based on both long and short-term historical data. In recent evaluations, claim patterns have continued to emerge in a manner consistent with short-term historical data. Consequently, our selection of claim projection patterns has relied more heavily on patterns observed in recent years.

Our insurance subsidiaries have been operating in a period characterized by changing environmental conditions in our major markets, entry into new markets, and operational changes. During periods characterized by such changes, at each evaluation, the actuaries and management must make judgments as to the relative weight to accord to long-term historical and more recent company data, external data, evaluations of environmental and operational changes, and other factors in selecting the methods to use in projecting ultimate losses and LAE, the parameters to incorporate in those methods, and the relative weights to accord to the different projection indications. At each evaluation, management has given weight to new data, recent indications, and evaluations of environmental conditions and changes that implicitly reflect management's expectation as to the degree to which the future will resemble the most recent information and most recent changes, compared with long-term claim payment, claims emergence, and claim cost inflation patterns.

We have driven a significant increase in claims settlement activity beginning in 2014 and continuing through 2015, which has primarily affected accident years 2009 and forward, that is the result of an internal initiative that emphasizes the settlement of open claims. This settlement activity has been recognized in the actuarial analysis using a methodology developed to adjust the data and loss development patterns to account for the settlements arising from this initiative.

More than 60% of our claims payments during the three years ended December 31, 2015 related to medical care for injured workers. The utilization and cost of medical services in the future is a significant source of uncertainty in the establishment of loss reserves for workers' compensation. Our loss reserves are established based on reviewing the results of actuarial methods, some of which do not contain explicit medical claim cost inflation rates; however, because medical care may be provided to an injured worker over many years, and in some cases decades, the pace of medical claim cost inflation has a significant impact on our ultimate claim payments. For example, if the rate of medical claim cost inflation increases by 1% above the inflation rate that is implicitly included in the loss reserves at December 31, 2015, we estimate that future medical costs over the lifetime of current claims would increase by approximately \$94 million on a net-of-reinsurance basis.

The range of estimates of unpaid losses and LAE produced by our actuarial reviews of medical cost inflation data provide some indication of the potential variability of future losses and LAE payments; however, the full range of potential variation is difficult to estimate because our insurance subsidiaries do not have a lengthy operating history in many of the states in which we now operate.

Our reserve estimates reflect expected increases in the costs of contested claims, but do not assume any losses resulting from significant new legal liability theories. Our reserve estimates also assume that there will not be significant future changes in the regulatory and legislative environment. In the event of significant new legal liability theories or new regulation or legislation, we will attempt to quantify its impact on our business.

If the actual unpaid losses and LAE were at the high or the low end of the actuarial range, the impact on our financial results would have been as follows:

	December 31,		
	2015	2014	2013
	(in millions)		
Increase (decrease) in reserves			
At low end of range	\$ (169.6)	\$ (124.6)	\$ (121.4)
At high end of range	179.6	279.7	227.7
Increase (decrease) in equity and net income, net of income tax effect			
At low end of range	\$ 110.2	\$ 81.0	\$ 78.9
At high end of range	(116.7)	(181.8)	(148.0)

Actual losses are affected by a more complex combination of forces and dynamics than any one model or actuarial methodology can represent, and each methodology is an approximation of these complex forces and dynamics. None of the methods are designed or intended to produce an indication that is systematically higher or lower than the other methods. At any given evaluation date, some of the actuarial projection methods produce indications outside the actuary's selected range. Accordingly, we believe that the range of potential outcomes is considerably wider than the actuarially estimated range of the most likely outcomes. We have no basis for anticipating whether actual future payments of losses and LAE may be either greater than or less than the reserve for unpaid losses and LAE currently on our balance sheet.

Additionally, any adjustment to the estimated ceded reserves under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also included in losses and LAE incurred in the consolidated statement of comprehensive income, so that the Deferred Gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement. The table below provides the actuarial range of estimated liabilities for gross unpaid losses and LAE under the LPT Agreement and our carried reserves.

**As of December 31,
2015**

(in millions)

Low end of actuarial range	\$	436.9
LPT carried reserves		498.0
High end of actuarial range		536.1

If the actual gross unpaid losses and LAE under the LPT Agreement were at the high or the low end of the actuarial range, the impact on our financial results, excluding the impact of the contingent profit commission, would have been as follows:

**Year Ended December 31,
2015**

(in millions)

Increase (decrease) in reserves		
At low end of range	\$	(61.1)
At high end of range		38.1
Increase (decrease) in equity and net income resulting from Deferred Gain		
At low end of range	\$	36.7
At high end of range		(24.1)

Reinsurance Recoverables

Reinsurance recoverables represent: (a) amounts currently due from reinsurers on paid losses and LAE; (b) amounts recoverable from reinsurers on case basis estimates of reported losses; and (c) amounts recoverable from reinsurers on actuarial estimates of IBNR for losses and LAE. These recoverables are based on our current estimates of the underlying losses and LAE, and are reported on our consolidated balance sheets separately as assets, as reinsurance does not relieve us of our legal liability to policyholders. We bear credit risk with respect to the reinsurers, which can be significant considering that some of the unpaid losses and LAE remain outstanding for an extended period of time. Reinsurers may refuse or fail to pay losses that we cede to them, or they might delay payment. We are required to pay losses even if a reinsurer refuses or fails to meet its obligations under the applicable reinsurance agreement. We continually monitor the financial condition and rating agency ratings of our reinsurers. No material amounts due from reinsurers have been written-off as uncollectible since our inception in 2000, and we believe that amounts currently reflected in our consolidated financial statements will similarly not require any material prospective adjustment.

Under the LPT Agreement, the Fund initially ceded \$1.5 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995 for consideration of \$775.0 million in cash. The estimated remaining liabilities subject to the LPT Agreement were \$498.0 million as of December 31, 2015. Losses and LAE paid with respect to the LPT Agreement totaled \$695.2 million at December 31, 2015. We account for the LPT Agreement as retroactive reinsurance. Entry into the LPT Agreement resulted in a deferred reinsurance gain that was recorded on our consolidated balance sheet as a liability. The Deferred Gain is being amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries through the life of the LPT Agreement, and the amortization is reflected in losses and LAE. Changes in estimates of the reserves ceded under the LPT Agreement may significantly impact the Deferred Gain on our consolidated balance sheet and losses and LAE in our consolidated statement of comprehensive income.

Additionally, we are entitled to receive a contingent commission under the LPT Agreement. The contingent profit is an amount based on the favorable difference between actual paid losses and LAE and expected paid losses and LAE as established in the LPT Agreement. The calculation of actual amounts paid versus expected amounts is determined every five years beginning June 30, 2004 for the first twenty-five years of the agreement. We are paid 30% of the favorable difference between the actual and expected losses and LAE paid at each calculation point. Each quarter, management records its best estimate of the estimated ultimate contingent profit commission through June 30, 2024, which is impacted by estimates for ceded loss and LAE reserves. The related Deferred Gain is amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the contingent profit commission, or through June 30, 2024, and is recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income. Changes in estimates of the reserves ceded under the LPT Agreement may significantly impact the Contingent commission receivable—LPT Agreement and the Deferred Gain on our consolidated balance sheet and losses and LAE in our consolidated statement of comprehensive income.

Recognition of Premium Revenue

Premium revenue is recognized over the period of the contract in proportion to the amount of insurance protection provided. At the end of the policy term, payroll-based premium audits are performed on substantially all policyholder accounts to determine net premiums earned for the policy year. Earned but unbilled premiums include estimated future audit premiums based on our historical experience. These estimates are subject to changes in policyholders' payrolls, economic conditions, and seasonality, and

are continually reviewed and adjusted as experience develops or new information becomes known. Any such adjustments are included in current operations; however, they are partially offset by the resulting changes in losses and LAE, commission expenses, and premium taxes. Although considerable variability is inherent in such estimates, we believe that amounts currently reflected in our consolidated financial statements will similarly not require any material prospective adjustment.

Income Taxes

Our accounting for income taxes considers the current and deferred tax consequences of all transactions that have been recognized in our consolidated financial statements using the provisions of enacted tax laws. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities resulting from a tax rate change affects our net income or loss in the period that includes the enactment date of the tax rate change. Our income tax returns are subject to audit by the Internal Revenue Service and various state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. We periodically evaluate our exposures associated with tax filing positions. Although we believe our positions comply with applicable laws, we record liabilities based upon estimates of the ultimate outcomes of these matters.

In assessing whether our deferred tax assets will be realized, we consider whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. If necessary, we establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

Valuation of Investments

Our investments in fixed maturity and equity securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of equity, net of deferred taxes, in accumulated other comprehensive income. Realized gains and losses on sales of investments are recognized in operations on a specific-identification basis.

Fair values of our available-for-sale fixed maturity and equity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs in accordance with Financial Accounting Standards Board (FASB) guidance. The Company obtains a quoted price for each security from third party pricing services, which are derived through recently reported trades for identical or similar securities. For securities not actively traded, the 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 speeds. The Company also performs quarterly analysis on the prices received 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. If differences are noted in this review, the Company may obtain additional information from other pricing services to validate the quoted price. (See Note 5 in the Notes to our Consolidated Financial Statements.)

Impairment of Investment Securities. When, in the opinion of management, a decline in the fair value of an equity security below its cost is considered to be “other-than-temporary,” the equity security's cost is written down to its fair value at the time the other-than-temporary decline is identified. The determination of an other-than-temporary decline for debt securities includes, in addition to other relevant factors, a presumption that if the fair value is below cost by a significant amount for a period of time, a bifurcation of the write-down may be necessary. If management has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery, the investment is written down to its fair value and the entire impairment is recorded as a realized loss due to credit in the accompanying consolidated statements of comprehensive income. If management does not have the intent to sell or will not be required to sell the debt security but does not expect to recover the amortized cost basis of the debt security, the amount of the other-than-temporary impairment is bifurcated between credit loss and other loss and recorded as a component of realized gains and losses and in other comprehensive income, respectively, in the consolidated statements of comprehensive income. The amount of any write-down is determined by the difference between the cost or amortized cost of the debt security and its fair value at the time the other-than-temporary decline is identified.

Goodwill and Other Intangible Assets

We prepare an impairment analysis for goodwill and other intangible assets, whereby we identify whether events have occurred that may impact the carrying value of these assets and make assumptions regarding future events, such as cash flows and profitability. Differences between the assumptions used to prepare these valuations and actual results could materially impact the carrying amount of these assets and our operating results.

New Accounting Standards

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) Number 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software* (Subtopic 350-40). The update provides guidance to purchasers to assist in determining whether a cloud computing arrangement includes a software license and how to account for such an arrangement. This update becomes effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015 and early adoption is permitted. We do not expect the adoption to have a material impact on our consolidated financial condition and results of operations.

In May 2015, the Financial Accounting Standards Board issued ASU Number 2015-07, *Fair Value Measurement* (Topic 820). This update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share. Additionally, this update removes the requirement to make certain disclosures for all investments that are eligible to be measured as a practical expedient at fair value using the NAV per share. This update becomes effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015 and early adoption is permitted. As this update focuses only on disclosures, it will not impact our consolidated financial condition and results of operations.

In May 2015, the Financial Accounting Standards Board issued ASU Number 2015-09, *Financial Services - Insurance* (Topic 944). This update expands the breadth of disclosures that an insurance entity must provide about its short-duration insurance contracts. This expanded disclosure includes the presentation of incurred and paid claims development tables by accident year for a period of up to 10 years. This update becomes effective for annual reporting periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016 and early adoption is permitted. As this update focuses only on disclosures, it will not impact our consolidated financial condition and results of operations.

In January 2016, the FASB issued ASU Number 2016-01, *Financial Instruments - Overall* (Subtopic 825-10). This update replaces the guidance to classify equity transactions with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this update eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit notion price. Furthermore, this update clarifies that an evaluation of deferred tax assets related to available-for-sale securities is needed, in combination with and evaluation of other deferred tax assets, to determine if a valuation allowance is required. This update becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We have not yet estimated the full effect that adoption will have on our consolidated financial condition and results of operations.

Item 7A. 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.

Credit Risk

Our investment portfolio is exposed to credit risk, which we attempt to manage through issuer and industry diversification. Our investment guidelines include limitations on the minimum rating of fixed maturity securities and concentrations of a single issuer.

We also bear credit risk with respect to the reinsurers, which can be significant considering that some of the unpaid losses and LAE remain outstanding for an extended period of time. We are required to pay losses even if a reinsurer refuses or fails to meet its obligations under the applicable reinsurance agreement(s). We continually monitor the financial condition and credit ratings of our reinsurers. Additionally, we bear credit risk with respect to premiums receivable, which is generally diversified due to the large number of entities composing the Company's policyholder base and their dispersion across many different industries and geographies.

Interest Rate Risk

Investments

The fair value of our fixed maturity securities portfolio is exposed to interest rate risk, which is the risk of loss in fair value resulting from changes in prevailing interest rates, which we strive to limit by managing duration. Our fixed maturity investments (excluding cash and cash equivalents) had a duration of 4.3 at December 31, 2015. 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. We continually monitor the impact of interest rate changes on our liquidity obligations.

Sensitivity Analysis

The fair values or cash flows of market sensitive instruments are subject to potential losses in future earnings resulting from changes in interest rates and other market conditions. Our sensitivity analysis applies a hypothetical parallel shift in market rates

and reflects what we believe are reasonably possible near-term changes in those rates (covering a period of time going forward up to one year from the date of the consolidated financial statements). Actual results may differ from the hypothetical change in market rates assumed in this disclosure. This sensitivity analysis does not reflect the results of any action that we may take to mitigate such hypothetical losses in fair value.

We use fair values to measure our potential loss in this model, which includes fixed maturity securities and short-term investments. For invested assets, we use modified duration modeling to calculate changes in fair values. Durations on invested assets are adjusted for call, put, and interest rate reset features. Invested asset portfolio durations are calculated on a market value weighted basis, excluding accrued investment income, using holdings as of December 31, 2015. The estimated changes in fair values on our fixed maturity securities including short-term investments, valued at \$2.3 billion as of December 31, 2015, based on specific changes in interest rates are as follows:

Changes in Interest Rates	Estimated Pre-tax Increase (Decrease) in Fair Value	
	(in millions, except percentages)	
300 basis point rise	\$ (282.1)	(12.3)%
200 basis point rise	(192.3)	(8.4)
100 basis point rise	(97.9)	(4.3)
50 basis point decline	49.5	2.2
100 basis point decline	97.5	4.3

The most significant assessment of the effects of hypothetical changes in interest rates on investment income would be based on FASB guidance related to “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases,” which requires amortization adjustments for mortgage-backed securities. The rates at which the mortgages underlying mortgage-backed securities are prepaid, and therefore the average life of mortgage-backed securities, can vary depending on changes in interest rates (for example, mortgages are prepaid faster and the average life of mortgage-backed securities falls when interest rates decline). Adjustments for changes in amortization are based on revised average life assumptions and would have an impact on investment income if a significant portion of our commercial and residential mortgage-backed securities were purchased at significant discounts or premiums to par value. As of December 31, 2015, the par value of our commercial and residential mortgage-backed securities holdings was \$304.6 million, and the amortized cost was 102.7% of par value. Since a majority of our mortgage-backed securities were purchased at a premium or discount that is significant as a percentage of par, an adjustment could have a significant effect on investment income. The commercial and residential mortgage-backed securities portion of the portfolio totaled 12.8% of total investments as of December 31, 2015. Agency-backed residential mortgage pass-throughs totaled \$232.6 million, or 97.8%, of the residential mortgage-backed securities portion of the portfolio as of December 31, 2015.

Equity Price Risk

Equity price risk is the risk that we may incur losses in the fair value of the equity securities we hold in our available-for-sale investment portfolio. Adverse changes in the market prices of the equity securities we hold in our investment portfolio would result in decreases in the fair value of our total assets. We minimize our exposure to equity price risk by investing primarily in the equity securities of mid-to-large capitalization issuers and by diversifying our equity holdings across several industry sectors.

The table below shows the sensitivity of our equity securities to price changes as of December 31, 2015:

(in millions)	Cost	Fair Value	Pre-tax Impact on Total Equity Securities	Pre-tax Impact on Total Equity Securities
Total domestic equities	\$ 137.5	\$ 198.7	\$ (19.9)	\$ 19.9

Effects of Inflation

Inflation could impact our financial statements and results of operations. Our estimates for losses and LAE include assumptions about the timing of closure and future payment of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above established reserves, we will be required to increase those reserves for losses and LAE, reducing our earnings in the period in which the deficiency is identified. We consider inflation in the reserving process by reviewing cost trends and our historical reserving results. We also consider an estimate of increased costs in determining the adequacy of our rates, particularly as it relates to medical and hospital rates where historical inflation rates have exceeded general inflation rates.

Fluctuations in rates of inflation also influence interest rates, which in turn impact the market value of our investment portfolio and yields on new investments. Operating expenses, including payrolls, are also impacted to a certain degree by inflation.

Item 8. Financial Statements and Supplementary Data

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The following financial statement schedules are filed in Item 15 of Part IV of this report:

Financial Statement Schedules:

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Pursuant to Rule 7-05 of Regulation S-X, Schedules I, III, IV and V have been omitted as the information to be set forth therein is included in the notes to the audited consolidated financial statements.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Employers Holdings, Inc. and its Subsidiaries (collectively, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

The Company's internal control over financial reporting includes policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of its management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO Framework).

Based on this assessment, management did not identify any material weaknesses in the internal control over financial reporting and management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

The Company's independent registered public accounting firm, Ernst & Young LLP, has independently assessed the effectiveness of the Company's internal control over financial reporting. A copy of their report is included in Item 8 of this report.

February 19, 2016

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

The Board of Directors and Stockholders
Employers Holdings, Inc. and Subsidiaries

We have audited Employers Holdings, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Employers Holdings, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Employers Holdings, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Employers Holdings, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 19, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Francisco, California
February 19, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Employers Holdings, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Employers Holdings, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Employers Holdings, Inc. and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Employers Holdings, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 19, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
San Francisco, California
February 19, 2016

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

As of December 31,

2015 2014

(in thousands, except share data)

Assets

Available for sale:

Fixed maturity securities at fair value (amortized cost \$2,221,100 at December 31, 2015 and \$2,186,100 at December 31, 2014)	\$ 2,288,500	\$ 2,275,700
Equity securities at fair value (cost \$137,500 at December 31, 2015 and \$97,800 at December 31, 2014)	198,700	172,700
Total investments	2,487,200	2,448,400
Cash and cash equivalents	56,600	103,600
Restricted cash and cash equivalents	2,500	10,800
Accrued investment income	20,600	20,500
Premiums receivable, less bad debt allowance of \$12,200 at December 31, 2015 and \$7,900 at December 31, 2014	301,100	295,800
Reinsurance recoverable for:		
Paid losses	7,700	10,700
Unpaid losses, including bad debt allowance	628,200	669,500
Deferred policy acquisition costs	44,300	44,600
Deferred income taxes, net	67,900	49,700
Property and equipment, net	24,900	21,000
Intangible assets, net	8,500	9,000
Goodwill	36,200	36,200
Contingent commission receivable—LPT Agreement	29,200	26,400
Other assets	40,900	23,500
Total assets	\$ 3,755,800	\$ 3,769,700

Liabilities and stockholders' equity

Claims and policy liabilities:

Unpaid losses and loss adjustment expenses	\$ 2,347,500	\$ 2,369,700
Unearned premiums	308,900	310,800
Total claims and policy liabilities	2,656,400	2,680,500
Commissions and premium taxes payable	52,500	46,300
Accounts payable and accrued expenses	24,100	20,400
Deferred reinsurance gain—LPT Agreement	189,500	207,000
Notes payable	32,000	92,000
Other liabilities	40,500	36,700
Total liabilities	\$ 2,995,000	\$ 3,082,900

Commitments and contingencies (Note 12)

Stockholders' equity:

Common stock, \$0.01 par value; 150,000,000 shares authorized; 55,589,454 and 54,866,802 shares issued and 32,216,480 and 31,493,828 shares outstanding at December 31, 2015 and 2014, respectively	\$ 600	\$ 600
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	357,200	346,600
Retained earnings	682,000	595,300
Accumulated other comprehensive income, net	83,600	106,900
Treasury stock, at cost (23,372,974 shares at December 31, 2015 and 2014)	(362,600)	(362,600)
Total stockholders' equity	760,800	686,800
Total liabilities and stockholders' equity	\$ 3,755,800	\$ 3,769,700

See accompanying notes.

Employers Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Revenues			
Net premiums earned	\$ 690,400	\$ 684,500	\$ 642,300
Net investment income	72,200	72,400	70,800
Net realized (losses) gains on investments	(10,700)	16,300	9,500
Other income	200	300	900
Total revenues	<u>752,100</u>	<u>773,500</u>	<u>723,500</u>
Expenses			
Losses and loss adjustment expenses	429,400	453,400	463,600
Commission expense	85,400	81,400	78,300
Underwriting and other operating expenses	135,200	129,100	125,300
Interest expense	2,700	3,000	3,200
Total expenses	<u>652,700</u>	<u>666,900</u>	<u>670,400</u>
Net income before income taxes	99,400	106,600	53,100
Income tax expense (benefit)	5,000	5,900	(10,700)
Net income	<u>\$ 94,400</u>	<u>\$ 100,700</u>	<u>\$ 63,800</u>
Comprehensive income			
Unrealized (losses) gains during the period (net of tax (benefit) expense of \$(16,300), \$14,600, and \$(17,700) for the years ended December 31, 2015, 2014, and 2013, respectively)	\$ (30,300)	\$ 27,100	\$ (32,900)
Reclassification adjustment for realized gains in net income (net of taxes of \$(3,700), \$5,700, and \$3,300 for the years ended December 31, 2015, 2014, and 2013, respectively)	7,000	(10,600)	(6,200)
Other comprehensive (loss) income, net of tax	<u>(23,300)</u>	<u>16,500</u>	<u>(39,100)</u>
Total comprehensive income	<u>\$ 71,100</u>	<u>\$ 117,200</u>	<u>\$ 24,700</u>
Net realized (losses) gains on investments			
Net realized gains on investments before impairments on fixed maturity and equity securities	\$ 6,500	\$ 16,800	\$ 9,600
Other than temporary impairment recognized in earnings	<u>(17,200)</u>	<u>(500)</u>	<u>(100)</u>
Net realized (losses) gains on investments	<u>\$ (10,700)</u>	<u>\$ 16,300</u>	<u>\$ 9,500</u>
Earnings per common share (Note 18):			
Basic	<u>\$ 2.94</u>	<u>\$ 3.19</u>	<u>\$ 2.05</u>
Diluted	<u>\$ 2.90</u>	<u>\$ 3.14</u>	<u>\$ 2.00</u>
Cash dividends declared per common share	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.24</u>

See accompanying notes.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Treasury Stock at Cost	Total Stockholders' Equity
	Shares	Amount					
	(in thousands, except share data)						
Balance, January 1, 2013	54,144,453	\$ 600	\$ 326,000	\$ 445,900	\$ 129,500	\$ (362,600)	\$ 539,400
Stock-based compensation (Note 14)	—	—	5,600	—	—	—	5,600
Stock options exercised	411,295	—	7,400	—	—	—	7,400
Vesting of restricted stock units, net of shares withheld to satisfy minimum tax withholding (Note 14)	117,156	—	(900)	—	—	—	(900)
Dividend to common stockholders	—	—	—	(7,500)	—	—	(7,500)
Net income for the year	—	—	—	63,800	—	—	63,800
Change in net unrealized gains on investments, net of taxes of \$(21,000)	—	—	—	—	(39,100)	—	(39,100)
Balance, December 31, 2013	<u>54,672,904</u>	<u>\$ 600</u>	<u>\$ 338,100</u>	<u>\$ 502,200</u>	<u>\$ 90,400</u>	<u>\$ (362,600)</u>	<u>\$ 568,700</u>
Balance, January 1, 2014	54,672,904	\$ 600	\$ 338,100	\$ 502,200	\$ 90,400	\$ (362,600)	\$ 568,700
Stock-based compensation (Note 14)	—	—	6,000	—	—	—	6,000
Stock options exercised	120,494	—	2,200	—	—	—	2,200
Vesting of restricted stock units, net of shares withheld to satisfy minimum tax withholding (Note 14)	73,404	—	(600)	—	—	—	(600)
Dividend to common stockholders	—	—	—	(7,600)	—	—	(7,600)
Excess tax benefit from stock-based compensation	—	—	900	—	—	—	900
Net income for the year	—	—	—	100,700	—	—	100,700
Change in net unrealized gains on investments, net of taxes of \$8,900	—	—	—	—	16,500	—	16,500
Balance, December 31, 2014	<u>54,866,802</u>	<u>\$ 600</u>	<u>\$ 346,600</u>	<u>\$ 595,300</u>	<u>\$ 106,900</u>	<u>\$ (362,600)</u>	<u>\$ 686,800</u>
Balance, January 1, 2015	54,866,802	\$ 600	\$ 346,600	\$ 595,300	\$ 106,900	\$ (362,600)	\$ 686,800
Stock-based compensation (Note 14)	—	—	4,600	—	—	—	4,600
Stock options exercised	463,466	—	7,600	—	—	—	7,600
Vesting of restricted and performance stock units, net of shares withheld to satisfy minimum tax withholding (Note 14)	259,186	—	(2,700)	—	—	—	(2,700)
Dividend to common stockholders	—	—	—	(7,700)	—	—	(7,700)
Excess tax benefit from stock-based compensation	—	—	1,100	—	—	—	1,100
Net income for the year	—	—	—	94,400	—	—	94,400
Change in net unrealized gains on investments, net of taxes of \$(12,600)	—	—	—	—	(23,300)	—	(23,300)
Balance, December 31, 2015	<u>55,589,454</u>	<u>\$ 600</u>	<u>\$ 357,200</u>	<u>\$ 682,000</u>	<u>\$ 83,600</u>	<u>\$ (362,600)</u>	<u>\$ 760,800</u>

See accompanying notes.

Employers Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Operating activities			
Net income	\$ 94,400	\$ 100,700	\$ 63,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,300	7,000	6,100
Stock-based compensation	4,600	6,000	5,600
Amortization of premium on investments, net	12,800	10,600	9,000
Allowance for doubtful accounts	4,300	800	1,100
Deferred income tax benefit	(5,600)	(500)	(10,800)
Net realized gains (losses) on investments	10,700	(16,300)	(9,500)
Excess tax benefits from stock-based compensation	(1,200)	(1,200)	—
Other	100	(300)	(900)
Change in operating assets and liabilities:			
Premiums receivable	(9,600)	(17,600)	(57,200)
Reinsurance recoverable on paid and unpaid losses	44,300	71,300	63,800
Federal income taxes recoverable	(3,900)	6,500	(3,700)
Unpaid losses and loss adjustment expenses	(22,200)	39,200	99,000
Unearned premiums	(1,900)	6,800	38,800
Accounts payable, accrued expenses and other liabilities	8,600	12,800	1,800
Deferred reinsurance gain—LPT Agreement	(17,500)	(42,100)	(32,000)
Contingent commission receivable—LPT Agreement	(2,800)	(1,300)	(6,000)
Other	(7,000)	(10,500)	(2,400)
Net cash provided by operating activities	116,400	171,900	166,500
Investing activities			
Purchase of fixed maturity securities	(476,900)	(378,000)	(514,200)
Purchase of equity securities	(85,100)	(29,500)	(30,500)
Proceeds from sale of fixed maturity securities	105,400	47,900	52,500
Proceeds from sale of equity securities	34,700	36,500	30,700
Proceeds from maturities and redemptions of investments	323,900	251,100	206,800
Proceeds from sale of fixed assets	—	—	800
Capital expenditures and other	(11,500)	(10,500)	(5,000)
Change in restricted cash and cash equivalents	8,300	(4,200)	(1,200)
Net cash used in investing activities	(101,200)	(86,700)	(260,100)
Financing activities			
Cash transactions related to stock-based compensation	4,800	1,600	6,500
Dividends paid to stockholders	(7,700)	(7,600)	(7,500)
Payments on notes payable and capital leases	(60,500)	(11,300)	(11,600)
Excess tax benefits from stock-based compensation	1,200	1,200	—
Net cash used in financing activities	(62,200)	(16,100)	(12,600)
Net (decrease) increase in cash and cash equivalents	(47,000)	69,100	(106,200)
Cash and cash equivalents at the beginning of the period	103,600	34,500	140,700
Cash and cash equivalents at the end of the period	\$ 56,600	\$ 103,600	\$ 34,500
Cash (received) paid for income taxes	\$ 12,700	\$ (1,100)	\$ 3,900
Cash paid for interest	\$ 2,800	\$ 3,000	\$ 3,300
Schedule of non-cash transactions			
Financed property and equipment purchases	\$ 300	\$ 700	\$ 2,300

See accompanying notes.

Employers Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015

1. Basis of Presentation and Summary of Operations

Nature of Operations and Organization

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), and Employers Assurance Company (EAC), 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.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). All intercompany transactions and balances have been eliminated in consolidation.

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. Currently, the Company has one operating segment, workers' compensation insurance and related services.

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, deferred income taxes, and investments.

Reclassifications

Certain prior period information has been reclassified to conform to the current period presentation.

2. Changes in Estimates

The Company reduced its estimated reserves ceded under the Loss Portfolio Transfer Agreement (LPT Reserve Adjustments) in each of the years 2015, 2014, and 2013 as a result of the determination that adjustments were necessary to reflect observed favorable paid loss trends in each of these years. The following table shows the financial statement impact related to the reduction in estimated reserves ceded under the Loss Portfolio Transfer Agreement (LPT Agreement).

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in millions, except per share data)		
Change in estimated reserves ceded under the LPT Agreement	\$ (10.0)	\$ (46.8)	\$ (27.5)
Cumulative adjustment to the Deferred Gain ⁽¹⁾	(6.4)	(31.1)	(19.0)
Net income impact of change in estimate	6.4	31.1	19.0
EPS impact of change in estimate			
Basic	0.20	0.99	0.61
Diluted	0.20	0.97	0.59

- (1) The cumulative adjustments to the Deferred Gain were also recognized in losses and LAE incurred in the consolidated statement of comprehensive income, so that the Deferred Gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement.

The Company increased its estimate of Contingent commission receivable – LPT Agreement (LPT Contingent Commission Adjustments) in each of 2015, 2014, and 2013 as a result of the determination that adjustments were necessary to reflect observed favorable paid loss trends in each of those years. The following table shows the impact to the Consolidated Statements of Comprehensive Income related to these changes in estimates.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in millions, except per share data)		
Cumulative adjustment to the deferred reinsurance gain - LPT Agreement (Deferred Gain) ⁽¹⁾	\$ (2.6)	\$ (10.8)	\$ (4.3)
Net income impact of change in estimate	2.6	10.8	4.3
EPS impact of change in estimate			
Basic	0.08	0.34	0.14
Diluted	0.08	0.34	0.13

(1) The cumulative adjustments to the Deferred Gain were also recognized in losses and LAE incurred in the consolidated statement of comprehensive income, so that the Deferred Gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement.

The Company reallocated reserves from non-taxable periods prior to January 1, 2000 to taxable years, which reduced its effective tax rates, in each of 2015, 2014, and 2013. These changes in estimates were the result of the determination that a reallocation of reserves among accident years was appropriate to address a continuation of observed loss trends in each of those years. The following table shows the financial statement impact of these changes in estimates.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in millions, except per share data)		
Reserves reallocated to taxable years	\$ 56.3	\$ 13.1	\$ 27.2
Impact to effective tax rate	(15.4)%	(3.4)%	(13.9)%
Net income impact of change in estimate	\$ 15.3	\$ 3.6	\$ 7.4
EPS impact of change in estimate			
Basic	0.48	0.11	0.24
Diluted	0.47	0.11	0.23

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents is primarily related to funds held in trust to secure the Company's line of credit and for reinsurance. The Company held \$32.7 million and \$33.3 million in trust for reinsurance, of which \$2.5 million and \$6.1 million were classified as restricted cash and cash equivalents at December 31, 2015 and 2014, respectively.

Investments

The Company's investments in fixed maturity securities and equity securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of equity, net of deferred taxes, in accumulated other comprehensive income.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis, and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined using the effective-yield method based on estimated principal repayments. Mortgage-backed securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using the retrospective method.

Realized capital gains and losses on investments are determined on a specific-identification basis.

When, in the opinion of management, a decline in the fair value of an equity security below its cost is considered to be "other-than-temporary," the equity security's cost is written down to its fair value at the time the other-than-temporary decline is identified. The determination of an other-than-temporary decline for debt securities includes, in addition to other relevant factors, a presumption that if the market value is below cost by a significant amount for a period of time, a bifurcation of the write-down may be necessary. If management has the intent to sell the debt security or more likely than not will be required to sell the debt security before its

anticipated recovery, the investment is written down to its fair value and the entire impairment is recorded as a realized loss due to credit in the accompanying consolidated statements of comprehensive income. If management does not have the intent to sell or will not be required to sell the debt security but does not expect to recover the amortized cost basis of the debt security, the amount of the other-than-temporary impairment is bifurcated between credit loss and other loss and recorded as a component of realized gains and losses and to other comprehensive income, respectively, in the consolidated statements of comprehensive income. The amount of any write-down is determined by the difference between the cost or amortized cost of the debt security and its fair value at the time the other-than-temporary decline is identified (see Note 6).

Recognition of Revenue and Expense

Revenue Recognition

Premium revenue is recognized over the period of the contract in proportion to the amount of time insurance protection is provided. At the end of the policy term, payroll-based premium audits are performed on substantially all policyholder accounts to determine net premiums earned for the policy year. Earned but unbilled premiums include estimated future audit premiums based on the Company's historical experience. These estimates are subject to changes in policyholders' payrolls, economic conditions, and seasonality, and are continually reviewed and adjusted as experience develops or new information becomes known. Any such adjustments are included in current operations; however, they are partially offset by the resulting changes in losses and LAE, commission expenses, and premium taxes. The Company's premiums receivable on the consolidated balance sheet included \$53.5 million and \$49.1 million of additional premiums expected to be received from policyholders for final audits at December 31, 2015 and 2014, respectively.

The Company establishes a bad debt allowance on its premiums receivable through a charge included in underwriting and other operating expenses in the accompanying consolidated statements of comprehensive income. This bad debt allowance is determined based on estimates and assumptions to project future experience. After all collection efforts have been exhausted, the Company reduces the bad debt allowance for write-offs of premiums receivable that have been deemed uncollectible. The Company's bad debt allowance was \$12.2 million and \$7.9 million at December 31, 2015 and 2014, respectively. The Company had write-offs, net of recoveries of amounts previously written off, of \$2.4 million, \$3.4 million, and \$2.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Deferred Policy Acquisition Costs

Policy acquisition costs that relate directly to the successful acquisition of new or renewal insurance contracts, including underwriting, policy issuance and processing, medical and inspection, and sales force contract selling are deferred and amortized as the related premiums are earned. Amortization of deferred policy acquisition costs for the years ended December 31, 2015, 2014, and 2013, was \$103.9 million, \$102.7 million, and \$96.9 million, respectively.

A premium deficiency would exist if expected future losses and LAE, expected policyholder dividends, deferred policy acquisition costs, and expected policy maintenance costs, offset by anticipated investment income, exceed the related unearned premiums. A premium deficiency would reduce the value of deferred policy acquisition costs. If the deficiency exceeded the deferred policy acquisition costs, a separate liability would be accrued for the excess deficiency. There was no premium deficiency at December 31, 2015 or 2014.

Unpaid Loss and LAE Reserves

Loss and LAE reserves represent management's best estimate of the ultimate net cost of all reported and unreported losses incurred for the applicable periods, less payments made. The estimated reserves for losses and LAE include the accumulation of estimates for all claims reported prior to the balance sheet date, estimates of claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims (based on projections of relevant historical data). Amounts reported are necessarily subject to the impact of future changes in economic, regulatory and social conditions. Management believes that, subject to the inherent variability in any such estimate, the reserves are within a reasonable and acceptable range of adequacy. Estimates for claims prior to the balance sheet date are continually monitored and reviewed, and as settlements are made or reserves adjusted, the differences are reported in current operations. Salvage and subrogation recoveries are estimated based on a review of the level of historical salvage and subrogation recoveries.

Reinsurance

In the ordinary course of business and consistent with general insurance industry practices, the Company purchases excess of loss reinsurance to protect the Company against the impact of large and/or catastrophic losses in its workers' compensation business. Additionally, the Company is a party to a 100% quota share retroactive reinsurance agreement (see Note 10). This reinsurance reduces the financial impact of such losses on current operations and the equity of the Company. Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance coverage provided. It does not, however, discharge the Company from its liability to its policyholders in the event the reinsurer is unable or unwilling to meet its obligations under its reinsurance agreement with the Company.

Net premiums earned and losses and LAE incurred are stated in the accompanying consolidated statements of comprehensive income after deduction of amounts ceded to reinsurers. Balances due from reinsurers on unpaid losses, including an estimate of such recoverables related to reserves for incurred but not reported losses, are reported as assets and are included in reinsurance recoverables even though amounts due on unpaid losses and LAE are not recoverable from the reinsurer until such losses are paid. Recoverables from reinsurers on unpaid losses and LAE amounted to \$628.2 million and \$669.5 million at December 31, 2015 and 2014, respectively.

Ceded losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the relevant reinsurance agreement.

The 100% quota share retroactive reinsurance agreement was entered into in 1999 by the Nevada State Industrial Insurance System (the Fund) and assumed by EICN, which the Company refers to as the LPT Agreement (see Note 10). Loss expenses are deemed to be 7% of total losses paid and are paid to the Company as compensation for management of the claims under the LPT Agreement. The Company accounts for this transaction as retroactive reinsurance, whereby the initial deferred gain was recorded as a liability in the accompanying consolidated balance sheets as Deferred reinsurance gain—LPT Agreement. This gain is amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries through the life of the LPT Agreement, and is recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income. Any adjustment to the estimated reserves ceded under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also recognized in losses and LAE incurred in the consolidated statement 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.

Additionally, the Company is entitled to receive a contingent profit commission under the LPT Agreement. The contingent profit is equal to 30% of the favorable difference between actual paid losses and LAE and expected paid losses and LAE as established in the LPT Agreement based on losses paid through June 30, 2024. The contingent profit commission is paid every five years beginning June 30, 2004 for the first twenty-five years of the agreement. The Company is paid 30% of the favorable difference between the actual and expected losses and LAE paid at each calculation point. The Company could be required to return any previously received contingent profit commission, plus interest, in the event of unfavorable differences through June 30, 2024. 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 on the accompanying consolidated balance sheets in Deferred reinsurance gain—LPT Agreement. The Contingent commission receivable—LPT Agreement is reduced as amounts are received from participating reinsurers. In 2014, the Company received \$11.7 million in cash related to the contingent profit commission. The related Deferred reinsurance gain—LPT Agreement is amortized using the recovery method. The amortization of the contingent profit commission is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the contingent profit commission (through June 30, 2024), and is recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income. Any adjustment to the contingent profit commission under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also recognized in losses and LAE incurred in the consolidated statement 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.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation (see Note 7). Expenditures for maintenance and repairs are charged against operations as incurred.

Electronic data processing equipment, software, furniture and equipment, and automobiles are depreciated using the straight-line method over three to seven years. Leasehold improvements are carried at cost less accumulated amortization. The Company amortizes leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding options or renewal periods. Leasehold improvements are generally amortized over three to five years.

Obligations Held Under Capital Leases

Leased property and equipment meeting capital lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease. Amortization is calculated using the straight-line method based on the term of the lease and is included in the depreciation expense of property and equipment. See Note 12 for additional disclosures related to capital leases.

Income Taxes

The Company's accounting for income taxes considers the current and deferred tax consequences of all transactions that have been recognized in its consolidated financial statements using the provisions of enacted tax laws. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and

liabilities resulting from a tax rate change affects net income or loss in the period that includes the enactment date of the tax rate change. The Company's income tax returns are subject to audit by the Internal Revenue Service and various state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. The Company periodically evaluates exposures associated with tax filing positions. Although we believe our positions comply with applicable laws, liabilities are recorded based upon estimates of the ultimate outcomes of these matters.

In assessing whether deferred tax assets will be realized, the Company considers whether it is more likely than not that it will generate future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. If necessary, a valuation allowance is established to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, investments, premiums receivable, and reinsurance recoverable balances.

Cash equivalents include investments in money market securities and securities backed by the U.S. government. Investments are diversified throughout many industries and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and cash equivalents and investments.

At December 31, 2015 and 2014, the outstanding premiums receivable balance was generally diversified due to the large number of entities composing the Company's policyholder base and their dispersion across many different industries. The Company also has recoverables from its reinsurers. Reinsurance contracts do not relieve the Company of its obligations to claimants or policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company obtains collateral to mitigate the risks related to reinsurance insolvencies. At December 31, 2015, \$3.7 million was collateralized by cash or letters of credit and an additional \$1.4 billion was in trust accounts for reinsurance related to the LPT Agreement.

Fair Value of Financial Instruments

Estimated fair value amounts have been determined using available market information and other appropriate valuation methodologies. Judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating the fair value for financial instruments in the accompanying consolidated financial statements and in these notes for the years ended 2015 and 2014:

Cash and cash equivalents, premiums receivable, accounts payable, and accrued expenses and other liabilities. The carrying amounts for these financial instruments as reported in the accompanying consolidated balance sheets approximate their fair values.

Investments. The estimated fair values for available-for-sale securities generally represent quoted market prices for securities traded in the public marketplace or estimated values for securities not traded in the public marketplace. Additional data with respect to fair values of the Company's investment securities is disclosed in Note 5.

Goodwill and Other Intangible Assets

The Company tests for impairment of goodwill and non-amortizable intangible assets in the fourth quarter of each year. At the end of each quarter, management considers the results of the previous analysis as well as any recent developments that may constitute triggering events requiring the impairment analysis of goodwill and other intangible assets to be updated. The Company has assessed the effects of current economic conditions on the Company's financial condition and results of operations and changes in the Company's stock price and determined that there were no impairments as of December 31, 2015 and 2014.

Intangible assets related to state licenses are not subject to amortization. Intangibles related to insurance relationships will be amortized in proportion to the expected period of benefit over the next three years.

The gross carrying value, accumulated amortization, and net carrying value for the Company's intangible assets, by major class, as of December 31, were as follows:

	2015			2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(in millions)					
State licenses	\$ 7.7	\$ —	\$ 7.7	\$ 7.7	\$ —	\$ 7.7
Insurance relationships	9.4	(8.6)	0.8	9.4	(8.1)	1.3
Total	\$ 17.1	\$ (8.6)	\$ 8.5	\$ 17.1	\$ (8.1)	\$ 9.0

During the years ended December 31, 2015, 2014, and 2013, the Company recognized \$0.5 million, \$0.7 million, and \$0.9 million in amortization expenses, respectively. These amortization expenses are included in the accompanying consolidated statements of comprehensive income in underwriting and other operating expenses. Amortization expense is expected to be as follows:

Year	Amount
	(in millions)
2016	0.4
2017	0.3
2018	0.1
Total	\$ 0.8

Stock-Based Compensation

The Company issues stock-based payments, which are recognized in the consolidated statements of comprehensive income based on their estimated fair values over the employees' service period (see Note 14).

4. New Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Number 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software* (Subtopic 350-40). The update provides guidance to purchasers to assist in determining whether a cloud computing arrangement includes a software license and how to account for such an arrangement. This update becomes effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015 and early adoption is permitted. The Company does not expect the adoption to have a material impact on its consolidated financial condition and results of operations.

In May 2015, the FASB issued ASU Number 2015-07, *Fair Value Measurement* (Topic 820). This update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share. Additionally, this update removes the requirement to make certain disclosures for all investments that are eligible to be measured as a practical expedient at fair value using the NAV per share. This update becomes effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015 and early adoption is permitted. As this update focuses only on disclosures, it will not impact the Company's consolidated financial condition and results of operations.

In May 2015, the FASB issued ASU Number 2015-09, *Financial Services - Insurance* (Topic 944). This update expands the breadth of disclosures that an insurance entity must provide about its short-duration insurance contracts. This expanded disclosure includes the presentation of incurred and paid claims development tables by accident year for a period of up to 10 years. This update becomes effective for annual reporting periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016 and early adoption is permitted. As this update focuses only on disclosures, it will not impact the Company's consolidated financial condition and results of operations.

In January 2016, the FASB issued ASU Number 2016-01, *Financial Instruments - Overall* (Subtopic 825-10). This update replaces the guidance to classify equity transactions with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this update eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit notion price. Furthermore, this update clarifies that an evaluation of deferred tax assets related to available-for-sale securities is needed, in combination with and evaluation of other deferred tax assets, to determine if a valuation allowance is required. This update becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has not yet estimated the full effect that adoption will have on its consolidated financial condition and results of operations.

5. Fair Value of Financial Instruments

The carrying value and the estimated fair value of the Company's financial instruments as of December 31, were as follows:

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets	(in millions)			
Investments (Note 6)	\$ 2,487.2	\$ 2,487.2	\$ 2,448.4	\$ 2,448.4
Cash and cash equivalents	56.6	56.6	103.6	103.6
Restricted cash and cash equivalents	2.5	2.5	10.8	10.8
Financial liabilities				
Notes payable (Note 11)	\$ 32.0	\$ 36.6	\$ 92.0	\$ 97.8

Assets and liabilities recorded at fair value on the 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.

Fair values of available-for-sale fixed maturity and equity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs. The Company obtains a quoted price for each security from third party pricing services, which are derived through recently reported trades for identical or similar securities. For securities not actively traded, the 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 speeds. The Company also performs a quarterly analysis on the prices received 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. If differences are noted in this review, the Company may obtain additional information from other pricing services to validate the quoted price. There were no adjustments to prices obtained from third party pricing services as of December 31, 2015 and 2014 that were material to the consolidated financial statements.

If quoted market prices and an estimate determined by using objectively verifiable information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price, as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

These methods of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce 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 financial liabilities are based on a combination of the variable interest rates for the Company's existing line of credit and other 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.

The following table presents the items in the accompanying consolidated balance sheets that are stated at fair value and the corresponding fair value measurements.

	December 31, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(in millions)					
Fixed maturity securities						
U.S. Treasuries	\$ —	\$ 120.2	\$ —	\$ —	\$ 166.7	\$ —
U.S. Agencies	—	24.4	—	—	39.6	—
States and municipalities	—	854.5	—	—	745.8	—
Corporate securities	—	925.3	—	—	908.3	—
Residential mortgage-backed securities	—	237.9	—	—	288.4	—
Commercial mortgage-backed securities	—	80.3	—	—	65.4	—
Asset-backed securities	—	45.9	—	—	61.5	—
Total fixed maturity securities	\$ —	\$ 2,288.5	\$ —	\$ —	\$ 2,275.7	\$ —
Equity securities	\$ 198.7	\$ —	\$ —	\$ 172.7	\$ —	\$ —

The Company had no Level 3 investments during the years ended December 31, 2015 and 2014.

6. Investments

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
At December 31, 2015				
Fixed maturity securities				
U.S. Treasuries	\$ 116.4	\$ 3.9	\$ (0.1)	\$ 120.2
U.S. Agencies	23.0	1.4	—	24.4
States and municipalities	809.4	45.1	—	854.5
Corporate securities	913.4	19.9	(8.0)	925.3
Residential mortgage-backed securities	231.8	7.1	(1.0)	237.9
Commercial mortgage-backed securities	81.1	0.2	(1.0)	80.3
Asset-backed securities	46.0	—	(0.1)	45.9
Total fixed maturity securities	2,221.1	77.6	(10.2)	2,288.5
Equity securities	137.5	65.8	(4.6)	198.7
Total investments	\$ 2,358.6	\$ 143.4	\$ (14.8)	\$ 2,487.2
At December 31, 2014				
Fixed maturity securities				
U.S. Treasuries	\$ 160.9	\$ 5.8	\$ —	\$ 166.7
U.S. Agencies	37.2	2.4	—	39.6
States and municipalities	701.6	44.4	(0.2)	745.8
Corporate securities	880.7	30.8	(3.2)	908.3
Residential mortgage-backed securities	278.6	10.6	(0.8)	288.4
Commercial mortgage-backed securities	65.5	0.5	(0.6)	65.4
Asset-backed securities	61.6	—	(0.1)	61.5
Total fixed maturity securities	2,186.1	94.5	(4.9)	2,275.7
Equity securities	97.8	75.5	(0.6)	172.7
Total investments	\$ 2,283.9	\$ 170.0	\$ (5.5)	\$ 2,448.4

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2015, 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	\$ 113.6	\$ 115.1
Due after one year through five years	859.3	884.5
Due after five years through ten years	636.9	657.1
Due after ten years	252.4	267.7
Mortgage and asset-backed securities	358.9	364.1
Total	<u>\$ 2,221.1</u>	<u>\$ 2,288.5</u>

The following is a summary of 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 December 31, 2015 and 2014.

	December 31, 2015			December 31, 2014		
	Estimated Fair Value	Gross Unrealized Losses	Number of Issues	Estimated Fair Value	Gross Unrealized Losses	Number of Issues
	(dollars in millions)					
Less than 12 months:						
Fixed maturity securities						
U.S. Treasuries	\$ 27.4	\$ (0.1)	20	\$ —	\$ —	—
States and municipalities	—	—	—	20.6	(0.2)	5
Corporate securities	328.4	(4.7)	122	109.9	(0.8)	42
Residential mortgage-backed securities	50.5	(0.8)	24	—	—	—
Commercial mortgage-backed securities	51.5	(1.0)	22	—	—	—
Asset-backed securities	34.1	—	27	—	—	—
Total fixed maturity securities	<u>491.9</u>	<u>(6.6)</u>	<u>215</u>	<u>130.5</u>	<u>(1.0)</u>	<u>47</u>
Equity securities	35.8	(4.6)	45	10.1	(0.6)	15
Total less than 12 months	<u>\$ 527.7</u>	<u>\$ (11.2)</u>	<u>260</u>	<u>\$ 140.6</u>	<u>\$ (1.6)</u>	<u>62</u>
Greater than 12 months:						
Fixed maturity securities						
Corporate securities	\$ 34.6	\$ (3.3)	15	\$ 129.4	\$ (2.4)	39
Residential mortgage-backed securities	7.1	(0.2)	25	44.1	(0.8)	36
Commercial mortgage-backed securities	—	—	—	31.3	(0.6)	8
Asset-backed securities	11.1	(0.1)	4	18.3	(0.1)	6
Total fixed maturity securities	<u>52.8</u>	<u>(3.6)</u>	<u>44</u>	<u>223.1</u>	<u>(3.9)</u>	<u>89</u>
Total greater than 12 months	<u>\$ 52.8</u>	<u>\$ (3.6)</u>	<u>44</u>	<u>\$ 223.1</u>	<u>\$ (3.9)</u>	<u>89</u>
Total available-for-sale:						
Fixed maturity securities						
U.S. Treasuries	\$ 27.4	\$ (0.1)	20	\$ —	\$ —	—
States and municipalities	—	—	—	20.6	(0.2)	5
Corporate securities	363.0	(8.0)	137	239.3	(3.2)	81
Residential mortgage-backed securities	57.6	(1.0)	49	44.1	(0.8)	36
Commercial mortgage-backed securities	51.5	(1.0)	22	31.3	(0.6)	8
Asset-backed securities	45.2	(0.1)	31	18.3	(0.1)	6
Total fixed maturity securities	<u>544.7</u>	<u>(10.2)</u>	<u>259</u>	<u>353.6</u>	<u>(4.9)</u>	<u>136</u>
Equity securities	35.8	(4.6)	45	10.1	(0.6)	15
Total available-for-sale	<u>\$ 580.5</u>	<u>\$ (14.8)</u>	<u>304</u>	<u>\$ 363.7</u>	<u>\$ (5.5)</u>	<u>151</u>

Based on reviews of the fixed maturity securities, the Company determined that unrealized losses for the years ended December 31, 2015, 2014, and 2013 were primarily the result of changes in 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, the Company's intent on not selling the securities,

and a determination that it is not more likely than not that the Company will be required to sell the securities until fair value recovers to above amortized cost, or to maturity.

Based on reviews of the equity securities, the Company recognized total impairments of \$17.2 million, \$0.5 million and \$0.1 million in the fair values of 27, seven, and one equity securities primarily as a result of the severity and duration of the change in fair values of those securities as of December 31, 2015, 2014, and 2013, respectively. The remaining unrealized losses on equity securities were not considered to be other than temporary due to the financial condition and near-term prospects of the issuers. The other-than-temporary impairments of equity securities in 2015 were primarily due to the continued downturn in the energy sector during the fourth quarter.

Net realized gains on investments and the change in unrealized gains (losses) on fixed maturity and equity securities are determined on a specific-identification basis and were as follows:

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Net realized gains on investments			
Fixed maturity securities			
Gross gains	\$ 0.5	\$ 1.1	\$ 0.7
Gross losses	(0.4)	—	—
Net realized gains on fixed maturity securities	<u>\$ 0.1</u>	<u>\$ 1.1</u>	<u>\$ 0.7</u>
Equity securities			
Gross gains	\$ 8.1	\$ 15.7	\$ 9.1
Gross losses	(18.9)	(0.5)	(0.3)
Net realized gains on equity securities	<u>\$ (10.8)</u>	<u>\$ 15.2</u>	<u>\$ 8.8</u>
Total	<u>\$ (10.7)</u>	<u>\$ 16.3</u>	<u>\$ 9.5</u>
Change in unrealized gain (losses)			
Fixed maturity securities	\$ (22.2)	\$ 23.1	\$ (88.8)
Equity securities	(13.7)	2.2	28.6
Total	<u>\$ (35.9)</u>	<u>\$ 25.3</u>	<u>\$ (60.2)</u>

Net investment income was as follows:

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Fixed maturity securities	\$ 68.8	\$ 70.7	\$ 69.5
Equity securities	5.9	4.2	3.8
Cash equivalents and restricted cash	0.1	0.1	0.1
Gross investment income	74.8	75.0	73.4
Investment expenses	(2.6)	(2.6)	(2.6)
Net investment income	<u>\$ 72.2</u>	<u>\$ 72.4</u>	<u>\$ 70.8</u>

The Company is required by various state laws and regulations to keep securities or letters of credit in depository accounts with certain states in which it does business. As of December 31, 2015 and 2014, securities having a fair value of \$881.2 million and \$783.9 million, respectively, were on deposit. These laws and regulations govern not only the amount but also the type of securities that are eligible for deposit.

Certain reinsurance contracts require Company 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 the ceding reinsurers at December 31, 2015 and 2014 was \$32.7 million and \$33.3 million, respectively.

Pursuant to its credit facility, a portion of the Company's debt was secured by fixed maturity securities and restricted cash and cash equivalents that had a fair value of \$74.6 million at December 31, 2014.

7. Property and Equipment

Property and equipment consists of the following:

	As of December 31,	
	2015	2014
	(in millions)	
Furniture and equipment	\$ 2.3	\$ 2.3
Leasehold improvements	4.3	4.4
Computers and software	56.7	46.0
Automobiles	1.2	1.2
	64.5	53.9
Accumulated amortization and depreciation	(39.6)	(32.9)
Property and equipment, net	<u>\$ 24.9</u>	<u>\$ 21.0</u>

Depreciation and amortization expenses related to property and equipment for the years ended December 31, 2015, 2014, and 2013 were \$7.8 million, \$6.3 million, and \$5.2 million, respectively. Internally developed software costs of \$1.2 million and \$0.8 million were capitalized during each of the years ended December 31, 2015 and 2014.

8. Income Taxes

The Company files a consolidated federal income tax return. The insurance subsidiaries pay premium taxes on gross premiums written in lieu of some states' income or franchise taxes.

The provision for income taxes consisted of the following:

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Current tax expense:			
Federal	\$ 9.5	\$ 6.3	\$ 0.1
State	1.1	0.1	—
Total current tax expense	10.6	6.4	0.1
Deferred federal tax benefit	(5.6)	(0.5)	(10.8)
Income tax expense (benefit)	<u>\$ 5.0</u>	<u>\$ 5.9</u>	<u>\$ (10.7)</u>

The difference between the statutory federal tax rate of 35% and the Company's effective tax rate on net income before income taxes as reflected in the consolidated statements of comprehensive income was as follows:

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Expense computed at statutory rate	\$ 34.8	\$ 37.3	\$ 18.6
Dividends received deduction and tax-exempt interest	(8.6)	(8.8)	(9.1)
Pre-Privatization reserve adjustments, excluding LPT	(15.3)	(3.6)	(7.4)
LPT deferred gain amortization	(4.9)	(8.4)	(6.6)
LPT Reserve Adjustment	(2.2)	(10.9)	(6.7)
Other	1.2	0.3	0.5
Income tax expense (benefit)	<u>\$ 5.0</u>	<u>\$ 5.9</u>	<u>\$ (10.7)</u>

On January 1, 2000, EICN assumed the assets, liabilities, and operations of the Fund pursuant to legislation passed in the 1999 Nevada Legislature (the Privatization). Prior to the Privatization, the Fund was a part of the State of Nevada and therefore was not subject to federal income tax; accordingly, it did not take an income tax deduction with respect to the establishment of its unpaid loss and LAE reserves. Due to favorable loss experience after the Privatization, it was determined that certain of the pre-Privatization unpaid loss and LAE reserves assumed by EICN as part of the Privatization were no longer necessary and the unpaid loss and LAE reserves were reduced accordingly. Such downward adjustments of pre-Privatization unpaid loss reserves increased GAAP net income by \$15.3 million, \$3.6 million, and \$7.4 million for the years ended December 31, 2015, 2014, and 2013, respectively, but did not increase taxable income. There were downward adjustments of pre-Privatization unpaid loss reserves, excluding the LPT, of \$56.3 million, \$13.1 million, and \$27.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

The LPT Reserve Adjustments for the years ended December 31, 2015, 2014, and 2013 increased GAAP net income by \$6.4 million, \$31.1 million, and \$19.0 million, respectively, but did not increase taxable income. The LPT Contingent Commission Adjustments increased net income by \$2.6 million, \$10.8 million, and \$4.3 million during 2015, 2014, and 2013, respectively, but did not increase taxable income.

As of December 31, 2015 and 2014, the Company had no unrecognized tax benefits.

Tax years 2012 through 2015 are subject to full examination by the federal taxing authority.

The significant components of deferred income taxes, net, were as follows as of December 31:

	2015		2014	
	Deferred Tax		Deferred Tax	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Unrealized capital gains, net	\$ —	\$ 45.0	\$ —	\$ 57.6
Deferred policy acquisition costs	—	15.7	—	15.7
Intangible assets	—	3.0	—	3.2
Loss reserve discounting for tax reporting	56.3	—	56.7	—
Unearned premiums	20.9	—	20.9	—
Allowance for bad debt	4.3	—	2.7	—
Stock based compensation	4.1	—	5.8	—
Accrued liabilities	8.4	—	7.5	—
Minimum tax credit	28.0	—	19.6	—
Net operating loss carryforward	8.7	—	16.2	—
Other	8.4	7.5	2.5	5.7
Total	<u>\$ 139.1</u>	<u>\$ 71.2</u>	<u>\$ 131.9</u>	<u>\$ 82.2</u>
Deferred income taxes, net	<u>\$ 67.9</u>		<u>\$ 49.7</u>	

At December 31, 2015, the Company had a \$25.0 million net operating loss carry-forward. This is due to expire beginning 2032 through 2033. At December 31, 2015, the Company had a minimum tax credit of \$28.0 million that may be carried forward indefinitely.

Deferred tax assets are required to be reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized. Realization of the deferred income tax asset is dependent on the Company generating sufficient taxable income in future years as the deferred income tax charges become currently deductible for tax reporting purposes. Although realization is not assured, management believes that it is more likely than not that the net deferred income tax asset will be realized.

9. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Years Ended December 31,		
	2015	2014	2013
	(in millions)		
Unpaid losses and LAE, gross of reinsurance, at beginning of period	\$ 2,369.7	\$ 2,330.5	\$ 2,231.5
Less reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	669.5	743.1	805.4
Net unpaid losses and LAE at beginning of period	1,700.2	1,587.4	1,426.1
Losses and LAE, net of reinsurance, incurred in:			
Current year	456.9	503.8	494.5
Prior years	(7.2)	4.6	7.0
Total net losses and LAE incurred during the period	449.7	508.4	501.5
Paid losses and LAE, net of reinsurance, related to:			
Current year	75.4	75.9	78.5
Prior years	355.2	319.7	261.7
Total net paid losses and LAE during the period	430.6	395.6	340.2
Ending unpaid losses and LAE, net of reinsurance	1,719.3	1,700.2	1,587.4
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	628.2	669.5	743.1
Unpaid losses and LAE, gross of reinsurance, at end of period	<u>\$ 2,347.5</u>	<u>\$ 2,369.7</u>	<u>\$ 2,330.5</u>

Total net losses and LAE included in the above table excludes the impact of the amortization of the Deferred Gain and the LPT Reserve Adjustment (Note 10).

In 2015, the Company had \$7.2 million of favorable prior accident year loss development, which included \$9.0 million of favorable prior accident year loss development on its voluntary risk business, which was partially offset by \$1.8 million of unfavorable loss development related to its assigned risk business. In 2014, the increase in the estimate of incurred losses and LAE attributable to insured events in prior years was primarily related to the Company's assigned risk business. In 2013, the increase in the estimate of incurred losses and LAE attributable to insured events in prior years included \$5.0 million related to actual paid losses that were more than expected and the impact of new information on selected patterns of claims emergence and payments used in the projection of future loss payments and \$1.9 million related to the Company's assigned risk business.

In California, where the Company's operations began on July 1, 2002, the actuaries' and management's initial expectations of ultimate losses and patterns of loss emergence and payment were based on benchmarks derived from analyses of historical insurance industry data in California. No historical data from the Company's California insurance subsidiary existed prior to July 1, 2002; however, some historical data was available for the prior years for some of the market segments the Company entered in California, but was limited as to the number of loss reserve evaluation points available. The industry-based benchmarks were judgmentally adjusted for the anticipated impact of significant environmental changes, specifically the enactment of major changes to the statutory workers' compensation benefit structure and the manner in which claims are administered and adjudicated in California. The actual emergence and payment of claims by the Company's California insurance subsidiary have been more favorable than those initial expectations through 2008, due in part to the enactment of the major changes in the California workers' compensation environment. The Company's recent loss experience, from 2010 through 2015, indicates an upward trend in medical costs that is reflected in our loss reserves; however, the Company's indemnity claims frequency (the number of claims expressed as a percentage of payroll) decreased year-over-year in 2015 and 2014. The Company's estimates assume that increasing medical cost trends will continue and will impact the Company's long-term claims costs and loss reserves.

The Company continues to develop its own loss experience in California and will rely more on its experience and less on historical industry data in projecting its reserve requirements as such data becomes available. As the actual experience of the Company emerges, it will continue to evaluate prior estimates, which may result in additional adjustments in reserves.

In Nevada, the Company has compiled a lengthy history of workers' compensation claims payment patterns based on the business of the Fund and EICN, but the emergence and payment of claims in recent years has been more favorable than in the long-term history in Nevada with the Fund. The expected patterns of claim payments and emergence used in the projection of the Company's ultimate claim payments are based on both the long and short-term historical paid data. In recent evaluations, claim patterns have continued to emerge in a manner consistent with short-term historical data. Consequently, for California and Nevada, the Company has relied more heavily on claim projection patterns observed in recent years.

Loss reserves shown in the consolidated balance sheets are net of \$26.8 million and \$25.1 million for anticipated subrogation recoveries as of December 31, 2015 and 2014, respectively.

10. Reinsurance

The Company is involved in the cession and assumption of reinsurance with non-affiliated companies. Risks are reinsured with other companies on both a quota share and excess of loss basis.

Reinsurance transactions reflected in the accompanying consolidated statements of comprehensive income were as follows:

	Years Ended December 31,					
	2015		2014		2013	
	Written	Earned	Written	Earned	Written	Earned
	(in millions)					
Direct premiums	\$ 684.9	\$ 686.0	\$ 686.8	\$ 684.3	\$ 680.5	\$ 645.4
Assumed premiums	12.8	12.8	10.9	10.3	9.4	8.3
Gross premiums	697.7	698.8	697.7	694.6	689.9	653.7
Ceded premiums	(8.4)	(8.4)	(10.1)	(10.1)	(11.4)	(11.4)
Net premiums	<u>\$ 689.3</u>	<u>\$ 690.4</u>	<u>\$ 687.6</u>	<u>\$ 684.5</u>	<u>\$ 678.5</u>	<u>\$ 642.3</u>
Ceded losses and LAE incurred	<u>\$ 10.1</u>		<u>\$ 17.2</u>		<u>\$ 10.7</u>	

Ceded losses and LAE incurred includes the amortization of the Deferred Gain, LPT Reserve Adjustments, and LPT Contingent Commission Adjustments.

Excess of Loss Reinsurance

The Company has consistently maintained excess of loss reinsurance coverage to protect it against the impact of large and/or catastrophic losses in its workers' compensation business. The Company currently maintains reinsurance for losses from a single occurrence or catastrophic event in excess of \$7.0 million and up to \$200.0 million, subject to certain exclusions. The reinsurance coverage includes coverage for acts of terrorism, excluding nuclear, biological, chemical, and radiological events. Any liability outside the coverage limits of the reinsurance program is retained by the Company. The Company's current reinsurance program is effective July 1, 2015 through June 30, 2016. The Company's reinsurance programs covering older accident years have generally had similar terms.

LPT Agreement

Recoverables from reinsurers on unpaid losses and LAE amounted to \$628.2 million and \$669.5 million at December 31, 2015 and 2014, respectively. At each of December 31, 2015 and 2014, \$498.0 million and \$534.8 million, respectively, of those recoverables was related to the LPT Agreement that was entered into in 1999 by the Fund and assumed by EICN. Under the LPT Agreement, substantially all of the Fund's losses and LAE on claims incurred prior to July 1, 1995, have been ceded to three unaffiliated reinsurers on a 100% quota share basis. Investments have been placed in trust by the three reinsurers as security for payment of the reinsured claims. Under the LPT Agreement, initially \$1.5 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995, were reinsured for consideration of \$775.0 million. The LPT Agreement provides coverage up to \$2.0 billion. Through December 31, 2015, the Company has paid losses and LAE claims totaling \$695.2 million related to the LPT Agreement.

The Company amortized \$11.4 million, \$13.1 million, and \$14.6 million of the Deferred Gain for the years ended December 31, 2015, 2014, and 2013, respectively. Additionally, the Deferred Gain was reduced by \$6.4 million, \$31.1 million and \$19.0 million for the years ended December 31, 2015, 2014, and 2013, respectively, due to favorable LPT Reserve Adjustments and by \$2.6 million, \$10.8 million, and \$4.3 million for the years ended December 31, 2015, 2014, and 2013, respectively, due to favorable LPT Contingent Commission Adjustments (Note 2).

11. Notes Payable

Notes payable is comprised of the following:

	December 31,	
	2015	2014
	(in millions)	
Credit facility, with variable interest, as described below	\$ —	\$ 60.0
Dekania Surplus Note, due April 30, 2034 with variable interest of 425 basis points above 90-day LIBOR	10.0	10.0
ICONS Surplus Note, due May 26, 2034 with variable interest of 425 basis points above 90-day LIBOR	12.0	12.0
Alesco Surplus Note, due December 15, 2034 with variable interest of 405 basis points above 90-day LIBOR	10.0	10.0
Balance	<u>\$ 32.0</u>	<u>\$ 92.0</u>

On December 28, 2010, the Company entered into a credit facility, under which the Company was provided with: (a) \$100.0 million line of credit through December 31, 2011; (b) \$90.0 million line of credit from January 1, 2012 through December 31, 2012; (c) \$80.0 million line of credit from January 1, 2013 through December 31, 2013; (d) \$70.0 million line of credit from January 1, 2014 through December 31, 2014; and (e) \$60.0 million line of credit from January 1, 2015 through December 31, 2015. Amounts outstanding bear interest at a rate equal to, at our option: (a) a fluctuating rate of 1.75% above prime rate or (b) a fixed rate that is 1.75% above the LIBOR rate then in effect. Interest paid during the years ended December 31, 2015, 2014, and 2013 totaled \$1.3 million, \$1.4 million, and \$1.6 million, respectively. In accordance with the terms of the contract, the remaining principal balance of \$60.0 million was repaid on the credit facility during the fourth quarter of 2015.

EPIC has a \$10.0 million surplus note to Dekania CDO II, Ltd. issued as part of a pooled transaction. The note matures in 2034 and became callable by the Company in the second quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 425 basis points in excess of the 90-day LIBOR. Both the payment of interest and repayment of the principal under this note and the surplus notes described in the succeeding two paragraphs are subject to the prior approval of the Florida Department of Financial Services. Interest paid during each of the years ended December 31, 2015, 2014, and 2013 was \$0.5 million. Interest accrued as of December 31, 2015 and 2014 was \$0.1 million.

EPIC has a \$12.0 million surplus note to ICONS, Inc. issued as part of a pooled transaction. The note matures in 2034 and became callable by the Company in the second quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 425 basis points in excess of the 90-day LIBOR. Interest paid during each of the years ended December 31, 2015, 2014, and 2013 was \$0.6 million, \$0.5 million and \$0.6 million, respectively. Interest accrued as of December 31, 2015 and 2014 was \$0.1 million.

EPIC has a \$10.0 million surplus note to Alesco Preferred Funding V, LTD issued as part of a pooled transaction. The note matures in 2034 and became callable by the Company in the fourth quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 405 basis points in excess of the 90-day LIBOR. Interest paid during each of the years ended December 31, 2015, 2014, and 2013 was \$0.4 million. Interest accrued as of December 31, 2015 and 2014 was less than \$0.1 million.

Principal payment obligations on notes payable outstanding at December 31, 2015, were as follows:

Year	Principal Due
	(in millions)
2016	\$ —
2017	—
2018	—
2019	—
2020	—
Thereafter	32.0
Total	<u>\$ 32.0</u>

12. Commitments and Contingencies

Leases

The Company leases office facilities and certain equipment under operating and capital leases. Most leases have renewal options, typically with increased rental rates during the option period. Certain of these leases contain options to purchase the property at amounts that approximate fair market value; other leases contain options to purchase at a bargain purchase price. At December 31, 2015, the remaining lease terms expire over the next six years.

The future lease payments for the next five years on these non-cancelable operating and capital leases at December 31, 2015, were as follows:

Year	Operating Leases	Capital Leases
	(in millions)	
2016	\$ 4.9	\$ 0.3
2017	4.8	0.3
2018	3.5	0.2
2019	3.0	—
2020	2.6	—
Thereafter	1.1	—
Total	\$ 19.9	\$ 0.8

Included in the future minimum capital lease payments are future interest charges of \$0.1 million. Facilities rent expense was \$4.9 million, \$4.8 million, and \$5.0 million for the years ended December 31, 2015, 2014, and 2013, respectively.

Property held under capital leases is included in property and equipment as follows:

Asset Class	2015	2014
	(in millions)	
Computers and software	\$ 0.4	\$ 0.9
Automobiles	1.2	1.2
	1.6	2.1
Accumulated amortization	(1.0)	(1.0)
Total	\$ 0.6	\$ 1.1

Contingencies Surrounding Insurance Assessments

All of the states where the Company's insurance subsidiaries are licensed to transact business require property and casualty insurers doing business within the respective state to pay various insurance assessments. The Company accrues a liability for estimated insurance assessments as direct premiums are written, losses are recorded, or as other events occur in accordance with various states' laws and regulations, and defers these costs and recognizes them as an expense as the related premiums are earned. The Company had an accrued liability for guaranty fund assessments, second injury funds assessments, and other insurance assessments totaling \$22.0 million and \$18.8 million as of December 31, 2015 and 2014, respectively. These liabilities are generally expected to be paid over one to eighty year periods based on individual state's regulations. The Company also recorded an asset of \$21.4 million and \$13.0 million, as of December 31, 2015 and 2014, respectively, for prepaid policy charges still to be collected in the future from policyholders, assessments that may be recovered through a reduction in future premium taxes in certain states, and for expected refunds of certain prepaid assessments based on a change in the Company's premium over time. These assets are expected to be realized over one to ten year periods in accordance with their type and individual state's regulations.

13. Stockholders' Equity

Stock Repurchase Programs

Since the Company's initial public offering in January 2007 through December 31, 2015, the Company repurchased a total of 23,372,974 shares of common stock at an average cost per share of \$15.51, which is reported as treasury stock, at cost, on the accompanying consolidated balance sheets. There were no stock repurchase programs authorized by the Board of Directors as of December 31, 2015.

14. Stock-Based Compensation

The Employers Holdings, Inc. Amended and Restated Equity and Incentive Plan (the Plan) is administered by the Compensation Committee of the Board of Directors, which is authorized to grant, at its discretion, awards to officers, employees, non-employee directors, consultants, and independent contractors. The maximum number of common shares reserved for grants of awards under the Plan was 7,105,838 shares, prior to reductions for grants made. The Plan provides for the grant of stock options (both incentive stock options and nonqualified stock options), stock appreciation rights, shares of restricted stock, restricted stock units (RSUs), performance stock units (PSUs), and other stock-based awards.

As of December 31, 2015, nonqualified stock options, RSUs, and PSUs have been granted, but no incentive stock options, stock appreciation rights, or shares of restricted stock have been granted under the Plan.

Compensation costs are recognized based on expected performance, if applicable, net of any estimated forfeitures on a straight-line basis over the employee requisite service periods. Forfeiture rates are based on historical experience and are adjusted in subsequent periods for differences in actual forfeitures from those estimated. Net stock-based compensation expense recognized in the accompanying consolidated statements of comprehensive income was as follows:

	Years Ended December 31,		
	2015	2014	2013
Stock-based compensation expense related to:	(in millions)		
Nonqualified stock options	\$ 1.0	\$ 1.2	\$ 1.7
RSUs	2.0	1.9	2.3
PSUs	1.6	2.9	1.6
Total	4.6	6.0	5.6
Less: related tax benefit	1.6	2.1	2.0
Net stock-based compensation expense	<u>\$ 3.0</u>	<u>\$ 3.9</u>	<u>\$ 3.6</u>

Nonqualified Stock Options

The fair value of the stock options granted is estimated using a Black-Scholes option pricing model that uses the assumptions noted in the following table. During the years ended December 31, 2015, 2014, and 2013, the expected stock price volatility used to value the options granted in 2015, 2014, and 2013 was based on the volatility of the Company's historical stock price since February 2007. The expected term of the options granted in 2015, 2014, and 2013 was calculated using the 'plain-vanilla' calculation provided in the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin No. 107. The dividend yield was calculated using amounts authorized by the Board of Directors. The risk-free interest rate is the yield on the grant date of the options of U.S. Treasury zero coupon securities with a maturity comparable to the expected term of the options.

The Company anticipates issuing new shares upon exercise of stock options.

The fair value of the stock options granted during the years ended December 31, 2015, 2014, and 2013 was calculated using the following weighted average assumptions:

	2015	2014	2013
Expected volatility	38.0%	39.0%	40.1%
Expected life (in years)	4.8	4.8	4.8
Dividend yield	1.0%	1.2%	1.1%
Risk-free interest rate	1.6%	1.6%	0.8%
Weighted average grant date fair values of options granted	\$7.63	\$6.66	\$7.04

Changes in outstanding stock options for the year ended December 31, 2015 were as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding at December 31, 2012	1,830,772	\$ 16.97	3.7 years
Granted	162,800	22.24	6.2 years
Exercised	(411,295)	17.89	
Expired	(6,900)	17.00	
Forfeited	(28,479)	18.90	
Options outstanding at December 31, 2013	1,546,898	17.24	3.4 years
Granted	141,744	20.87	6.2 years
Exercised	(120,494)	17.89	
Expired	(2,400)	17.00	
Forfeited	(44,458)	19.99	
Options outstanding at December 31, 2014	1,521,290	17.45	2.9 years
Granted	80,800	24.20	6.2 years
Exercised	(463,466)	16.43	
Forfeited	(17,079)	20.21	
Options outstanding at December 31, 2015	<u>1,121,545</u>	18.31	2.8 years
Exercisable at December 31, 2015	<u>849,312</u>	17.28	2.1 years

At December 31, 2015, the Company had yet to recognize \$1.4 million in deferred compensation related to nonqualified stock option grants and expects to recognize these costs on a straight-line basis over the next 39 months. The fair value of options vested and the intrinsic value of outstanding and exercisable options as of December 31, were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in millions)		
Fair value of options vested	\$ 1.3	\$ 1.6	\$ 1.8
Intrinsic value of outstanding options	10.1	9.2	22.3
Intrinsic value of exercisable options	8.5	7.8	15.2

The intrinsic value of options exercised was \$4.0 million, \$0.5 million, and \$3.7 million for the years ended December 31, 2015, 2014, and 2013.

RSUs

The Company has awarded RSUs to non-employee members of the Board of Directors and certain officers of the Company. The RSUs awarded to non-employee members of the Board of Directors generally vest on the first anniversary of the award date. RSU grants allow each non-employee Director to decide whether to defer settlement of the RSUs until six months after termination of Board service or settle the RSUs at vesting. Dividend equivalents are granted to Directors who elected to defer settlement of the RSUs after the grants vested. RSUs awarded to officers of the Company have a service vesting period of approximately four years from the date awarded and vest 25% on or after each of the subsequent four anniversaries of such date. These RSUs are subject to accelerated vesting in certain limited circumstances, such as: retirement, death or disability of the holder, or in connection with a change of control of the Company.

Changes in outstanding RSUs for the year ended December 31, 2015 were as follows:

	<u>Number of RSUs</u>	<u>Weighted Average Grant Date Fair Value</u>
RSUs outstanding at December 31, 2012	406,262	\$ 16.65
Granted	84,215	23.57
Forfeited	(10,924)	18.85
Vested	(121,207)	15.97
RSUs outstanding at December 31, 2013	358,346	18.44
Granted	87,396	21.02
Forfeited	(16,690)	20.18
Vested	(122,185)	18.26
RSUs outstanding at December 31, 2014	306,867	19.15
Granted	112,048	24.19
Forfeited	(7,749)	20.99
Vested	(92,133)	19.74
RSUs outstanding at December 31, 2015	<u>319,033</u>	20.71
Vested but unsettled RSUs at December 31, 2015	<u>124,149</u>	17.73

At December 31, 2015, the Company had yet to recognize \$3.2 million in deferred compensation related to RSU grants and expects to recognize these costs on a straight-line basis over the next 39 months. The grant date fair value of RSUs vested and the intrinsic value of vested RSUs for the years ended December 31, were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in millions)		
Grant date fair value of RSUs vested	\$ 1.7	\$ 2.2	\$ 1.9
Intrinsic value of vested RSUs	2.2	2.7	2.9

The intrinsic value of outstanding RSUs was \$8.7 million, \$7.2 million, and \$11.3 million at December 31, 2015, 2014, and 2013.

PSUs

The Company awarded PSUs to certain officers of the Company as follows:

Date of Grant	Target Number Awarded	Fair Value on Date of Grant	Aggregate Fair Value on Date of Grant
			(in millions)
March 2013 ⁽¹⁾	147,440	\$ 22.24	\$ 3.3
March 2014 ⁽¹⁾	125,340	20.87	2.6
March 2015 ⁽²⁾	110,000	24.20	2.7

- (1) The PSUs granted in 2013 and 2014 have a performance period of three years and are subject to certain performance goals, based on the Company's statutory combined ratio, with payouts that range from 0% to 200% of the target awards. The ultimate payout of the PSUs awarded in 2013 was 0% of the target award.
- (2) The PSUs awarded in March 2015 were awarded to certain officers 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.

At December 31, 2015, the Company had yet to recognize \$4.4 million in deferred compensation related to PSU grants and expects to recognize these costs on a straight-line basis over the next 24 months. This is based on the expectation of the Company achieving a 80% target rate for the 2014 PSUs and 200% for the 2015 PSUs.

15. Statutory Matters

Statutory Financial Data

The combined capital stock, surplus, and net income of the Company's insurance subsidiaries (EICN, ECIC, EPIC, and EAC), prepared in accordance with the statutory accounting practices (SAP) of the National Association of Insurance Commissioners (NAIC) as well as SAP permitted by the states of California, Florida, and Nevada, were as follows:

	December 31,	
	2015	2014
	(in millions)	
Capital stock and unassigned surplus	\$ 498.8	\$ 413.8
Paid in capital	174.9	174.9
Surplus notes	32.0	32.0
Total statutory surplus	<u>\$ 705.7</u>	<u>\$ 620.7</u>

Net income for the Company's insurance subsidiaries prepared in accordance with SAP for the years ended December 31, 2015, 2014 and 2013 was \$87.8 million, \$58.6 million and \$19.3 million, respectively.

Treatment of the LPT Agreement, deferred policy acquisition costs, fair value of financial instruments, and the surplus notes (see Notes 5, 10, and 11) are the primary differences in the SAP-basis capital stock and total surplus of the insurance subsidiaries of \$705.7 million and \$620.7 million, and the GAAP-basis equity of the Company of \$760.8 million and \$686.8 million as of December 31, 2015 and 2014, respectively. Under SAP accounting, the retroactive reinsurance gain resulting from the LPT Agreement is recorded as a special component of surplus (special surplus funds) in the initial year of the contract, and not reported as unassigned surplus until the Company has recovered amounts in excess of the original consideration paid. The special surplus funds are also reduced by the amount of extraordinary dividends as approved by the Nevada Division of Insurance. Under SAP, the surplus notes are recorded as a separate component of surplus. Under SAP, changes to the estimated contingent profit commission under the LPT Agreement are reflected in commission expense in the period that the estimate is revised.

Insurance Company Dividends

The ability of EHI to pay dividends on the Company's common stock and to pay other expenses will be dependent to a significant extent upon the ability of the Nevada domiciled insurance company, EICN, and the Florida domiciled insurance company, EPIC, to pay dividends to their immediate holding company, Employers Group, Inc. (EGI) and, in turn, the ability of EGI to pay dividends to EHI. ECIC and EAC have the ability to declare and pay dividends to EICN and EPIC, respectively, subject to certain restrictions. The amount of dividends each of the Company's subsidiaries may pay to their immediate parent is limited by the laws of its respective state of domicile.

Nevada law limits the payment of cash dividends by EICN to its parent by providing that payments cannot be made except from available and accumulated surplus, otherwise unrestricted (unassigned), and derived from realized net operating profits and realized and unrealized capital gains. A stock dividend may be paid out of any available surplus. A cash or stock dividend prohibited by

these restrictions may only be declared and distributed as an extraordinary dividend upon the prior approval of the Nevada Commissioner of Insurance (Nevada Commissioner). EICN may not pay such an extraordinary dividend or make an extraordinary distribution until the Nevada Commissioner either approves or does not disapprove the payment within 30 days after receiving notice of its declaration. An extraordinary dividend or distribution is defined by statute to include any dividend or distribution of cash or property whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of: (a) 10% of EICN's statutory surplus as regards to policyholders at the next preceding December 31; or (b) EICN's statutory net income, not including realized capital gains, for the 12-month period ending at the next preceding December 31. As of December 31, 2015, EICN had positive unassigned surplus of \$423.1 million. During 2015, EICN did not pay any dividends. The maximum dividends that may be paid in 2016 by EICN without prior approval is \$49.7 million.

Under Florida law, without regulatory approval, EPIC may pay dividends if they do not exceed the greater of: the lesser of 10% of surplus or net income, not including realized capital gains, plus a 2-year carry forward; 10% of surplus, with dividends payable limited to unassigned funds minus 25% of unrealized capital gains; or, the lesser of 10% of surplus or net investment income plus a 3-year carry forward with dividends payable limited to unassigned funds minus 25% of unrealized capital gains. During 2015, EPIC did not pay any dividends. The maximum dividends that may be paid in 2016 by EPIC without prior approval is \$28.1 million.

Regulatory Requirements and Restrictions

ECIC is subject to regulation by the California Department of Insurance (California DOI). The ability of ECIC to pay dividends was further limited by restrictions imposed by the California DOI in its approval of the Company's October 1, 2008 reinsurance pooling agreement. Under that approval: (a) ECIC must initiate discussions of its business plan with the California DOI if its net written premium to policyholder surplus ratio exceeds 1.5 to 1; (b) ECIC will not exceed a ratio of net written premium to policyholder surplus of 2 to 1 without approval of the California DOI; (c) if at any time ECIC's policyholder surplus decreases to 80% or less than the September 30, 2008 balance, ECIC shall cease issuing new policies in California, but may continue to renew existing policies until it has (i) received a capital infusion to bring its surplus position to the same level as that as of September 30, 2008 and (ii) submitted a new business plan to the California DOI; (d) ECIC will maintain a risk based capital (RBC) level of at least 350% of the authorized control level; (e) should ECIC fail to comply with any commitments listed herein, ECIC will consent to any request by the California DOI to cease issuing new policies in California, but may continue to renew existing policies until such time that as ECIC is able to achieve full compliance with each commitment; and (f) the obligations listed shall only terminate with the written consent of the California DOI. During the years ended December 31, 2015, 2014, and 2013, ECIC was in compliance with these requirements.

EPIC and EAC are subject to regulation by the Florida Department of Financial Services (FDfs). Florida statute Section 624.408 requires EPIC and EAC to maintain minimum capital and surplus of the greater of \$4.0 million or 10% of total liabilities. Florida statute Section 624.4095 requires EPIC and EAC to maintain a ratio of written premiums times 1.25 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. During the years ended December 31, 2015, 2014, and 2013, EPIC and EAC were in compliance with these statutes.

Additionally, EICN, ECIC, EPIC, and EAC are required to comply with NAIC RBC requirements. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC RBC standards are used by regulators to determine appropriate regulatory actions relating to insurers that show signs of weak or deteriorating conditions. As of December 31, 2015, 2014, and 2013, EICN, ECIC, EPIC, and EAC each had total adjusted capital above all regulatory action levels.

16. Accumulated Other Comprehensive Income, Net

Accumulated other comprehensive income, net, is comprised of unrealized gains on investments classified as available-for-sale, net of deferred tax expense. The following table summarizes the components of accumulated other comprehensive income, net:

	Years Ended December 31,	
	2015	2014
	(in millions)	
Net unrealized gain on investments, before taxes	\$ 128.6	\$ 164.5
Deferred tax expense on net unrealized gains	(45.0)	(57.6)
Total accumulated other comprehensive income, net	\$ 83.6	\$ 106.9

17. Employee Benefit and Retirement Plans

The Company maintains a 401(k) defined contribution plan covering all eligible Company employees (the Employers 401(k) Plan). Under the Employers 401(k) Plan, the Company's safe harbor matching consists of 100% matching contribution on salary deferrals up to 3% of compensation and then 50% matching contribution on salary deferrals from 3% to 5% of compensation. The

Company's contribution to the Employers 401(k) Plan was \$1.8 million, \$1.7 million, and \$1.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

18. Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing income applicable to stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflect the potential dilutive impact of all convertible securities on earnings per share. Diluted earnings per share includes shares assumed issued under the "treasury stock method," which reflects the potential dilution that would occur if outstanding RSUs and PSUs vested, and options were to be exercised.

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

	Years Ended December 31,		
	2015	2014	2013
	(in millions, except share data)		
Net income available to stockholders—basic and diluted	\$ 94.4	\$ 100.7	\$ 63.8
Weighted average number of shares outstanding—basic	32,070,911	31,529,621	31,142,534
Effect of dilutive securities:			
Stock options	286,764	223,811	464,334
PSUs	155,768	264,511	177,040
RSUs	48,010	51,126	154,259
Dilutive potential shares	490,542	539,448	795,633
Weighted average number of shares outstanding—diluted	32,561,453	32,069,069	31,938,167

Diluted earnings per share excludes outstanding options and other common stock equivalents in periods where the inclusion of such options and common stock equivalents would be anti-dilutive. The following table presents options, PSUs and RSUs that were excluded from diluted earnings per share.

	Years Ended December 31,		
	2015	2014	2013
Options excluded as the exercise price was greater than the average market price	20,200	173,247	—
Options, PSUs and RSUs excluded under the treasury method, as the potential proceeds on settlement or exercise was greater than the value of shares acquired	257,405	260,171	162,800

19. Selected Quarterly Financial Data (Unaudited)

Quarterly results for the years ended December 31, 2015 and 2014 were as follows:

	2015 Quarters Ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share data)			
Net premiums earned	\$ 159.0	\$ 170.6	\$ 179.0	\$ 181.8
Net realized gains (losses) on investments	1.2	1.9	2.0	(15.8)
Losses and loss adjustment expenses	106.2	101.5	115.8	105.9
Commission expense	18.7	22.9	21.0	22.8
Underwriting and other operating expenses	33.5	32.5	31.6	37.6
Income tax expense (benefit)	4.1	4.1	5.9	(9.1)
Net income	14.0	29.2	24.5	26.7
Earnings per common share:				
Basic	0.44	0.91	0.76	0.83
Diluted	0.43	0.90	0.75	0.82

2014 Quarters Ended

	March 31	June 30	September 30	December 31
	(in millions, except per share data)			
Net premiums earned	\$ 167.2	\$ 172.6	\$ 172.1	\$ 172.6
Net realized gains on investments	3.3	9.2	1.8	2.0
Losses and loss adjustment expenses	122.3	98.5	122.4	110.2
Commission expense	20.0	20.4	20.6	20.4
Underwriting and other operating expenses	33.3	33.1	31.9	30.9
Income tax expense	1.3	2.0	1.3	1.3
Net income	10.8	45.6	15.2	29.1
Earnings per common share:				
Basic	0.34	1.45	0.48	0.92
Diluted	0.34	1.42	0.47	0.91

Fourth Quarter Adjustments

The fourth quarter of 2015 was impacted by two changes in estimates: (1) favorable prior accident year loss development of \$8.5 million, which included \$9.0 million of favorable prior accident year loss development on the Company's voluntary risk business, partially offset by \$0.5 million of unfavorable loss development related to assigned risk business, that increased net income by \$8.5 million or \$0.26 per basic and diluted share; and (2) a \$36.9 million reallocation of reserves from non-taxable periods prior to January 1, 2000 to taxable years, which reduced our effective tax rate by 65.3 percentage points, resulting in an increase to net income of \$11.5 million, or \$0.36 and \$0.35 per basic and diluted share, respectively.

The fourth quarter of 2014 was impacted by two changes in estimates, including: (1) a favorable LPT Reserve Adjustment, which reduced the Company's losses and LAE by \$8.8 million, and increased net income by \$8.8 million, or \$0.28 and \$0.27 per basic and diluted share, respectively; and (2) an LPT Contingent Commission Adjustment, which reduced the Company's losses and LAE by \$2.9 million, resulting in an increase to net income of \$2.9 million, or \$0.09 per basic and diluted share. See Note 2.

20. Subsequent Events

Each of the Company's insurance subsidiaries, EICN, ECIC, EPIC, and EAC, became a member of the Federal Home Loan Bank of San Francisco (FHLB) in January 2016. Membership allows each subsidiary access to collateralized advances, which may be used to support and enhance liquidity management. The amount of advances that may be taken are dependent on statutory admitted assets on a per company basis. Currently, none of the Company's subsidiaries has advances outstanding under the FHLB facility.

On February 16, 2016, the Board of Directors authorized a share repurchase program for up to \$50.0 million of the Company's common stock from February 22, 2016 through February 22, 2018 (the 2016 Program). The Company expects that shares of common stock 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 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 2016 Program may be commenced, modified, or suspended from time-to-time without prior notice.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) designed to provide reasonable assurance that the information required to be reported in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified and pursuant to SEC regulations, including controls and procedures designed to ensure that this information is accumulated and communicated to management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding the required disclosure. It should be noted that, because of inherent limitations, our disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the disclosure controls and procedures are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of December 31, 2015.

Management's Report on Internal Control Over Financial Reporting

Management's report regarding internal control over financial reporting is set forth in Item 8 of this report under the caption "Management's Report on Internal Control over Financial Reporting" and incorporated herein by reference.

Attestation Report of Independent Registered Public Accounting Firm

The attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 8 of this report under the caption "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" and incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) in the Exchange Act) during the fourth fiscal quarter of the year to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by Item 10 with respect to our executive officers and key employees is included under the caption “Executive Officers of the Registrant” in our Proxy Statement for the 2016 Annual Meeting and is incorporated herein by reference.

The information required by Item 10 with respect to our Directors is included under the caption “Election of Directors” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

The information required by Item 10 with respect to compliance with Section 16 of the Exchange Act is included under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

The information required by Item 10 with respect to our audit committee and our audit committee financial expert is included under the caption “The Board of Directors and its Committees - Audit Committee” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

The information required by Item 10 with respect to our Code of Business Conduct and Ethics and our Code of Ethics for Senior Financial Officers is posted on our website at www.employers.com in the Investors section under “Governance.” We will post information regarding any amendment to, or waiver from, our Code of Business Conduct and Ethics on our website in the Investor section under Governance.

Item 11. Executive Compensation

The information required by Item 11 is included under the captions “Compensation Discussion and Analysis,” “Compensation Committee Report” and “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Certain information required by Item 12 is included under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Compensation Discussion and Analysis” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Equity and Incentive Plan

The following table gives information about our common stock that may be issued upon the exercise of options, warrants, and rights under all of our existing equity compensation plans as of December 31, 2015. We do not have any plans not approved by our stockholders. Our equity compensation plans are discussed further in Note 14 in the Notes to our Consolidated Financial Statements, which are included herein.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercised price of outstanding options, warrants, and rights	(c) Number of securities remaining available for further issuance under compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	1,121,545	\$ 18.31	3,297,915
Equity compensation plans not approved by stockholders	—	—	—
Total	1,121,545	\$ 18.31	3,297,915

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is included under the captions “Certain Relationships and Related Transactions” and “Director Independence” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 with respect to the fees and services of Ernst & Young LLP, our independent registered public accounting firm, is included under the caption “Audit Matters” in our Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following consolidated financial statements are filed in Item 8 of Part II of this report:

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Report of Independent Registered Public Accounting Firm	48
Consolidated Balance Sheets as of December 31, 2015 and 2014	49
Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2015	50
Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2015	51
Consolidated Statements of Cash Flows for each of the three years ended December 31, 2015	52
Notes to Consolidated Financial Statements	53
Financial Statement Schedules:	
Schedule II. Condensed Financial Information of Registrant	78
Schedule VI. Supplemental Information Concerning Property-Casualty Insurance Operations	82

Pursuant to Rule 7-05 of Regulation S-X, Schedules I, III, IV, and V have been omitted as the information to be set forth therein is included in the notes to the audited consolidated financial statements.

Schedule II. Condensed Financial Information of Registrant

Employers Holdings, Inc.

Condensed Balance Sheets

December 31,

2015 2014

(in thousands, except share data)

Assets

Investments:

Investment in subsidiaries	\$ 647,100	\$ 567,100
Investment in fixed maturity securities available-for-sale (amortized cost \$40,200 in 2015 and \$83,300 in 2014)	42,200	86,700
Equity securities at fair value (amortized cost \$46,000 in 2015 and \$48,600 in 2014)	51,600	58,600
Total investments	740,900	712,400

Cash and cash equivalents	1,400	10,900
Restricted cash and cash equivalents	—	4,600
Intercompany receivable	200	300
Federal income taxes receivable	1,700	6,600
Deferred income taxes, net	20,600	13,900
Other assets	1,500	1,900
Total assets	\$ 766,300	\$ 750,600

Liabilities and stockholders' equity

Accounts payable and accrued expenses	\$ 5,200	\$ 3,800
Notes payable	—	60,000
Other liabilities	300	—
Total liabilities	5,500	63,800

Stockholders' equity:

Common stock, \$0.01 par value; 150,000,000 shares authorized 55,589,454 and 54,866,802 shares issued and 32,216,480 and 31,493,828 shares outstanding at December 31, 2015 and 2014, respectively	600	600
Preferred stock, \$0.01 par value; 25,000,000 shares authorized non-issued	—	—
Additional paid-in capital	357,200	346,600
Retained earnings	682,000	595,300
Accumulated other comprehensive income, net	83,600	106,900
Treasury stock, at cost (23,372,974 shares at December 31, 2015 and 2014)	(362,600)	(362,600)
Total stockholders' equity	760,800	686,800
Total liabilities and stockholders' equity	\$ 766,300	\$ 750,600

See accompanying notes.

Employers Holdings, Inc.
Condensed Statements of Income

	Years Ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Revenues			
Net investment income	\$ 4,000	\$ 5,200	\$ 6,000
Realized gains on investments	2,400	5,800	4,300
Total revenues	6,400	11,000	10,300
Expenses			
Other operating expenses	13,800	13,500	12,000
Interest expense	1,100	1,400	1,600
Total expenses	14,900	14,900	13,600
Loss before income taxes and equity in earnings of subsidiary	(8,500)	(3,900)	(3,300)
Income tax benefit	(3,300)	(2,600)	(1,500)
Net loss before equity in earnings of subsidiary	(5,200)	(1,300)	(1,800)
Equity in net income of subsidiary	99,600	102,000	65,600
Net income	\$ 94,400	\$ 100,700	\$ 63,800
Earnings per common share for the stated periods (Note 18):			
Basic	\$ 2.94	\$ 3.19	\$ 2.05
Diluted	\$ 2.90	\$ 3.14	\$ 2.00
Cash dividends declared per common share	\$ 0.24	\$ 0.24	\$ 0.24

See accompanying notes.

Employers Holdings, Inc.
Condensed Statement of Cash Flows

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Operating activities			
Net income	\$ 94,400	\$ 100,700	\$ 63,800
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiary	(99,600)	(102,000)	(65,600)
Realized gains on investments	(2,400)	(5,800)	(4,300)
Stock-based compensation	4,600	6,000	5,600
Excess tax benefits from stock-based compensation	(1,200)	(1,200)	—
Amortization of premium on investments, net	900	1,000	1,300
Deferred income tax expense	(4,600)	(2,300)	(500)
Change in operating assets and liabilities:			
Accounts payable and accrued expenses and other liabilities	1,700	1,200	(1,700)
Federal income taxes	4,900	800	(1,800)
Other assets	400	900	200
Intercompany payable/receivable	100	(1,400)	5,600
Other	1,200	1,000	—
Net cash provided by (used in) operating activities	400	(1,100)	2,600
Investing activities			
Purchase of fixed maturity securities	(21,600)	(12,000)	(29,500)
Purchase of equity securities	(19,000)	(20,700)	(23,600)
Proceeds from sale of fixed maturity securities	18,300	4,100	35,500
Proceeds from maturities and redemptions of investments	45,500	32,600	17,600
Proceeds from sale of equity securities	24,000	20,600	15,500
Cash dividends received from subsidiary	—	—	3,600
Capital contributions to subsidiary	—	—	(44,000)
Change in restricted cash equivalents	4,600	(4,100)	(400)
Net cash provided by (used in) investing activities	51,800	20,500	(25,300)
Financing activities			
Cash transactions related to stock-based compensation	4,800	1,500	6,500
Dividends paid to stockholders	(7,700)	(7,600)	(7,500)
Payments on notes payable	(60,000)	(10,000)	(10,000)
Excess tax benefits from stock-based compensation	1,200	1,200	—
Net cash used in financing activities	(61,700)	(14,900)	(11,000)
Net increase (decrease) in cash and cash equivalents	(9,500)	4,500	(33,700)
Cash and cash equivalents at the beginning of the period	10,900	6,400	40,100
Cash and cash equivalents at the end of the period	\$ 1,400	\$ 10,900	\$ 6,400

See accompanying notes.

Employers Holdings, Inc.
Notes to Condensed Financial Statements
December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Operations and Basis of Presentation

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), and Employers Assurance Company (EAC), 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.

EHI prepares its condensed financial statements in accordance with U.S. generally accepted accounting principles (GAAP), using the equity method. Under the equity method, the investment in subsidiary is stated at cost plus equity in earnings of its subsidiary. EHI receives dividends from its insurance subsidiaries in the form of cash and securities. The book value for these securities is stated at the fair market value at the date of transfer. These condensed financial statements should be read in conjunction with EHI's consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Estimates and Assumptions

The preparation of the 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. As a result, actual results could differ from these estimates.

2. Income Taxes

EHI files a consolidated federal income tax return with its subsidiaries and has a tax allocation agreement with its subsidiaries. The equity in the undistributed earnings of subsidiaries included in the accompanying condensed statements of income is net of income taxes.

3. Investments

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2015, 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.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(in millions)	
Due in one year or less	\$ 14.6	\$ 14.9
Due after one year through five years	15.6	16.1
Due after five years through ten years	3.3	3.7
Due after ten years	6.7	7.5
Total	<u>\$ 40.2</u>	<u>\$ 42.2</u>

At December 31, 2015, the fixed maturity securities had unrealized gains of \$2.0 million which are included in accumulated comprehensive income, net in the accompanying condensed balance sheets.

During 2015, EHI purchased equity securities and utilized market quotations to determine their fair values.

4. Notes Payable

On December 28, 2010, EHI entered into a credit facility. See Note 11 of the Consolidated Financial Statements of Employers Holdings, Inc. and Subsidiaries included herein for a description of the terms of the Amended Credit Facility. Interest paid during the years ended December 31, 2015, 2014, and 2013 totaled \$1.3 million, \$1.4 million, and \$1.6 million, respectively. In accordance with the terms of the contract, the remaining principal balance of \$60.0 million was repaid on the credit facility during the fourth quarter of 2015.

5. Stock-Based Compensation

During 2015, EHI awarded 80,800 non-qualified stock options to officers, 112,048 RSUs to non-employee Directors and officers, and 110,000 PSUs to officers. During 2014, EHI awarded 141,744 non-qualified stock options to officers, 87,396 RSUs to non-employee Directors and officers, and 125,340 PSUs to officers. See Note 14 of the Consolidated Financial Statements of Employers Holdings, Inc. and Subsidiaries included herein for a detailed description of the stock-based compensation.

Schedule VI. Supplemental Information Concerning Property - Casualty Insurance Operations

Employers Holdings, Inc. and Subsidiaries Consolidated Supplemental Information Concerning Property and Casualty Insurance Operations

Year Ended	Deferred Policy Acquisition Costs	Reserves For Unpaid Losses And LAE	Unearned Premiums	Net Premiums Earned	Net Investment Income	Losses and LAE Related to Current Years	Losses and LAE Related to Prior Years (including LPT Amortization and Adj)	Amortization of Deferred Policy Acquisition Costs	Paid Losses And LAE (including LPT Amortization and Adj)	Net Premiums Written
(in millions)										
2015	\$ 44.3	\$ 2,347.5	\$ 308.9	\$ 690.4	\$ 72.2	\$ 456.9	\$ (27.6)	\$ 103.9	\$ 410.2	\$ 689.3
2014	44.6	2,369.7	310.8	684.5	72.4	503.8	(50.5)	102.7	340.6	687.6
2013	43.5	2,330.5	304.0	642.3	70.8	494.5	(31.0)	96.9	302.3	678.5

Exhibits:

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein			
			Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Articles of Incorporation of Employers Holdings, Inc.		10-K	001-33245	3.1	March 30, 2007
3.2	Amended and Restated Bylaws of Employers Holdings, Inc.		10-Q	001-33245	3.1	November 5, 2009
4.1	Form of Common Stock Certificate		S-1/A	333-139092	4.1	January 18, 2007
10.1	Quota Share Reinsurance Agreement, dated as of June 30, 1999, between State Industrial Insurance System of Nevada, D.B.A.: Employers Insurance Company of Nevada and the various Reinsurers as identified by the Interests and Liabilities Agreements attached thereto ⁽¹⁾		S-1/A	333-139092	10.1	January 18, 2007
10.2	Producer Agreement, dated as of May 1, 2005, between Employers Compensation Insurance Company and Automatic Data Processing Insurance Agency, Inc. ⁽¹⁾		S-1/A	333-139092	10.2	January 18, 2007
10.3	Joint Marketing and Network Access Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Blue Cross of California, BC Life & Health Insurance Company, and Comprehensive Integrated Marketing Services ⁽¹⁾		S-1/A	333-139092	10.3	January 18, 2007
10.4	Joint Marketing and Network Access Agreement, dated as of July 1, 2006, between Employers Insurance Company of Nevada and Blue Cross of California, BC Life & Health Insurance Company, and Comprehensive Integrated Marketing Services ⁽¹⁾		S-1/A	333-139092	10.4	January 18, 2007
*10.5	Employers Holdings, Inc. Equity and Incentive Plan Form of Restricted Stock Unit Agreement for Non-Employee Directors		10-Q	001-33245	10.1	August 7, 2009
*10.6	Employment Agreement by and between Employers Holdings, Inc. and Ann W. Nelson, dated December 5, 2011 and the renewal term effective as of January 1, 2016		8-K	001-33245	10.1	December 8, 2011

*10.7	Employment Agreement by and between Employers Holdings, Inc. and John P. Nelson, dated December 5, 2011, and the renewal term effective as of January 1, 2016	8-K	001-33245	10.2	December 8, 2011
*10.8	Employment Agreement by and between Employers Holdings, Inc. and Lenard T. Ormsby, dated December 5, 2011 and the renewal term effective as of January 1, 2016	8-K	001-33245	10.3	December 8, 2011
*10.9	Employment Agreement by and between Employers Holdings, Inc. and Douglas D. Dirks, dated and the renewal term effective January 1, 2015	8-K	001-33245	10.1	May 11, 2012
*10.10	Employment Agreement dated August 20, 2013 and the renewal term effective January 1, 2016, by and between Employers Holdings, Inc. and Stephen V. Festa	8-K	001-33245	10.1	August 20, 2013
*10.11	Employment Agreement by and between Employers Holdings, Inc. and Terry Eleftheriou, dated November 3, 2014 and effective November 10, 2014	8-K	001-33245	10.1	November 6, 2014
*10.12	Employers Holdings, Inc. Equity and Incentive Plan Form of Performance Share Agreement	10-Q	001-33245	10.1	April 30, 2015
*10.13	Employers Holdings, Inc. Equity and Incentive Plan Form of Restricted Stock Unit Agreement	10-Q	001-33245	10.2	April 30, 2015
*10.14	Employers Holdings, Inc. Equity and Incentive Plan Form of Stock Option Agreement	10-Q	001-33245	10.3	April 30, 2015
*10.15	Employers Holdings, Inc. Amended and Restated Equity and Incentive Plan	8-K	001-3324	10.1	May 22, 2015
10.16	Third Amended and Restated Credit Agreement, dated December 30, 2010, between Employers Holdings, Inc. and Wells Fargo Bank, National Association	8-K	001-33245	10.1	December 30, 2010
10.17	Third Amended and Restated Revolving Line of Credit Note, dated December 30, 2010, between Employers Holdings Inc. and Wells Fargo Bank, National Association	8-K	001-33245	10.2	December 30, 2010
10.18	First Amendment to Third Amended and Restated Credit Agreement, dated December 31, 2013, between Employers Holdings, Inc. and Wells Fargo Bank, National Association	8-K	001-33245	10.1	January 3, 2014
21.1	Subsidiaries of Employers Holdings, Inc.	X			
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm	X			
31.1	Certification of Douglas D. Dirks Pursuant to Section 302	X			
31.2	Certification of Terry Eleftheriou Pursuant to Section 302	X			
32.1	Certification of Douglas D. Dirks Pursuant to Section 906	X			
32.2	Certification of Terry Eleftheriou Pursuant to Section 906	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Definition Linkbase Document	X			

101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X

*Identify management contracts and compensatory plans or arrangements.

- (1) Confidential treatment has been requested for certain confidential portions of this exhibit; these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 19, 2016

EMPLOYERS HOLDINGS, INC.

By: /s/ Douglas D. Dirks

Name: Douglas D. Dirks

Title: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Robert J. Kolesar</u> Robert J. Kolesar	Chairman of the Board	February 19, 2016
<u>/s/ Douglas D. Dirks</u> Douglas D. Dirks	President and Chief Executive Officer, Director (Principal Executive Officer)	February 19, 2016
<u>/s/ Terry Eleftheriou</u> Terry Eleftheriou	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 19, 2016
<u>/s/ Richard W. Blakey</u> Richard W. Blakey	Director	February 19, 2016
<u>/s/ Prasanna G. Dhoré</u> Prasanna G. Dhoré	Director	February 19, 2016
<u>/s/ Valerie R. Glenn</u> Valerie R. Glenn	Director	February 19, 2016
<u>/s/ James R. Kroner</u> James R. Kroner	Director	February 19, 2016
<u>/s/ Michael J. McSally</u> Michael J. McSally	Director	February 19, 2016
<u>/s/ Ronald F. Mosher</u> Ronald F. Mosher	Director	February 19, 2016
<u>/s/ Katherine W. Ong</u> Katherine W. Ong	Director	February 19, 2016
<u>/s/ Michael D. Rumbolz</u> Michael D. Rumbolz	Director	February 19, 2016

Employers Holdings, Inc.

Employers Holdings, Inc. and Subsidiaries

Douglas D. Dirks

President and Chief Executive Officer

Terry Eleftheriou

Executive Vice President, Chief Financial Officer

Stephen V. Festa

Executive Vice President, Chief Operating Officer

Richard P. Hallman

Executive Vice President, Chief Information Officer

Ann W. Nelson

Executive Vice President, Corporate and Public Affairs

John P. Nelson

Executive Vice President, Chief Administrative Officer

Lenard T. Ormsby

Executive Vice President, General Counsel

Bryan C. Ware

Executive Vice President, Chief Actuary

Aaron P. Mikulsky

Senior Vice President, Business Process and Policyholder Services

Russel J. Newman

Senior Vice President, Chief Sales Officer

Lawrence S. Rogers

Senior Vice President, Chief Underwriting Officer

Barry J. Vogt

Senior Vice President, Chief Claims Officer

Shareholder Inquiries

Vicki Erickson Mills

Vice President, Investor Relations
vericksonmills@employers.com
775-327-2794

Company Information

Employers Holdings, Inc.

10375 Professional Circle
Reno, NV 89521-4802
888-682-6671

Directors

Richard W. Blakey

Director

Prasanna G. Dhoré

Director

Douglas D. Dirks

President & Chief Executive Officer

Valerie R. Glenn

Director

Robert J. Kolesar

Chairman of the Board

James R. Kroner

Chairman of the Board

Michael J. McSally

Director

Ronald F. Mosher

Chair – Audit Committee

Katherine W. Ong

Chair – Governance Committee

Michael D. Rumbolz

Chair – Compensation Committee

Transfer Agent

Wells Fargo Shareowner Services

1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4100
800-468-9716

Independent Auditors

Ernst & Young LLP

725 South Figueroa Street
Los Angeles, CA 90017

Annual Meeting

Tuesday, May 24, 2016 - 9:00 a.m.

Hilton Garden Inn Reno
9920 Double R Blvd., Reno, NV 89521



EMPLOYERS®

CORPORATE HEADQUARTERS

10375 Professional Circle
Reno, NV 89521-4802

www.employers.com

Employers Holdings, Inc. is a holding company with subsidiaries that are specialty providers of workers' compensation insurance and services focused on select, small businesses engaged in low-to-medium hazard industries. The company, through its subsidiaries, operates in 33 states and the District of Columbia. The company's insurance subsidiaries are rated A- (Excellent) by the A.M. Best Company.

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