

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

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)

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 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Class

April 30, 2009

Common Stock, \$0.01 par value per share

46,681,745 shares outstanding

TABLE OF CONTENTS

Page  
No.

PART I – FINANCIAL INFORMATION

<u>Item 1</u>	<u>Consolidated Financial Statements</u>	
	<u>Consolidated Balance Sheets as of March 31, 2009 (Unaudited) and December 31, 2008</u>	3
	<u>Unaudited Consolidated Statements of Income for the Three Months Ended March 31, 2009 and 2008</u>	5
	<u>Unaudited Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2009 and 2008</u>	6
	<u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2009 and 2008</u>	7
	<u>Unaudited Notes to Consolidated Financial Statements</u>	8
<u>Item 2</u>	<u>Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations</u>	15
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4</u>	<u>Controls and Procedures</u>	34

PART II – OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	35
<u>Item 1A</u>	<u>Risk Factors</u>	35
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	35
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	35
<u>Item 5</u>	<u>Other Information</u>	35
<u>Item 6</u>	<u>Exhibits</u>	36

## Item 1. Financial Statements

## Employers Holdings, Inc. and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except share data)

	As of March 31, 2009	As of December 31, 2008
	(unaudited)	
<b>Assets</b>		
Available for sale:		
Fixed maturity investments at fair value (amortized cost \$1,936,482 at March 31, 2009 and \$1,870,227 at December 31, 2008)	\$ 1,997,409	\$ 1,909,391
Equity securities at fair value (cost \$41,232 at March 31, 2009 and \$43,014 at December 31, 2008)	52,825	58,526
Short-term investments at fair value (amortized cost \$32,752 at March 31, 2009 and \$74,952 at December 31, 2008)	32,985	75,024
Total investments	2,083,219	2,042,941
Cash and cash equivalents	190,431	202,893
Accrued investment income	22,667	24,201
Premiums receivable, less bad debt allowance of \$8,606 at March 31, 2009 and \$7,911 at December 31, 2008	105,097	91,273
Reinsurance recoverable for:		
Paid losses	11,504	12,723
Unpaid losses, less allowance of \$1,335 at each period	1,065,343	1,075,015
Funds held by or deposited with reinsureds	87,087	88,163
Deferred policy acquisition costs	33,861	32,365
Federal income taxes recoverable	9,672	11,042
Deferred income taxes, net	70,070	80,968
Property and equipment, net	13,211	14,098
Intangible assets, net	17,358	18,218
Goodwill	36,192	36,192
Other assets	19,066	26,621
Total assets	\$ 3,764,778	\$ 3,756,713
<b>Liabilities and stockholders' equity</b>		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	\$ 2,494,554	\$ 2,506,478
Unearned premiums	151,930	139,310
Policyholders' dividends accrued	8,725	8,737
Total claims and policy liabilities	2,655,209	2,654,525
Commissions and premium taxes payable	14,030	12,691
Accounts payable and accrued expenses	20,624	24,192
Deferred reinsurance gain - LPT Agreement	402,233	406,581
Notes payable	182,000	182,000
Other liabilities	30,740	31,996
Total liabilities	\$ 3,304,836	\$ 3,311,985

See accompanying unaudited notes to consolidated financial statements.

**Employers Holdings, Inc. and Subsidiaries**

**Consolidated Balance Sheets**  
(in thousands, except share data)

	As of March 31, 2009	As of December 31, 2008
	<u>(unaudited)</u>	
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 53,528,207 and 53,528,207 shares issued and 47,205,945 and 48,830,140 shares outstanding at March 31, 2009, and at December 31, 2008, respectively	535	535
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	306,854	306,032
Retained earnings	212,454	194,509
Accumulated other comprehensive income, net	44,781	32,804
Treasury stock, at cost (6,322,262 shares at March 31, 2009 and 4,698,067 shares at December 31, 2008)	<u>(104,682)</u>	<u>(89,152)</u>
Total stockholders' equity	<u>459,942</u>	<u>444,728</u>
Total liabilities and stockholders' equity	<u>\$ 3,764,778</u>	<u>\$ 3,756,713</u>

*See accompanying unaudited notes to consolidated financial statements.*

**Employers Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Income**  
(in thousands, except per share data)

	Three Months Ended March 31,	
	2009	2008
	(unaudited)	
<b>Revenues</b>		
Net premiums earned	\$ 111,600	\$ 75,896
Net investment income	23,306	18,903
Realized losses on investments, net	(2,112)	(1,488)
Other income	146	438
<b>Total revenues</b>	<b>132,940</b>	<b>93,749</b>
<b>Expenses</b>		
Losses and loss adjustment expenses	59,162	30,614
Commission expense	13,658	10,623
Dividends to policyholders	2,018	15
Underwriting and other operating expenses	36,484	21,711
Interest expense	1,959	—
<b>Total expenses</b>	<b>113,281</b>	<b>62,963</b>
Net income before income taxes	19,659	30,786
Income tax (benefit) expense	(1,196)	5,292
<b>Net income</b>	<b>\$ 20,855</b>	<b>\$ 25,494</b>
<b>Earnings per common share (Note 12):</b>		
Basic	\$ 0.43	\$ 0.51
Diluted	\$ 0.43	\$ 0.51
Cash dividends declared per common share	\$ 0.06	\$ 0.06

*See accompanying unaudited notes to the consolidated financial statements*

**Employers Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Stockholders' Equity**  
(in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Treasury Stock, at Cost	Total Stockholders' Equity
	Shares	Amount					
				(unaudited)			
Balance, January 1, 2008	53,527,907	\$ 535	\$ 302,862	\$ 104,536	\$ 46,520	\$ (75,000)	\$ 379,453
Stock-based compensation	—	—	632	—	—	—	632
Acquisition of treasury stock (Note 11)	—	—	—	—	—	(994)	(994)
Dividends to common stockholders	—	—	—	(2,977)	—	—	(2,977)
Comprehensive income:							
Net income for the period	—	—	—	25,494	—	—	25,494
Change in net unrealized gains on investments, net of taxes	—	—	—	—	(5,383)	—	(5,383)
Total comprehensive income							20,111
Balance, March 31, 2008	53,527,907	\$ 535	\$ 303,494	\$ 127,053	\$ 41,137	\$ (75,994)	\$ 396,225
Balance, January 1, 2009	53,528,207	\$ 535	\$ 306,032	\$ 194,509	\$ 32,804	\$ (89,152)	\$ 444,728
Stock-based compensation	—	—	821	—	—	—	821
Acquisition of treasury stock (Note 11)	—	—	—	—	—	(15,530)	(15,530)
Dividends to common stockholders	—	—	1	(2,910)	—	—	(2,909)
Comprehensive income:							
Net income for the period	—	—	—	20,855	—	—	20,855
Change in net unrealized losses on investments, net of taxes	—	—	—	—	11,977	—	11,977
Total comprehensive income							32,832
Balance, March 31, 2009	53,528,207	\$ 535	\$ 306,854	\$ 212,454	\$ 44,781	\$ (104,682)	\$ 459,942

*See accompanying unaudited notes to the consolidated financial statements.*

**Employers Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

(in thousands)

	Three Months Ended March 31,	
	2009	2008
	(unaudited)	
<b>Operating activities</b>		
Net income	\$ 20,855	\$ 25,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,006	1,618
Stock-based compensation	821	632
Amortization of premium on investments, net	1,218	1,687
Allowance for doubtful accounts – premiums receivable	695	197
Deferred income tax expense	4,355	4,531
Realized losses on investments, net	2,112	1,488
Realized losses on retirement of assets	26	—
Change in operating assets and liabilities:		
Accrued investment income	1,534	722
Premiums receivable	(14,519)	4,921
Reinsurance recoverable on paid and unpaid losses	10,891	8,724
Funds held by or deposited with reinsureds	1,076	1,911
Federal income taxes	1,370	(3,017)
Unpaid losses and loss adjustment expenses	(11,924)	(14,470)
Unearned premiums	12,620	1,073
Accounts payable, accrued expenses and other liabilities	(6,384)	(2,900)
Deferred reinsurance gain – LPT Agreement	(4,348)	(4,792)
Other	7,372	(1,734)
Net cash provided by operating activities	30,776	26,085
<b>Investing activities</b>		
Purchase of fixed maturities	(110,512)	(5,414)
Purchase of equity securities	(150)	(764)
Proceeds from sale of fixed maturities	21,890	11,687
Proceeds from sale of equity securities	3,276	764
Proceeds from maturities and redemptions of investments	59,883	2,500
Cash paid for acquisition, net of cash and cash equivalents acquired	(100)	(758)
Capital expenditures and other, net	(1,261)	(1,925)
Net cash (used in) provided by investing activities	(26,974)	6,090
<b>Financing activities</b>		
Acquisition of treasury stock	(13,355)	(796)
Dividends paid to stockholders	(2,909)	(2,977)
Net cash used in financing activities	(16,264)	(3,773)
Net (decrease) increase in cash and cash equivalents	(12,462)	28,402
Cash and cash equivalents at the beginning of the period	202,893	149,703
Cash and cash equivalents at the end of the period	\$ 190,431	\$ 178,105

*See accompanying unaudited notes to consolidated financial statements.*

Notes to Consolidated Financial Statements  
(Unaudited)

**1. Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

Employers Holdings, Inc. (EHI) is a holding company and successor to EIG Mutual Holding Company (EIG), which was incorporated in Nevada in 2005. On October 31, 2008 (Acquisition Date), the Company acquired 100% of the outstanding common stock of AmCOMP Incorporated (AmCOMP), including two insurance subsidiaries, AmCOMP Preferred Insurance Company and AmCOMP Assurance Corporation (the Acquisition) (Note 2). On December 16, 2008, the Florida Commissioner approved the name changes of AmCOMP Preferred Insurance Company and AmCOMP Assurance Corporation to Employers Preferred Insurance Company (EPIC) and Employers Assurance Company (EAC), respectively.

Through its four wholly-owned insurance subsidiaries, Employers Insurance Company of Nevada (EICN), Employers Compensation Insurance Company (ECIC), EPIC and EAC, EHI is engaged in the commercial property and casualty insurance industry, specializing in workers' compensation products and services. EICN, domiciled in Nevada, ECIC, domiciled in California, and EPIC and EAC, both domiciled in Florida, provide insurance to employers against liability for workers' compensation claims in 30 states. Unless otherwise indicated, all references to the "Company" refer to EHI, together with its subsidiaries.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of the Company's financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. These financial statements have been prepared consistent with the accounting policies described in the Company's 2008 Annual Report on Form 10-K (Annual Report) for the year ended December 31, 2008, and should be read together with the Annual Report.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information*, 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 makers 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.

**Estimates and Assumptions**

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 revenue 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 policy acquisition costs, deferred income taxes and the valuation of investments.

**New Accounting Standards**

In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). FSP FAS 115-2 changes the accounting for other-than-temporary impairments (OTTI) on debt securities by: (a) replacing the current requirement that a holder has the positive intent to hold an impaired debt security to recovery with a requirement that a holder does not have the intent to sell an impaired debt security and it is not more likely than not that it will be required to sell the security before recovery; (b) requiring the OTTI to be separated into: (i) the amount representing the decrease in cash flows expected to be collected (Credit Loss), which is recognized in earnings and (ii) the amount representing all other factors, which is recognized in



other comprehensive income; and (c) amending existing disclosure requirements, extending those requirements to interim periods and requiring new disclosures intended to provide further disaggregated information as well as information about how the amount of OTTI that was recognized in earnings was determined. Upon adoption, FSP FAS 115-2 requires entities to report a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the non-Credit Loss component, previously recognized in earnings, from retained earnings to other comprehensive income. FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 115-2 and is currently assessing the impact that its adoption will have on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on: (a) estimating fair value when the volume of activity for an asset or liability has significantly decreased in relation to normal market activity for the asset or liability; and (b) identifying circumstances that may indicate that a transaction is not orderly. FSP FAS 157-4 requires additional interim disclosures of the inputs and valuation techniques used to measure fair value. Additionally FSP FAS 157-4 modifies the current fair value disclosure categories for debt and equity securities. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 157-4 and is currently assessing the impact that its adoption will have on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 extends the annual disclosure requirements of SFAS 107, *Fair Value of Financial Instruments*, to interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 107-1 and is currently assessing the impact that its adoption will have on the Company's consolidated financial statements.

## **Reclassifications**

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

## **2. Acquisition of AmCOMP**

On October 31, 2008, EHI acquired 100% of the outstanding common stock of AmCOMP for \$188.4 million. The Company believes the Acquisition significantly advances its strategic goals and vision of being the leader in the property and casualty insurance industry specializing in workers' compensation.

Pursuant to the terms of Amendment No. 2 to the Agreement and Plan of Merger (Amended Merger Agreement), executed on August 29, 2008, the Company paid a cash amount of \$12.15 per share in exchange for the 15,295,462 outstanding shares of AmCOMP common stock. The 844,650 AmCOMP stock options that were outstanding immediately prior to the effective time of the Acquisition were vested by virtue of the Acquisition and exchanged for the right to receive cash consideration equal to the net amount of the excess, if any, of \$12.15 per share over the exercise price per share of the option.

The Company allocated the total purchase price of \$193.5 million to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of October 31, 2008. The excess of purchase price over the aggregate fair values of \$36.2 million was recorded as goodwill and is not deductible for United States federal income tax purposes. \$18.8 million was assigned to identifiable intangible assets acquired, based on estimates and assumptions determined by the Company.

## ***Pro forma financial information***

Net income for the three months ended March 31, 2009, presented on the accompanying consolidated statements of income, includes the results of AmCOMP. The financial information in the table below summarizes the combined historical results of operations of EHI and AmCOMP, on a pro forma basis, as though the companies had been combined as of January 1, 2008. The pro forma financial information is presented for information purposes only and is not indicative of the results that would have been achieved if the Acquisition had taken place at the beginning of the period presented, nor is the pro forma information intended to be indicative of the Company's future results of operations.

The historical financial information has been adjusted to give effect to pro forma items that are directly attributable to the Acquisition and are expected to have a continuing impact on the consolidated results. These items include adjustments for amortization of intangible assets acquired, increases in interest expense and decreases in underwriting and other

expenses for integration and restructuring savings. The following table summarizes the pro forma financial information for the stated period:

	Three Months Ended March 31, 2008	
	(in thousands, except per share data)	
Net premiums earned	\$	128,797
Net income		30,371
Earnings per common share—basic		0.61
Earnings per common share—diluted		0.61

### 3. Strategic Restructuring Plan

On January 23, 2009, the Company announced a strategic restructuring plan to achieve the corporate and operational objectives set forth as part of its recently completed acquisition and integration of AmCOMP, and in response to then current economic conditions.

The restructuring plan included a staff reduction of 14% of the Company's total workforce, and consolidation of corporate activities into the Company's Reno, Nevada headquarters. During the three months ended March 31, 2009, the Company incurred integration and restructuring charges of \$3.8 million, including \$3.0 million in personnel-related termination costs. These charges are included in underwriting and other operating expense in the consolidated statements of income. As of March 31, 2009, the Company had \$1.7 million accrued for future restructuring costs that is included in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

### 4. Fair Value of Financial Instruments

The following table presents the items on the accompanying consolidated balance sheet that are stated at fair value and the fair value measurements used (expressed as Levels 1, 2 and 3, respectively) as of March 31, 2009:

	Available-for-Sale Securities			Derivative
	Fixed Maturities	Equity Securities	Short-Term Investments	Other Liabilities
	(in thousands)			
Level 1: Quoted prices in active markets for identical assets	\$ —	\$ 52,825	\$ —	\$ —
Level 2: Significant other observable inputs	1,992,429	—	32,985	(3,353)
Level 3: Unobservable inputs	4,980	—	—	—
Balance, March 31, 2009	\$ 1,997,409	\$ 52,825	\$ 32,985	\$ (3,353)

Most estimates of fair value for fixed maturities and short-term investments are based on estimates using objectively verifiable information, rather than market quotes, and are included in the amount disclosed in Level 2 of the hierarchy. The fair value estimates for determining Level 3 pricing include the Company's assumption about risk assessments and market participant assumptions based on the best information available, including quotes from market makers and other broker/dealers recognized as market participants using standard or trade derived inputs, new issue data, monthly payment information, cash flow generation, prepayment speeds, spread adjustments and/or rating updates.

The following table provides a reconciliation of the beginning and ending balances that are measured using Level 3: Unobservable inputs for the three months ended March 31, 2009:

	Fixed Maturities
	(in thousands)
Balance, January 1, 2009	\$ 4,950
Transfers in and out of Level 3	80
Unrealized losses in other comprehensive income	(50)
Balance, March 31, 2009	\$ 4,980

## Other-Than-Temporary Impairment

The Company reviews its investment portfolio quarterly for securities that may have an other-than-temporary impairment (OTTI). For any investment security deemed to have an OTTI, the investment's cost or amortized cost is written down to its fair value and the amount written down is recorded in earnings as a realized loss on investments.

Net realized losses on investments for the three months ended March 31, 2009 and 2008, include write-downs of \$1.8 million and \$1.5 million on 25 and 19 securities, respectively, for which the Company determined the declines in fair value were other-than-temporary due to the amount and length of time that fair values were below cost. Based on the Company's review of the other securities, the Company has the intent and ability to hold the securities until fair value recovers above cost or to maturity.

## 5. Income Taxes

Income tax (benefit) expense for interim periods is measured using an estimated effective tax rate for the annual period. During the three months ended March 31, 2009, the Company recognized net income before taxes of \$19.7 million and a tax benefit of \$1.2 million primarily due to anticipated annualized non-taxable investment income, partially offset by the reduction in the liability of unpaid losses and LAE attributable to insured events of prior periods recognized in the current period.

## 6. Liability for Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and LAE for the three months ended:

	March 31,	
	2009	2008
	(in thousands)	
Unpaid losses and LAE, gross of reinsurance, at beginning of period	\$ 2,506,478	\$ 2,269,710
Less reinsurance recoverables, excluding bad debt allowance, on unpaid losses and LAE	1,076,350	1,052,641
Net unpaid losses and LAE at beginning of period	1,430,128	1,217,069
Losses and LAE, net of reinsurance, incurred in:		
Current period	77,010	46,782
Prior periods	(13,500)	(11,376)
Total net losses and LAE incurred during the period	63,510	35,406
Deduct payments for losses and LAE, net of reinsurance, related to:		
Current period	6,800	3,264
Prior periods	58,962	36,965
Total net payments for losses and LAE during the period	65,762	40,229
Ending unpaid losses and LAE, net of reinsurance	1,427,876	1,212,246
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	1,066,678	1,042,994
Unpaid losses and LAE, gross of reinsurance, at end of period	\$ 2,494,554	\$ 2,255,240

Total net losses and LAE included in the above table excludes the impact of the amortization of the deferred reinsurance gain-LPT Agreement (Deferred Gain) (Note 7). For the three months ended March 31, 2009 and 2008, no reductions were made to the ceded reserves on the Deferred Gain.

The reduction in the liability for unpaid losses and LAE attributable to insured events of prior periods was \$13.5 million and \$11.4 million for the three months ended March 31, 2009 and 2008, respectively. The major sources of this favorable development are actual paid losses being less than expected and the impact of new information on selected claim payments and emergence patterns used in the projection of future loss payments.

## 7. LPT Agreement

The Company is a party to a 100% quota share retroactive reinsurance agreement (LPT Agreement) under which \$1.5 billion in liabilities for losses and LAE related to claims incurred by EICN prior to July 1, 1995 were reinsured for consideration of \$775.0 million. The LPT Agreement provides coverage up to \$2.0 billion. The initial deferred gain

resulting from the LPT Agreement was recorded as a liability in the accompanying consolidated balance sheets and is being amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries. The Company amortized \$4.4 million and \$4.8 million of the deferred gain for the three months ended March 31, 2009 and 2008, respectively. Any adjustments to the deferred gain are recorded in losses and LAE incurred in the accompanying consolidated statements of income. No adjustments occurred in the current period. The remaining deferred gain was \$402.2 million and \$406.6 million as of March 31, 2009 and December 31, 2008, respectively, which is included in the accompanying consolidated balance sheets as deferred reinsurance gain–LPT Agreement.

## 8. Notes Payable

Notes payable is comprised of the following as of December 31, 2008 and March 31, 2009 (in thousands):

Amended Credit Facility, due March 26, 2011 with variable interest as described below	\$ 150,000
<b>Acquired notes payable</b>	
Dekania Surplus Note, due April 30, 2034 with variable interest of 425 basis points above 90-day LIBOR	10,000
ICONS Surplus Note, due May 26, 2034 with variable interest of 425 basis points above 90-day LIBOR	12,000
Alesco Surplus Note, due December 15, 2034 with variable interest of 405 basis points above 90-day LIBOR	10,000
	<hr/>
Balance, December 31, 2008 and March 31, 2009	\$ 182,000
	<hr/>

The Company had no outstanding debt during the three months ended March 31, 2008. Effective September 30, 2008, EHI and Wells Fargo Bank, National Association (Wells Fargo) entered into a Second Amended and Restated Secured Revolving Credit Facility (Amended Credit Facility). The Amended Credit Facility provides the Company with a: (a) \$150.0 million line of credit through December 31, 2009; (b) \$100.0 million line of credit from January 1, 2010 through December 31, 2010; and (c) \$50.0 million line of credit from January 1, 2011 through March 26, 2011. Amounts outstanding bear interest at a rate equal to, at the Company's option: (a) a fluctuating rate of 1.25% above Wells Fargo's prime rate or (b) a fixed rate that is 1.25% above the LIBOR rate then in effect. The Company paid a non-refundable commitment fee of \$0.4 million, which is being amortized over the contractual life of the Amended Credit Facility. In addition, the Company is required to pay a quarterly commitment fee equal to a per annum rate of 0.10% on any portion of the Amended Credit Facility that is unused. The Amended Credit Facility contains customary non-financial covenants and requires EHI to maintain \$7.5 million of cash and cash equivalents.

On September 30, 2008, EHI borrowed \$150.0 million through the Amended Credit Facility. The proceeds borrowed under the Amended Credit Facility were used to finance the acquisition of AmCOMP and for general working capital purposes. The LIBOR rate on the Amended Credit Facility at March 31, 2009 was 0.50% and interest paid during the three months ended March 31, 2009, including the interest rate swap (Note 9), totaled \$1.5 million. The Amended Credit Facility is secured by fixed maturity securities which had a fair value of \$212.6 million at March 31, 2009.

### Notes Payable Acquired in the Acquisition

EPIC has a \$10.0 million surplus note outstanding to Dekania CDO II, Ltd., issued as part of a pooled transaction (Dekania Surplus Note). The note matures in 2034 and is 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, as well as 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 the three months ended March 31, 2009 totaled \$0.2 million.

EPIC has a \$12.0 million surplus note outstanding to ICONS, Inc., issued as part of a pooled transaction (ICONS Surplus Note). The note matures in 2034 and is 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 the three months ended March 31, 2009 totaled \$0.2 million.

EPIC has a \$10.0 million surplus note outstanding to Alesco Preferred Funding V, LTD, issued as part of a pooled transaction (Alesco Surplus Note). The note matures in 2034 and is 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 the three months ending March 31, 2009 totaled \$0.2 million.

## 9. Derivative

### Interest Rate Swap

On September 30, 2008, the Company, in connection with the borrowings made under the Amended Credit Facility (Note 8), executed an interest rate swap with Wells Fargo with a notional amount of \$100.0 million. Execution of the interest rate swap established a fixed interest rate of 4.84%, on the notional amount, through September 30, 2010. The Company uses its interest rate swap to mitigate the risks associated with unexpected cash outflows resulting from shifts in variable interest rates. As of March 31, 2009, the interest rate swap had a negative fair value of \$3.4 million and is included in other liabilities on the accompanying consolidated balance sheet. The corresponding unrealized loss of \$3.4 million is included in accumulated other comprehensive income, net.

## 10. Accumulated Other Comprehensive Income

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

	March 31,	
	2009	2008
	(in thousands)	
Net unrealized gain on investments, before taxes	\$ 72,753	\$ 63,288
Net unrealized loss on interest rate swap, before taxes	(3,353)	—
Deferred tax expense	(24,619)	(22,151)
Total accumulated other comprehensive income, net	\$ 44,781	\$ 41,137

The following table summarizes the changes in the components of total comprehensive income for the three months ended:

	March 31,	
	2009	2008
	(in thousands)	
Unrealized gains (losses) during the period, before taxes	\$ 16,408	\$ (9,770)
Less: income tax expense (benefit)	5,804	(3,420)
Unrealized gains (losses) during the period, net of taxes	10,604	(6,350)
Less reclassification adjustment:		
Realized losses in net income	(2,112)	(1,488)
Income tax benefit	(739)	(521)
Reclassification adjustment for losses realized in net income	(1,373)	(967)
Other comprehensive income (loss)	11,977	(5,383)
Net income	20,855	25,494
Total comprehensive income	\$ 32,832	\$ 20,111

## 11. Stockholders' Equity

### Stock Repurchase Program

On February 21, 2008, the EHI Board of Directors authorized a stock repurchase program (the 2008 Program). The 2008 Program authorized the Company to repurchase up to \$100.0 million of the Company's common stock through June 30, 2009. On February 25, 2009, the EHI Board of Directors extended the 2008 Program through December 31, 2009. Through March 31, 2009, the Company repurchased 2,410,990 shares under the 2008 Program at a cost of \$29.7 million, or \$12.31 per share. EHI expects that shares may be repurchased from time to time at prevailing market prices in open

market or private transactions. There can be no assurance that the Company will continue to undertake any repurchase of its common stock pursuant to the program.

For the three months ended March 31, 2009, 1,624,195 shares of common stock were repurchased at an average cost of \$9.56 per share and are reported as treasury stock, at cost, in the accompanying consolidated balance sheet.

As of March 31, 2009, 6,322,262 shares of common stock repurchased were held by the Company and are reported as treasury stock, at cost, in the accompanying consolidated balance sheets. The average cost of common stock repurchased through the Company's 2007 and 2008 stock repurchase programs was \$16.56 per share.

## 12. Earnings Per Share

SFAS No. 128, *Earnings per Share*, provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of equity. Diluted earnings per common share includes common shares assumed issued under the "treasury stock method," which reflects the potential dilution that would have occurred had shares been repurchased from the proceeds of potentially dilutive shares.

The following table presents the net income and the weighted average common shares outstanding used in the earnings per common share calculations for the three months ended:

	March 31,	
	2009	2008
	(in thousands, except share data)	
Net income available to common stockholders — basic and diluted	\$ 20,855	\$ 25,494
Weighted average number of common shares outstanding — basic	48,576,655	49,611,213
Effect of dilutive securities:		
Performance share awards	23,022	19,896
Unvested restricted stock units	13,176	15,444
Dilutive potential common shares	36,198	35,340
Weighted average number of common shares outstanding — diluted	48,612,853	49,646,553

The Company's outstanding options have been excluded in computing the diluted earnings per share for the three months ended March 31, 2009 and 2008 because their inclusion would be anti-dilutive.

## 13. Subsequent Events

### Stockholder Dividend

On May 6, 2009, the Board of Directors declared a \$0.06 dividend per share, payable June 3, 2009, to stockholders of record on May 20, 2009.

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

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto included in Item 1 of Part I. Unless otherwise indicated, all references to "we," "us," "our," "the Company" or similar terms refer to Employers Holdings, Inc. (EHI), together with its subsidiaries. The information contained in this quarterly report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this quarterly report and in our other reports filed with the Securities and Exchange Commission (SEC), including our 2008 Annual Report on Form 10-K for the year ended December 31, 2008 (Annual Report).

The discussion under the heading "Risk Factors" in our Annual Report, as updated by the discussion in Part II, Item 1A of this quarterly report and similar discussions in our other SEC filings, describe some of the important risk factors that may affect our business, results of operations and financial condition. You should carefully consider those risks in addition to the other information in this report and in our other filings with the SEC before deciding to purchase, hold, or sell our common stock.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These 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 reserves, acquisitions, competition, and rate increases with respect to our business and the insurance industry in general. Statements that include the words "expect," "intend," "plan," "believe," "project," "estimate," "may," "should," "continue," "potential," "forecast," "anticipate," "will" and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- impact of the unprecedented volatility and uncertainty in the financial markets;
- adequacy and accuracy of our pricing methodologies;
- our dependence on several concentrated geographic areas and on the workers' compensation market;
- developments in the frequency or severity of claims and loss activity that our underwriting, reserving or investment practices do not anticipate based on historical experience or industry data;
- changes in rating agency policies or practices;
- negative developments in the workers' compensation insurance market;
- increased competition on the basis of coverage availability, claims management, safety services, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation;
- changes in the availability, cost or quality of reinsurance and failure of our reinsurers to pay claims timely or at all;
- changes in regulations or laws applicable to us, our policyholders or the agencies that sell our insurance;
- changes in legal theories of liability under our insurance policies;
- changes in general economic conditions, including interest rates, inflation and other factors;
- effects of acts of war, terrorism, or natural or man-made catastrophes;
- non-receipt of expected payments;
- performance of the financial markets and their effects on investment income and the fair values of investments;
- failure of our information technology or communication systems;

- adverse state and federal judicial decisions;
- litigation and government proceedings;
- loss of the services of any of our executive officers or other key personnel;
- cyclical nature of the insurance industry;
- investigations into issues and practices in the insurance industry;
- changes in demand for our products;
- the operations acquired from AmCOMP Incorporated (AmCOMP) will not be integrated successfully; and
- disruption from the AmCOMP transaction making it more difficult to maintain relationships with customers, employees, agents and producers.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report.

These forward-looking statements are subject to certain 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 listed under the heading “Risk Factors” in our Annual Report, as updated by the discussion in Part II, Item 1A of this quarterly report. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by these cautionary statements. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. 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. Before making an investment decision, you should carefully consider all of the factors identified in this report that could cause actual results to differ.

## Overview

EHI is a Nevada holding company and is the successor to EIG Mutual Holding Company (EIG), which was incorporated in Nevada in 2005. EHI’s principal executive offices are located at 10375 Professional Circle, in Reno, Nevada. Our insurance subsidiaries are:

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

We are a specialty provider of workers’ compensation insurance focused on select small businesses engaged in low to medium hazard industries. Workers’ compensation is a statutory system under which an employer is required to provide coverage for its employees’ medical, disability, vocational rehabilitation and death benefit costs for work-related injuries or illnesses. We distribute our products almost exclusively through independent agents and brokers and through our strategic partnerships and alliances. We operate in a single reportable segment and conduct operations in 30 states. Each of our insurance subsidiaries is rated A-(Excellent) by A.M. Best.

Our strategy has been to target businesses located primarily in several western states, with concentrations in California and Nevada. On October 31, 2008, we acquired AmCOMP Incorporated (AmCOMP), which increased our premiums by two-thirds, added nearly 10,000 additional policies, expanded our geographic reach and added a concentration of business in Florida. One percent of our pre-acquisition premiums were written in the states where AmCOMP produced business. We believe this acquisition significantly advances our strategic goals and our vision of being the leader in the property and casualty insurance industry specializing in workers’ compensation. We also believe the transaction will result in meaningful synergies and expense-related efficiencies.

In January 2009, we began implementation of a strategic restructuring plan to achieve the corporate and operational objectives of the acquisition and integration of AmCOMP, and in response to then current economic conditions. The restructuring plan includes net staff reductions of approximately 150 employees, or 14% of our total workforce, and



consolidation of corporate functions into our Reno, Nevada headquarters. Most of the staff reductions are occurring at the corporate and administrative levels. The restructuring is anticipated to be largely completed by mid-year 2009. As a result of the restructuring plan, we expect to achieve pre-tax cost savings of approximately \$12.0 million in 2009 and annualized pre-tax cost savings of \$20.0 to \$22.0 million beginning in 2010. In the first quarter of 2009, we incurred pre-tax restructuring charges of approximately \$3.8 million, including \$3.0 million of severance benefits.

Our results of operations incorporate the acquired operations of AmCOMP from November 1, 2008.

### **Revenues**

We derive our revenues primarily from the following:

*Net Premiums Earned.* Net premiums earned increased for the three months ended March 31, 2009, as compared to 2008. The increase was attributable to additional premiums from our newly acquired subsidiaries, EPIC and EAC.

California, our largest market, currently represents 40.3% of our business. In California, we reduced our rates 38.5% from January 1, 2006, through December 31, 2008. This compared to the recommendation of the California Commissioner of Insurance (California Commissioner) of a 45.0% rate reduction for the same period. In October 2008, in response to a recommendation by the California Workers' Compensation Insurance Rating Bureau (WCIRB) to increase advisory rates by 16.0%, the California Commissioner approved a 5.0% average increase in advisory pure premium rates on new and renewal policies beginning January 1, 2009. Effective February 1, 2009, we increased our overall average rate in California by 10% on new and renewal policies.

On April 23, 2009, the WCIRB submitted a revised recommendation to increase pure premium rates 23.7% effective July 1, 2009. The recommendation was based upon two principal components. First, the WCIRB's evaluation of December 31, 2008, loss experience produced an indicated increase in the claims cost benchmark of 16.9%, indicating increased medical costs. Second, a rate increase of 5.8% is directly attributable to additional costs arising from recent Worker's Comp Appeals Board decisions. The California Commissioner scheduled a hearing for June 8, 2009 to examine the medical cost inflation issues.

We set our premium rates in California based upon our internal actuarial analysis of current and anticipated loss cost trends, including any modification to the workers' compensation system, while maintaining our goal of achieving underwriting profitability and outperforming the industry. The overall average rate does not necessarily indicate the rate charged to individual policyholders because an insured's experience modification factors are subject to revision annually and our underwriters may increase or decrease rates based upon individual risk characteristics.

We expect that approximately 10% of our business will be generated in each of Florida and Wisconsin in 2009. Florida and Wisconsin are "administered pricing" states and rate changes adopted by the Florida Commissioner of Insurance (Florida Commissioner) or Wisconsin Commissioner of Insurance (Wisconsin Commissioner) will affect the rates that we are allowed to charge in these states.

In 2003, Florida enacted workers' compensation reforms. The reforms have resulted in significant declines in claim frequency, an improvement in loss development and a reduction in the cost of claims. As a result, the Florida Commissioner approved an 18.4% rate decrease for all new and renewal policies effective January 1, 2008 and an 18.6% rate decrease for all new and renewal policies effective January 1, 2009, a cumulative effective rate decrease of 60.5% since 2003. On February 10, 2009, the Florida Commissioner approved a 6.4% increase in workers' compensation rates to be effective April 1, 2009, for new and renewal business. This rate increase was the result of the impact of an October 2008 Florida Supreme Court decision that materially impacted the statutory caps on attorney fees that were part of the 2003 reforms.

On July 18, 2007, the Wisconsin Commissioner approved a 2.5% overall rate decrease for new and renewal policies effective October 1, 2007. The Secretary of the Wisconsin Department of Workforce Development cited greater emphasis by employers on safety and risk management as the driver of this rate reduction. On July 30, 2008, the Wisconsin Commissioner approved a 2.9% overall rate increase on new and renewal policies effective October 1, 2008.

The following table sets forth our direct premiums written by state and as a percentage of total direct premiums written for the three months ended March 31:

States	2009	Percentage of Total	2008	Percentage of Total	2007	Percentage of Total
(in thousands, except percentages)						
California	\$ 51,000	40.3%	\$ 57,227	70.5%	\$ 62,874	66.4%
Florida	12,543	9.9	125	0.2	—	—
Wisconsin	10,724	8.5	—	—	—	—
Nevada	7,080	5.6	13,694	16.9	23,477	24.8
Texas	6,504	5.1	505	0.6	272	0.3
Illinois	5,361	4.2	755	0.9	—	—
Indiana	5,039	4.0	—	—	—	—
Georgia	4,338	3.4	—	—	—	—
Tennessee	4,240	3.4	—	—	—	—
Other	19,781	15.6	8,813	10.9	7,981	8.5
<b>Total</b>	<b>\$ 126,610</b>	<b>100.0%</b>	<b>\$ 81,119</b>	<b>100.0%</b>	<b>\$ 94,604</b>	<b>100.0%</b>

Overall, direct premiums written increased 56.1% for the first quarter of 2009, compared to the same period of 2008, primarily due to the acquisition of AmCOMP. Excluding the impact from our newly acquired subsidiaries, direct premiums written would have decreased for the three months ended March 31, 2009, as compared to 2008. The decrease reflects the reduction in premium rates due to favorable loss cost trends originating from the 2003 and 2004 reforms in California, the impact of price competition, our disciplined underwriting to maintain profitability and the economic contraction. The economic contraction has greatly impacted Nevada and Florida, as we have seen lower estimated payrolls, upon which our premiums are based, and lower numbers of jobs in certain sectors, such as construction and tourism. These factors have contributed to Nevada falling from our second largest state to fourth largest.

During the first quarter of 2009, growth occurred in many of our states, including Wisconsin, Illinois and Georgia, based on estimated annual premium. We believe that the extension of our A- (Excellent) A.M. Best rating to EPIC and EAC contributed to the premium growth.

In January 2009, we began writing business in Iowa and currently write business in 30 states and are licensed to write in six additional states and the District of Columbia.

The number of policies in-force, at the specified dates, was as follows:

States	March 31, 2009	December 31, 2008	March 31, 2008
California	28,037	27,942	25,635
Nevada	4,860	5,221	5,904
Florida	3,038	3,112	95
Texas	1,783	1,747	164
Wisconsin	946	892	—
Other	6,939	6,685	2,444
<b>Total</b>	<b>45,603</b>	<b>45,599</b>	<b>34,242</b>

During the three months ended March 31, 2009, our policy count remained relatively unchanged from December 31, 2008. We experienced policy count growth in the majority of our states, particularly in the Midwest and Southeast. For example, Illinois, Georgia and Virginia each had an 8.0% increase in policy count growth for the quarter. However, the increase was largely offset by a policy count decline in Nevada of 361, or 6.9%. The decline in policies in Nevada was the result of sharply lower economic activity and competition.

During the 12 months ended March 31, 2009, our overall policy count increased by 11,361 policies, or 33.2%. The acquisition added nearly 10,000 policies. California continued its solid policy count with an increase of 2,402, or 9.4%. For the same 12 month period, Nevada's policy count continued its decline, with a decrease of 1,044, or 17.7%.

Premium revenues in 2009 will reflect additional premiums from the acquisition, rate increases in California, the overall net 2009 rate decrease in Florida of 12.2%, as well as the impacts of competitive pressures and lower payrolls due

to the economic contraction. We believe our premiums and policy count in the majority of our states will continue to grow, particularly in the Midwest and Southeast where we believe our A- (Excellent) A.M. Best rating will lead to an increase in new business submissions. We believe we are well positioned to continue to grow profitably. However, we cannot be certain how these trends will ultimately impact our financial position and results of operations.

*Net Investment Income and Realized Losses on Investments.* We invest our holding company assets, statutory surplus and the funds supporting our insurance liabilities (including unearned premiums and unpaid losses and loss adjustment expenses (LAE)) in cash and cash equivalents, short-term investments, fixed maturity securities and equity securities. 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. Realized gains and losses on our investments are reported separately from our net investment income. Realized losses on investments include the gain or loss on a security at the time of sale compared to its original cost (equity securities) or amortized cost (fixed maturity securities). Realized losses are recognized when securities are written down as a result of an other-than-temporary impairment (OTTI).

We have established a high quality/short duration bias in our investment portfolio, and the high underlying credit quality of our municipal bond holdings helped to mitigate the effects of the deterioration in the markets. The performance of our investment portfolio, with its diversified structure and quality bias, has been exceptionally strong and our realized and unrealized losses have been minimal, considering the unprecedented volatility and uncertainty in the financial markets.

### **Expenses**

Our expenses consist of the following:

*Losses and Loss Adjustment Expenses (LAE).* Losses and LAE represent our largest expense item and include claim payments made, 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. In states other than Nevada, we have a short operating history and must rely on a combination of industry experience and our specific experience to establish our best estimate of losses and LAE reserves. The interpretation of historical data can be impacted by external forces, principally legislative changes, economic fluctuations and legal trends. In recent years, we experienced lower losses and LAE in California than we anticipated due to factors such as regulatory reform designed to reduce loss costs in that market. As we continue to gain experience in the California market, we rely more on our own loss experience and place less reliance on industry experience.

*Commission Expense.* Commission expense includes direct commissions to our agents and brokers for the premiums that they produce for us. Also included in commission expense are incentive payments, other direct marketing costs and fees. Commission expense is net of contingent commission income related to LPT Agreement. Commissions paid to our agents and brokers are deferred and amortized to commission expense in our consolidated statements of income as the premiums generating these commissions are earned.

*Dividends to Policyholders.* In administered pricing states such as Florida and Wisconsin, insurance rates are set by state insurance regulators. Rate competition generally is not permitted in these states and, consequently, policyholder dividend programs are an important competitive factor. In Florida and Wisconsin, and to a much more limited extent in several of our other states, we offer dividend programs to eligible policyholders under which a portion of the premium paid by a policyholder may be returned in the form of a dividend. Eligibility for these programs varies based upon the nature of the policyholder's operations, expected premium paid, loss experience and existing controls intended to minimize workers' compensation claims and costs. An estimated provision for policyholders' dividends is accrued as the related premiums are earned. Such dividends do not become a fixed liability until declared by the respective Boards of Directors of our insurance subsidiaries. Additionally, Florida statutes require payment of additional policyholders' dividends to Florida policyholders pursuant to a formula based on underwriting results (Florida Dividends). Our ultimate obligation for Florida Dividends is dependent on our filings with the Florida Office of Insurance Regulation and on our prescribed loss reserves included in our annual statutory financial statements.

*Underwriting and Other Operating Expenses.* Underwriting and other operating expense includes the costs to acquire and maintain an insurance policy (excluding commissions) consisting of premium taxes and certain other general expenses that vary with, and are primarily related to, producing new or renewal business. These acquisition costs are

deferred and amortized to underwriting and other operating expense in the consolidated statements of income as the related premiums are earned. Other underwriting expenses consist of policyholder dividends and general administrative expenses such as salaries and benefits, rent, office supplies, depreciation and all other operating expenses not otherwise classified separately, and fees and assessments of boards, bureaus and statistical agencies for policy service and administration items such as manuals, rating plans and experience data.

Our underwriting and other operating expense is a reflection of our operating efficiency in producing, underwriting and administering our business. Policy acquisition costs are generally variable based on premiums earned. However, underwriting and other costs are more fixed in nature and become a larger percentage of net premiums earned as premiums trend lower. As a result of the restructuring plan, we anticipate one-time pre-tax charges of approximately \$9.6 million for 2009 related to the integration of operations acquired from AmCOMP. In the current quarter, we incurred one-time pre-tax integration and restructuring charges of \$3.8 million, including \$3.0 million consisting primarily of severance benefits. As a result of the restructuring plan, we expect to achieve pre-tax cost savings of approximately \$12.0 million in 2009 and annualized pre-tax cost savings of \$20.0 to \$22.0 million beginning in 2010.

## Results of Operations

### Three Months Ended March 31, 2009 and 2008

The following table summarizes our consolidated financial results for the three months ended March 31, 2009 and March 31, 2008:

	2009 <sup>(3)</sup>	2008	Increase (Decrease) 2009 over 2008	Percentage Increase (Decrease) 2009 over 2008
(in thousands, except for percentages)				
<b>Selected Financial Data:</b>				
Gross premiums written	\$ 128,089	\$ 81,674	\$ 46,415	56.8%
Net premiums written	124,672	79,104	45,568	57.6
Net premiums earned	\$ 111,600	\$ 75,896	\$ 35,704	47.0%
Net investment income	23,306	18,903	4,403	23.3
Realized losses on investments, net	(2,112)	(1,488)	(624)	41.9
Other income	146	438	(292)	(66.7)
Total revenues	132,940	93,749	39,191	41.8
Losses and LAE	59,162	30,614	28,548	93.3
Commission expense	13,658	10,623	3,035	28.6
Dividends to policyholders	2,018	15	2,003	n/a
Underwriting and other operating expenses	36,484	21,711	14,773	68.0
Interest expense	1,959	—	1,959	n/a
Income tax (benefit) expense	(1,196)	5,292	(6,488)	n/a
Total expenses	112,085	68,255	43,830	64.2
Net income	\$ 20,855	\$ 25,494	\$ (4,639)	(18.2)%
<b>Selected Operating Data:</b>				
Combined ratio <sup>(1)</sup>	99.8%	83.0%	16.8%	n/a
Net income before impact of LPT Agreement <sup>(2)</sup>	\$ 16,507	\$ 20,702	\$ (4,195)	(20.3)%

<sup>(1)</sup> The combined ratio is calculated by dividing the sum of losses and LAE, commission expense, dividends to policyholders and underwriting and other operating expenses by net premiums earned.

<sup>(2)</sup> We define net income before impact of LPT Agreement as net income less: (a) amortization of deferred reinsurance gain—LPT Agreement and (b) adjustments to LPT Agreement ceded reserves. 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, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries, and the amortization is reflected in losses and LAE. We periodically reevaluate the remaining direct reserves subject to the LPT Agreement. Our reevaluation results in corresponding adjustments, if needed, to reserves, ceded reserves, reinsurance recoverables and the deferred reinsurance gain, with the net effect being an increase or decrease, as the case may be, to net income. Net income before impact of LPT Agreement is not a measurement of financial performance under GAAP and should not be considered in isolation or as an alternative to net income before income taxes and net income or any other measure of performance derived in accordance with GAAP.

We present net income before impact of 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 result in ongoing cash benefits, 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.

The table below shows the reconciliation of net income to net income before impact of LPT Agreement for the three months ended:

	March 31,	
	2009	2008
(in thousands)		
Net income	\$ 20,855	\$ 25,494
Less impact of LPT Agreement:		
Amortization of deferred reinsurance gain—LPT Agreement	4,348	4,792
Adjustment to LPT Agreement ceded reserves <sup>(a)</sup>	—	—
Net income before impact of LPT Agreement	\$ 16,507	\$ 20,702

(a) Any adjustment to the estimated direct reserves ceded under the LPT Agreement is reflected in losses and LAE for the period during which the adjustment is determined, with a corresponding increase or decrease in net income in the period. There is a corresponding change to the reinsurance recoverables on unpaid losses as well as the deferred reinsurance gain. A cumulative adjustment to the amortization of the deferred gain is also then recognized in earnings so that the deferred reinsurance gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement. See Note 7 in the notes to our consolidated financial statements which are included elsewhere in this report.

(3) The table below reflects the impact to our results of operations from the acquisition of AmCOMP for the three months ended March 31:

	2009
	(in thousands)
<b>Selected Financial Data</b>	
Gross premiums written	\$ 60,594
Net premiums written	58,979
Net premiums earned	\$ 44,573
Net investment income	5,553
Realized losses on investments	(155)
Other loss	(2)
Total revenues	49,969
Losses and LAE	31,543
Commission expense	4,544
Dividends to policyholders	2,013
Underwriting and other operating expenses restructuring	12,145
Underwriting and other operating expenses—integration and restructuring	2,020
Interest expense	513
Income taxes	(1,251)
Total expenses	51,527
Net loss	\$ (1,558)

### Net Income

Net income decreased \$4.6 million, or 18.2%, for the three months ended March 31, 2009, compared to the same period of 2008. The change in net income was primarily driven by a \$35.7 million increase in net premiums earned, a \$28.5 million increase in losses and LAE and a \$14.8 million increase in underwriting and other operating expenses. Net income decreased an additional \$1.6 million as a result of the acquired operations of AmCOMP. Net income includes amortization of deferred reinsurance gain—LPT Agreement of \$4.3 million and \$4.8 million for the three months ended March 31, 2009 and 2008, respectively. Excluding the impact of the LPT Agreement, net income would have been \$16.5 million and \$20.7 million for the three months ended March 31, 2009 and 2008, respectively.

### Revenues

Net premiums earned increased 47.0% for the three months ended March 31, 2009, compared to the same period of 2008. The increase was primarily attributable to net premiums earned from our newly acquired Florida insurance subsidiaries, EPIC and EAC, which contributed \$44.6 million to net premiums earned for the quarter. This increase was partially offset by lower premiums in certain markets, primarily California and Nevada, which had \$6.2 million and \$6.6 million lower direct premiums written in the first quarter of 2009 compared to the first quarter of 2008, respectively, as a result of rate reductions, competition and impacts of the economic contraction. Our average in-force policy size increased 9.3% to

\$9,892 from \$9,050 at March 31, 2009 and 2008, respectively. Excluding the impact of the acquisition, our average in-force policy size would have decreased \$1,723, or 19.0%, to \$7,327 at March 31, 2009, as compared to March 31, 2008.

Net investment income increased \$4.4 million, or 23.3%, for the three months ended March 31, 2009. The increase in net investment income was related to the increase in invested assets. Fixed maturity securities acquired from AmCOMP accounted for a 22.5% increase in invested assets for the three months ended March 31, 2009, compared to the same period of 2008.

Realized losses on investments remained relatively unchanged from the same period last year. The realized losses were the result of other-than-temporary impairments on equity securities due to the continued economic contraction and decline in the markets that began in the first quarter of 2008.

### Expenses

Losses and LAE increased 93.3% for the three months ended March 31, 2009, compared to the three months ended March 31, 2008. Excluding the impact of the acquisition, losses and LAE would have decreased 9.8%, primarily attributable to the decrease in earned premium. Losses and LAE were 53.0% and 40.3% of net premiums earned for the three months ended March 31, 2009 and 2008, respectively. During the first quarter of 2009, favorable prior accident year loss development increased \$2.1 million, to \$13.5 million, compared to the first quarter of 2008. Additionally, our current accident year loss estimates were 67.9% and 61.6% for the three months ended March 31, 2009 and 2008, respectively.

The table below reflects the losses and LAE reserve adjustments for the three months ended:

	March 31,	
	2009	2008
	(in millions)	
Prior accident year favorable development, net	\$ 13.5	\$ 11.4
LPT amortization of the deferred reinsurance gain	\$ 4.4	\$ 4.8
LPT reserve favorable change	\$ —	\$ —

There was no adjustment to the direct reserves subject to the LPT Agreement in either period. Excluding the impact from the LPT agreement, losses and LAE would have been \$63.5 million and \$35.4 million, or 56.9% and 46.7%, of net premiums earned for the three months ended March 31, 2009 and 2008, respectively.

Commission expense increased 28.6%, for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, primarily as a result of the acquisition. Our commissions were 12.2% and 14.0% of net premiums earned for the three months ended March 31, 2009 and 2008, respectively. Excluding the impact of the acquisition, our commission expense would have decreased \$1.5 million, or 14.2%, due to lower premiums earned.

Dividends to policyholders increased \$2.0 million for the three months ended March 31, 2009, directly related to the acquired operations of AmCOMP, particularly the policyholders' dividend plans in Florida and Wisconsin.

Underwriting and other operating expenses increased 68.0% quarter over quarter, primarily related to the acquired operations of AmCOMP. The acquired operations contributed \$12.1 million to our expenses for the first quarter of 2009. Excluding the impact of the AmCOMP acquisition, our underwriting and other operating expenses would have decreased \$1.2 million, primarily related to compensation not related to restructuring. Additionally, during the three months ended March 31, 2009, we incurred total one-time integration and restructuring charges of \$3.8 million, including \$3.0 million in severance expenses related to our corporate restructuring.

Income taxes decreased \$6.5 million for the first quarter of 2009 compared to the first quarter 2008, resulting in a tax benefit of \$1.2 million. The decrease was primarily due to an \$11.1 million decrease in pre-tax income and the impact of tax exempt investment income. Tax exempt income as a percentage of pre-tax income was 44.4% and 24.9% for the three months ended March 31, 2009 and 2008, respectively. The acquisition of AmCOMP resulted in an increase of \$1.1 million in tax exempt income during the first quarter of 2009. Further contributing to the tax benefit was \$1.6 million in reserve reductions for periods prior to the privatization of the Nevada State Industrial Insurance System, the predecessor to EICN, which are tax exempt. While we expect the levels of tax preferred investment income to remain relatively stable during 2009, we cannot be certain how changes to pre-tax income may ultimately impact our effective rate in future periods.

## **Combined Ratio**

The combined ratio increased 16.8 percentage points for the three months ended March 31, 2009, to 99.8%, compared to 83.0% for the three months ended March 31, 2008. The acquisition of AmCOMP resulted in an increase in the combined ratio of 11.7 percentage points. The remainder of the increase was primarily the result of lower premiums earned for the period due to rate cuts, competitive pressures, and overall economic conditions.

## **Liquidity and Capital Resources**

*Parent Company.* We are a holding company and substantially all of our operations have historically been conducted through our insurance subsidiaries, EICN and ECIC. On October 31, 2008, we completed the acquisition of AmCOMP and, as a result, added two new insurance subsidiaries: EPIC and EAC. Dividends to EHI from our insurance subsidiaries are contingent upon our subsidiaries' earnings and subject to business considerations and regulatory requirements. The primary uses of cash are to pay stockholder dividends, repurchase common stock, pay interest and principal payments on outstanding debt obligations and support general operating expenses.

Historically, we have met our cash requirements and financed our growth principally from underwriting operations, asset maturities, and investment income. The recent acquisition of AmCOMP was funded through a combination of available cash and funds provided by the Amended Credit Facility.

Our insurance subsidiaries are subject to insurance regulations, which restrict their ability to distribute dividends. The maximum amount that may be paid by our insurance subsidiaries to EHI without prior approval by state regulators is \$17.7 million.

In February 2008, EHI's Board of Directors authorized a stock repurchase program. The program authorized us to repurchase up to \$100 million of our common stock through June 30, 2009. In February 2009, the Board of Directors extended this program through December 31, 2009. Shares may be repurchased from time to time at prevailing market prices in open market or private transactions, in accordance with applicable laws and regulations, and subject to market conditions and other factors. The repurchases may be commenced or suspended from time to time without prior notice. There can be no assurance that we will continue to undertake any repurchase of our common stock pursuant to the 2008 Program. Through March 31, 2009, we have repurchased 2,410,990 shares of common stock, at the average price paid including commissions of \$12.31 per share, for a total of approximately \$29.7 million.

*Operating Subsidiaries.* The primary sources of cash for our insurance operating subsidiaries are funds generated from underwriting operations, asset maturities and income received from investments. Our primary use of cash is to pay claims and operating expenses, to purchase investments, and to pay dividends to the parent holding company subject to state insurance laws and regulations.

Our net cash flows are generally invested in marketable securities. We closely monitor the duration of our investments and investment purchases, and sales are executed with the objective of having adequate funds available for the payment of claims at the subsidiary level and for the subsidiaries to pay dividends to EHI. Because our investment strategy focuses on asset and liability durations, and not on cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. At March 31, 2009, our investment portfolio had an effective duration of 4.97 with individual maturities extending out to 40 years.

The purchase of reinsurance protects us against the costs of severe claims and catastrophic events. On July 1, 2008, we entered into a new reinsurance program that is effective through July 1, 2009, and now includes the acquired operations of AmCOMP. The reinsurance program consists of three agreements, one excess of loss agreement and two catastrophic loss agreements. The reinsurance program provides coverage up to \$200.0 million per loss occurrence, subject to certain exclusions. Our loss retention for the program year beginning July 1, 2008, is \$5.0 million. The coverage is subject to an aggregate loss cession limitation in the first layer (\$5.0 million in excess of our \$5.0 million retention) of \$20.0 million. Additionally, in the second through fifth layers of our reinsurance program, our ultimate net loss shall not exceed \$10.0 million for any one life, and we are permitted one reinstatement for each layer upon the payment of additional premium. We believe that our reinsurance program meets our needs and that we are sufficiently capitalized for the above described retention.

As of March 31, 2009, we had cash, short-term investments and fixed maturity securities that will mature over the next 24 months of approximately \$450.4 million. We plan to repay \$50 million of the line of credit provided by the Amended Credit Facility on or before each December 31, 2009 and 2010. Additionally, we expect one-time integration and restructuring charges of approximately \$9.6 million in 2009. Other capital expenditures may include such things as



stock repurchases, future stockholder dividends, and support of our growth strategy. We believe that our liquidity needs over the next 24 months will be met with cash from operations, maturing investments and prudent use of credit.

### **Cash Flows**

We monitor cash flows at both the consolidated and subsidiary levels and project future cash needs using trend and variance analyses.

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

	March 31,	
	2009	2008
(in thousands)		
<b>Cash and cash equivalents provided by (used in):</b>		
Operating activities	\$ 30,776	\$ 26,085
Investing activities	(26,974)	6,090
Financing activities	(16,264)	(3,773)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (12,462)</b>	<b>\$ 28,402</b>

Net cash provided by operating activities increased \$4.7 million for the three months ended March 31, 2009, compared to the same period of 2008.

Items increasing in net cash provided by operations included:

- increased net premiums earned of \$28.0 million;
- increased investment income of \$4.8 million;
- decreased other assets that provided an additional \$8.8 million in cash; and
- decreased income taxes paid of \$10.7 million.

Items decreasing net cash provided by operations included:

- increased losses and LAE payments of \$24.2 million;
- increased underwriting and other operating expenses of \$16.3 million;
- increased commission expense of \$3.0 million;
- increased policyholder dividends of \$2.0 million; and
- increased interest expense of \$2.0 million on the amended credit facility and surplus notes.

Net cash used in financing activities was \$16.3 million for the three months ended March 31, 2009, as compared to \$3.8 million for the same period in 2008. The majority of cash used by financing activities was used to repurchase approximately \$13.4 million of our common stock and pay dividends to stockholders.

### **Investments**

We employ an investment strategy that emphasizes asset quality and the matching of maturities of fixed maturity securities against anticipated claim payments and expenditures, other liabilities and capital needs. Our investment portfolio is structured so that investments mature periodically over time 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 our growth strategy. As of March 31, 2009, the amortized cost of our investment portfolio was \$2.01 billion and the fair value was \$2.08 billion.

At March 31, 2009, our investment portfolio, which is classified as available-for-sale, was made up almost entirely of investment grade fixed maturity securities whose fair values may fluctuate due to interest rate changes. We strive to limit interest rate risk by managing the duration of our fixed maturity securities. As of March 31, 2009, our fixed maturity securities (excluding cash and cash equivalents) had a duration of 4.97. 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 current investment guidelines require that the minimum weighted average quality of our fixed maturity securities portfolio shall be "AA." As of March 31, 2009, our fixed maturity

securities portfolio had an average quality of "AA+," with approximately 79.3% of the carrying value of our investment portfolio rated "AA" or better. Our investment portfolio is comprised of less than 0.01% of subprime mortgage debt securities or derivative securities relating thereto. Agency-backed mortgage pass-throughs totaled \$319.8 million, or 15.4%, of the total portfolio.

We carry our portfolio of equity securities on our balance sheet at fair value. In order to minimize our exposure to equity price risk and the resulting increases and decreases to our assets, we invest primarily in equity securities of mid-to-large capitalization issuers and seek to diversify our equity holdings across several industry sectors. At March 31, 2009, our equity allocation was 2.5% of our investment portfolio. Our equity position has fallen below our selected target of 6% due to declining market valuations and the consolidation of the AmCOMP investment portfolio, which contained no equity securities.

Our overall investment philosophy is to maximize total investment returns within the constraints of prudent portfolio risk. We employ Conning Asset Management (Conning) to act as our independent investment advisor. Conning follows our written investment guidelines based upon strategies approved by the EHI Board of Directors. In addition to the construction and management of the portfolio, we utilize the investment advisory services of Conning. These services include investment accounting and company modeling using Dynamic Financial Analysis (DFA). The DFA tool is utilized in developing a tailored set of portfolio targets and objectives that are used in constructing an optimal portfolio.

The following table shows the fair values of various categories of invested assets, the percentage of the total fair value of our invested assets represented by each category and the tax equivalent yield based on the fair value of each category of invested assets as of March 31, 2009:

Category	Fair Value	Percentage of Total	Yield
(in thousands, except percentages)			
U.S. Treasury securities	\$ 156,650	7.5%	4.1%
U.S. Agency securities	147,012	7.1	4.4
Tax-exempt municipal securities	1,029,132	49.4	5.8
Corporate securities	315,192	15.1	6.3
Mortgage-backed securities	323,612	15.5	5.8
Commercial mortgage-backed securities	41,662	2.0	5.1
Asset-backed securities	17,134	0.8	5.2
Equities securities	52,825	2.6	3.8
<b>Total</b>	<b>\$ 2,083,219</b>	<b>100.0%</b>	
Weighted average yield			5.6%

We regularly monitor our portfolio to preserve principal values whenever possible. All securities in an unrealized loss position are reviewed to determine whether the impairment is other-than-temporary. Factors considered in determining whether a decline is considered to be other-than-temporary include the length of time and the extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and our ability and intent to hold the security until its expected recovery or maturity. For the three months ended March 31, 2009, we recognized an impairment of \$1.8 million in the fair values of equity securities in our investment portfolio. The impairment was recognized as a result of the severity and duration of the decline in market value of these securities. We believe that we have appropriately identified other-than-temporary declines in the fair values of our remaining unrealized losses at March 31, 2009. We have the ability and intent to hold fixed maturity and equity securities with unrealized losses for a sufficient amount of time to allow them to recover their value or reach maturity.

The cost or amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of our investments at March 31, 2009, were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
U.S. government	\$ 267,035	\$ 22,912	\$ —	\$ 289,947
All other governments	623	17	—	640
States and political subdivisions	580,069	23,463	(2,556)	600,976
Special revenue	415,997	13,798	(5,702)	424,093
Public utilities	—	—	—	—
Industrial and miscellaneous	300,497	10,519	(11,672)	299,344
Mortgage-backed securities	372,261	16,770	(6,622)	382,409
<b>Total fixed maturity investments</b>	<b>1,936,482</b>	<b>87,479</b>	<b>(26,552)</b>	<b>1,997,409</b>
Short-term investments	32,752	233	—	32,985
<b>Total fixed maturity and short-term investments</b>	<b>1,969,234</b>	<b>87,712</b>	<b>(26,552)</b>	<b>2,030,394</b>
Equity securities	41,232	14,226	(2,633)	52,825
<b>Total investments</b>	<b>\$ 2,010,466</b>	<b>\$ 101,938</b>	<b>\$ (29,185)</b>	<b>\$ 2,083,219</b>

Changes in interest rates directly impact the fair value of our fixed maturity securities portfolio. The decline in the U.S. Treasury rates during the first quarter resulted in a \$21.7 million increase in net unrealized gains of our fixed maturity securities portion of our portfolio from \$39.2 million at December 31, 2008, to \$60.9 million at March 31, 2009.

The amortized cost and estimated fair value of fixed maturity and short-term investments at March 31, 2009, by contractual maturity are shown below. Expected maturities will 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 thousands)		
Due in one year or less	\$ 110,736	\$ 112,194
Due after one year through five years	470,239	491,399
Due after five years through ten years	552,073	574,769
Due after ten years	463,925	469,623
Mortgage-backed securities	372,261	382,409
<b>Total</b>	<b>\$ 1,969,234</b>	<b>\$ 2,030,394</b>

We are required by various state laws and regulations to keep securities in a depository account. At March 31, 2009 and 2008, securities having a fair value of \$592.3 million and \$536.1 million, respectively, were on deposit. These laws and regulations govern not only the amount, but also the type of security that is eligible for deposit and in all cases are restricted or limited to fixed maturity securities. Additionally, 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 us. The fair value of securities held in trust for reinsurance at March 31, 2009 and 2008, was \$7.0 million and \$5.0 million, respectively. The Amended Credit Facility is secured by fixed maturity securities which had a fair value of \$212.6 million at March 31, 2009.

## Contractual Obligations and Commitments

The following table identifies our long-term debt and contractual obligations as of March 31, 2009:

	Payment Due By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Operating Leases	\$ 32,058	\$ 6,279	\$ 11,227	\$ 6,564	\$ 7,988
Purchased Liabilities	3,491	1,452	1,609	430	—
Notes Payable <sup>(1)</sup>	230,181	53,751	105,472	3,492	67,466
Capital Leases	386	340	46	—	—
Losses and LAE reserves <sup>(2)(3)</sup>	2,494,554	253,059	306,968	211,323	1,723,204
<b>Total Contractual Obligations</b>	<b>\$ 2,760,670</b>	<b>\$ 314,881</b>	<b>\$ 425,322</b>	<b>\$ 221,809</b>	<b>\$ 1,798,658</b>

(1) Notes payable obligations reflect payments for the principal and estimated interest expense that is based on LIBOR rates plus a margin. The estimated interest expense was based on the contractual obligations of the debt outstanding as of March 31, 2009. The interest rates range from 1.75% to 5.50%.

(2) The losses and LAE reserves are presented gross of our reinsurance recoverables on unpaid losses, which are 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 thousands)				
Reinsurance recoverables	\$ (1,066,678)	\$ (43,861)	\$ (83,341)	\$ (78,389)	\$ (861,087)

(3) Estimated losses and LAE reserve payment patterns have been computed based on historical information. As a result, our calculation of losses 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 Loss Adjustment Expenses.” 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 as a result of variations between expected and actual payout patterns.

## Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

## Critical Accounting Policies

These unaudited interim consolidated financial statements include amounts based on informed estimates and judgments of management for those transactions that are not yet complete. Such estimates and judgments affect the reported amounts in the financial statements. Those estimates and judgments that were most critical to the preparation of the financial statements involved the following: (a) reserves for losses and loss adjustment expenses; (b) reinsurance recoverables; (c) recognition of premium income; (d) deferred policy acquisition costs; (e) deferred income taxes; and (f) valuation of investments. These estimates and judgments require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. If different estimates and judgments had been applied, materially different amounts might have been reported in the financial statements. Our accounting policies are discussed under “Critical Accounting Policies” in the Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report. Additional information regarding our accounting policy for reserves for loss and loss adjustment expenses and reinsurance recoverables follows.

### *Reserves for Losses and Loss Adjustment Expenses*

We are directly liable for losses and LAE under the terms of insurance policies our insurance subsidiaries underwrite. Significant periods of time can elapse between the occurrence of an insured loss, the reporting of the loss to the insurer and the insurer’s payment of that loss. Our loss reserves are reflected in our balance sheets under the line

item caption “unpaid losses and loss adjustment expenses.” As of March 31, 2009, our reserves for unpaid losses and LAE, net of reinsurance, were \$1.43 billion.

Accounting for workers’ compensation insurance requires us to estimate the liability for the expected ultimate cost of unpaid losses and LAE, referred to as loss reserves, as of a balance sheet date. 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. Management establishes the loss reserve based on its own analysis of emerging claims experience and environmental conditions in our markets and a review of the results of various actuarial projection methods and their underlying assumptions. Our aggregate carried reserve for unpaid losses and LAE is a point estimate, which is the sum of our reserves for each accident year in which we have exposure. This aggregate carried reserve calculated by us represents our best estimate of our outstanding unpaid losses and LAE.

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.

The three main components of our reserves for unpaid losses and LAE are case reserves, “incurred but not reported” or IBNR reserves, and LAE reserves.

Case reserves are estimates of future claim payments based upon periodic case-by-case evaluation and the judgment of our claims adjusting staff, as applied at the individual claim level. Our claims examiners determine these case reserves for reported claims on a claim-by-claim basis, based on the examiner’s judgment and experience and on our case reserving practices. We update and monitor our case reserves frequently to appropriately reflect current information.

IBNR is an actuarial estimate of future claim payments beyond those considered in the case reserve estimates, relating to claims arising from accidents that occurred during a particular time period on or prior to the balance sheet date. Thus, IBNR is the compilation of the estimated ultimate losses for each accident year less amounts that have been paid and case reserves. IBNR reserves, unlike case reserves, do not apply to a specific claim, but rather apply to the entire body of claims arising from a specific time period. IBNR primarily provides for costs due to:

- future claim payments in excess of case reserves on recorded open claims;
- additional claim payments on closed claims; and
- the cost of claims that have not yet been reported to us.

Most of our IBNR reserves relate to estimated future claim payments over and above our case reserves on recorded open claims. For workers’ compensation, most claims are reported to the employer and to the insurance company relatively quickly, and relatively small amounts are paid on claims that already have been closed (which we refer to as “reopenings”). Consequently, late reporting and reopening of claims are a less significant part of IBNR for our insurance subsidiaries.

LAE reserves are our estimate of the diagnostic, legal, administrative and other similar expenses that we will pay in the future to manage claims that have occurred on or before the balance sheet date. LAE reserves are established in the aggregate, rather than on a claim-by-claim basis.

A portion of our losses and LAE obligations are ceded to unaffiliated reinsurers. We establish our losses and LAE reserves both gross and net of ceded reinsurance. The determination of 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 policies, as well as reinsurance recoverable under the terms of the LPT Agreement. Our reinsurance arrangements also include an intercompany pooling arrangement between EICN, ECIC, EPIC and EAC whereby each of the insurance subsidiaries cedes some of its premiums, losses, and LAE to the other, but this intercompany pooling arrangement does not affect our consolidated financial statements.

Our reserve for unpaid losses and LAE (gross and net), as well as the above-described main components of such reserves were as follows:

	March 31, 2009	December 31, 2008
	(in thousands)	
Case reserves	\$ 878,317	\$ 886,789
IBNR	1,292,116	1,293,313
LAE	324,121	326,376
Gross unpaid losses and LAE	2,494,554	2,506,478
Less: Reinsurance recoverables on unpaid losses and LAE, gross	1,066,678	1,076,350
Net unpaid losses and LAE	\$ 1,427,876	\$ 1,430,128

Actuarial methodologies are used by workers' compensation insurance companies, including us, to analyze and estimate the aggregate amount of unpaid losses and LAE. As mentioned above, management considers the results of various actuarial projection methods and their underlying assumptions among other factors in establishing the reserves for unpaid losses and LAE.

Judgment is required in the actuarial estimation of unpaid losses and LAE. The judgments include the selection of methodologies to project the ultimate cost of claims; the selection of projection parameters based on historical company data, 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 caused by internal or external factors; and the weighting of differing reserve indications that result from alternative methods and assumptions. The adequacy of our ultimate loss reserves, which are based on estimates, is inherently uncertain and represents a significant risk to our business, which we attempt to mitigate through our claims management process and by monitoring and reacting to statistics relating to the cost and duration of claims. However, no assurance can be given as to whether the ultimate liability will be more or less than our loss reserve estimates.

We retain an independent actuarial consulting firm (Consulting Actuary) to perform comprehensive studies of our losses and LAE liability on a semi-annual basis. The role of our Consulting Actuary is to conduct sufficient analyses to produce a range of reasonable estimates, as well as a point estimate, of our unpaid losses and LAE liability, and to present those results to our actuarial staff and to management.

For purposes of analyzing claim payment and emergence patterns and trends over time, we compile and aggregate our claims data by grouping the claims according to the year or quarter in which the claim occurred ("accident year" or "accident quarter"), since each such group of claims is at a different stage of progression toward the ultimate resolution and payment of those claims. The claims data is aggregated and compiled separately for different types of claims and/or claimant benefits. For our Nevada business, where a substantial detailed historical database is available from the Nevada State Industrial Insurance System (the Fund), (from which our Nevada insurance subsidiary, EICN, assumed assets, liabilities and operations in 2000), these separate groupings of benefit types include death, permanent total disability, permanent partial disability, temporary disability, medical care and vocational rehabilitation. Third party subrogation recoveries are separately analyzed and projected.

Both the Consulting Actuary and the internal actuarial staff select and apply a variety of generally accepted actuarial methods to our data. The methods applied vary somewhat according to the type of claim benefit being analyzed. The primary methods utilized in recent evaluations are: Paid Bornhuetter-Ferguson Method; Reported Bornhuetter-Ferguson Method; Paid Development Method; Reported Development Method; Frequency-Severity Method; and Initial Expected Loss Method. Each of the methods requires the selection and application of parameters and assumptions. The key parameters and assumptions are: the pattern with which our aggregate claims data will be paid or will emerge over time; claims cost inflation rates; and trends in the frequency of claims, both overall and by severity of claim. Of these, we believe the most important are the pattern with which our aggregate claims data will be paid or emerge over time and claims cost inflation rates.

Management along with internal actuarial staff and the Consulting Actuary separately analyze LAE and estimate unpaid LAE. This analysis relies primarily on examining the relationship between the aggregate amount that has been spent on LAE historically, as compared with the dollar volume of claims activity for the corresponding historical

calendar periods. Based on these historical relationships, and judgmental estimates of the extent to which claim management resources are focused more intensely on the initial handling of claims than on the ongoing management of claims, the Consulting Actuary selects a range of future LAE estimates that is a function of the projected future claim payment activity. The portion of unpaid LAE that will be recoverable from reinsurers is estimated based on the contractual reinsurance terms.

Based on the results of the analyses conducted, the stability of the historical data, and the characteristics of the various claims segments analyzed, the Consulting Actuary selects a range of estimated unpaid losses and LAE and a point estimate of unpaid losses and LAE, for presentation to internal actuarial staff and management. The selected range is intended to represent the range in which it is most likely that the ultimate losses will fall. This range is narrower than the range of indications produced by the individual methods applied because it is not likely, although it is possible, that the high or low result will emerge for every state, benefit type and accident year. The actuarial point estimate of unpaid losses and LAE is based on a judgmental selection for each benefit type 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 Consulting Actuary, including a review of the assumptions and the results of the various actuarial methods used by the Consulting Actuary. Comprehensive studies are conducted as of June 30 and December 31 by both internal actuarial staff and the Consulting Actuary. On the alternate quarters, the preceding study results are updated for actual claim payment activity during the quarter.

The Consulting Actuary provides the following analyses using information provided by the Company:

- claim frequency and claim severity trends indicated by the claim activity as well as any emerging claims environment or operational issues that may indicate changing trends; and
- workers' compensation industry trends as reported by industry rating bureaus, the media, and other similar sources.

Management determines the IBNR and LAE components of our loss reserves by establishing a point in the range of the Consulting Actuary's most recent analysis of unpaid losses and LAE with the selection of the point based on management's own view of recent and future claim emergence patterns, payment patterns, and trends information obtained from internal actuarial staff pertaining to:

- view of the markets in which we are operating, including economic, business and political conditions;
- the characteristics of the business we have written in recent quarters;
- recent and pending recoveries from reinsurance;
- our view of trends in the future costs of managing claims; and
- other similar considerations as we view relevant.

The aggregate carried reserve calculated by management represents our best estimate of our outstanding unpaid losses and LAE. We believe that we should be conservative in our reserving practices due to the "long tail" nature of workers' compensation claims payouts, the susceptibility of those future payments to unpredictable external forces such as medical cost inflation and other economic conditions, and the actual variability of loss reserve adequacy that we have observed in the workers' compensation insurance industry.

The following table provides a reconciliation of the beginning and ending loss reserves on a GAAP basis:

	For the Three Months Ended March 31, 2009	For the Year Ended December 31, 2008
	(in thousands)	
Unpaid losses and LAE, gross of reinsurance, at beginning of period	\$ 2,506,478	\$ 2,269,710
Less reinsurance recoverables, excluding bad debt allowance, on unpaid losses and LAE	1,076,350	1,052,641
Net unpaid losses and LAE at beginning of period	1,430,128	1,217,069
Losses and LAE, net of reinsurance, acquired in business combinations	—	247,006
Losses and LAE, net of reinsurance, incurred in:		
Current period	77,010	226,643
Prior periods	(13,500)	(71,707)
Total net losses and LAE incurred during the period	63,510	154,936
Deduct payments for losses and LAE, net of reinsurance, related to:		
Current period	6,800	53,397
Prior periods	58,962	135,486
Total net payments for losses and LAE during the period	65,762	188,883
Ending unpaid losses and LAE, net of reinsurance	1,427,876	1,430,128
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	1,066,678	1,076,350
Unpaid losses and LAE, gross of reinsurance, at end of period	\$ 2,494,554	\$ 2,506,478

Estimates of incurred losses and LAE attributable to insured events of prior years decreased due to continued favorable development in such prior accident years (actual losses and LAE paid and current projections of unpaid losses and LAE were less than we originally anticipated). The reduction in the estimated liability for unpaid losses and LAE related to prior years was \$13.5 million for the three months ended March 31, 2009 and \$71.7 million for the year ended December 31, 2008.

The major sources of favorable development include: (a) actual paid losses have been less than expected and (b) the impact of new information on selected patterns of claims emergence and claim payment used in the projection of future loss payments.

We review our loss reserves each quarter and, as mentioned earlier, our Consulting Actuary assists our review by performing a comprehensive actuarial analysis and projection of unpaid losses and LAE twice each year. We may adjust our reserves based on the results of our reviews and these adjustments could be significant. If we change our estimates, these changes are reflected in our results of operations during the period in which they are made. Our overall actual claims and LAE experience and emergence in recent years have been more favorable than anticipated in prior evaluations. Our insurance subsidiaries have been operating in a period of drastically 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 recent company data, external data, evaluations of environmental 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. Since the loss reserves are providing for claim payments that will emerge over many years, if management's projections and loss reserves were established in a manner that reacted quickly to each new emerging trend in the data or in the environment, there would be a high likelihood that future adjustments, perhaps significant in magnitude, would be required to correct for trends that turned out not to be persistent. At each balance sheet evaluation, some losses and LAE projection methods have produced indications above the loss reserve selected by management and some losses and LAE projection methods have produced indications lower than the loss reserve selected by management. 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, as compared with long-term claim payment, claim emergence, and claim cost inflation patterns.



As patterns and trends recur consistently over a period of quarters or years, management gives greater implicit weight to these recent patterns and trends in developing our future expectations. In our view, in establishing loss reserves at each historical balance sheet date, we have used prudent judgment in balancing long-term data and recent information.

It is likely that ultimate losses and LAE will differ from the loss reserves recorded in our March 31, 2009 balance sheet. Actual losses and LAE payments could be greater or less than our projections, perhaps significantly.

Our reserve estimates reflect expected increases in the costs of contested claims and assume we will not be subject to losses from significant new legal liability theories. While it is not possible to predict the impact of changes in this environment, if expanded legal theories of liability emerge, our IBNR claims may differ substantially from our IBNR reserves. Our reserve estimates assume that there will not be significant future changes in the regulatory and legislative environment. The impact of potential changes in the regulatory or legislative environment is difficult to quantify in the absence of specific, significant new regulation or legislation. In the event of significant new regulation or legislation, we will attempt to quantify its impact on our business.

The range of potential variation of actual ultimate losses and LAE from our current reserve for unpaid losses and LAE is difficult to estimate because of the significant environmental changes in the markets, particularly California and Florida, and because our insurance subsidiaries do not have a lengthy operating history in the markets outside Nevada.

#### ***Loss Portfolio Transfer (LPT)***

Under the LPT Agreement, \$1.525 billion in liabilities for incurred but unpaid losses and LAE related to claims incurred by EICN prior to July 1, 1995 was ceded for consideration of \$775.0 million in cash. The estimated remaining liabilities subject to the LPT Agreement were approximately \$919.7 million and \$929.6 million as of March 31, 2009 and December 31, 2008, respectively. Losses and LAE paid with respect to the LPT Agreement totaled approximately \$457.8 million and \$447.9 million as of March 31, 2009 and December 31, 2008, respectively.

We account for the LPT Agreement in accordance with SFAS No. 113, *Accounting and Reporting for Reinsurance of Short-Term and Long-Duration Contracts*, and as retroactive reinsurance. Upon entry into the LPT Agreement, an initial deferred reinsurance gain was recorded as a liability in our consolidated balance sheet. This gain is being amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries, and the amortization is reflected in losses and LAE. In addition, we are entitled to receive a contingent commission under the LPT Agreement. The contingent commission is estimated based on both actual results to date and projections of expected ultimate losses under the LPT Agreement. Increases and decreases in the estimated contingent commission are reflected in our commission expense in the period that the estimate is revised.

#### ***New Accounting Standards***

In April 2009, the Financial Accounting Standards Board (FASB) issued FSP FAS 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2). FSP FAS 115-2 changes the accounting for other-than-temporary impairments (OTTI) on debt securities by: (a) replacing the current requirement that a holder has the positive intent to hold an impaired debt security to recovery with a requirement that a holder does not have the intent to sell an impaired debt security and it is not more likely than not that it will be required to sell the security before recovery; (b) requiring the OTTI to be separated into: (i) the amount representing the decrease in cash flows expected to be collected (Credit Loss), which is recognized in earnings and (ii) the amount representing all other factors, which is recognized in other comprehensive income; and (c) amending existing disclosure requirements, extending those requirements to interim periods and requiring new disclosures intended to provide further disaggregated information as well as information about how the amount of OTTI that was recognized in earnings was determined. Upon adoption, FSP FAS 115-2 requires entities to report a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the non-Credit Loss component, previously recognized in earnings, from retained earnings to other comprehensive income. FSP FAS 115-2 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 115-2 and is currently assessing the impact adoption will have on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance on: (a) estimating fair value when the volume of activity for an asset or liability has significantly decreased in relation to normal market activity for the asset or liability; and (b) identifying circumstances that may indicate that a transaction is not orderly. FSP FAS 157-4 requires additional interim disclosures of the inputs and valuation techniques used to measure fair value. Additionally FSP FAS 157-4 modifies the current fair

value disclosure categories for debt and equity securities. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 157-4 and is currently assessing the impact that its adoption will have on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP FAS 107-1). FSP FAS 107-1 extends the annual disclosure requirements of SFAS 107, *Fair Value of Financial Instruments*, to interim financial statements of publicly traded companies. FSP FAS 107-1 is effective for interim and annual periods ending after June 15, 2009 and early adoption is permitted. The Company has not elected to early adopt FSP FAS 107-1 and is currently assessing the impact that its adoption will have on the Company's consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk and equity price risk. We have not experienced any material changes in credit or equity price risk since December 31, 2008.

#### Interest Rate Risk

Our investment portfolio consists primarily of fixed maturity securities with a fair value of \$2.03 billion at March 31, 2009. The primary market risk exposure to our fixed maturity securities portfolio is interest rate risk, which we limit by managing the duration of our portfolio.

Fixed maturity securities include residential mortgage-backed securities, which totaled \$323.6 million, or 15.5% of the portfolio as of March 31, 2009. Agency-backed mortgage pass-throughs totaled \$319.8 million, or 98.8% of the mortgage-backed securities portion of the portfolio, and 15.4% of the total portfolio. Interest rates have declined recently leading to some increase in expected prepayment activity.

The following table summarizes our interest rate risk illustrating the sensitivity of the fair value of fixed maturity securities to selected hypothetical changes in interest rates as of March 31, 2009. The selected scenarios are not predictions of future events, but rather illustrate the effect that such events may have on the fair value of our fixed maturity securities portfolio and stockholders' equity.

Hypothetical Change in Interest Rates		Estimated Increase (Decrease) in Fair Value	
		(in thousands, except percentages)	
300	basis point rise	\$ (270,880)	(13.3)%
200	basis point rise	(183,337)	(9.0)
100	basis point rise	(92,245)	(4.5)
50	basis point decline	46,785	2.3
100	basis point decline	94,472	4.7

### Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms specified by the SEC.

There have not been any changes in our internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

The following table summarizes the repurchase of our common stock for the three months ended March 31, 2009:

Period	Total Numbers of Shares Purchased	Average Price Paid Per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Program <sup>(2)</sup>
				(millions)
January 1—January 31, 2009	—	\$ —	—	\$ 85.8
February 1—February 28, 2009	—	—	—	85.8
March 1—March 31, 2009	1,624,195	9.56	1,624,195	70.3
Total 2009 Repurchase	1,624,195	\$ 9.56	1,624,195	

(1) Includes fees and commissions paid on stock repurchases.

(2) On February 21, 2008, the Board of Directors authorized a stock repurchase program of up to \$100.0 million of our common stock through June 30, 2009. On February 25, 2009, the Board of Directors extended this program through December 31, 2009. The shares may be repurchased from time to time at prevailing market prices in open market or private transactions. The repurchases may be commenced or suspended from time to time without prior notice. There can be no assurance that we will continue to undertake any repurchase of our common stock pursuant to the program.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits****Exhibits:**

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
10.1	Employment Agreement by and between Employers Holdings, Inc. and John P. Nelson, dated December 17, 2008, and effective as of January 1, 2009	X			
31.1	Certification of Douglas D. Dirks Pursuant to Section 302	X			
31.2	Certification of William E. Yocke Pursuant to Section 302	X			
32.1	Certification of Douglas D. Dirks Pursuant to Section 906	X			
32.2	Certification of William E. Yocke Pursuant to Section 906	X			

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMPLOYERS HOLDINGS, INC.

Date: May 7, 2009

By: /s/ DOUGLAS D. DIRKS

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Name: Douglas D. Dirks  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 7, 2009

By: /s/ WILLIAM E. YOCKE

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Name: William E. Yocke  
Title: Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EMPLOYMENT AGREEMENT**

This Employment Agreement (this "Agreement") by and between Employers Holdings, Inc., a Nevada corporation (the "Company") and John P. Nelson (the "Employee") is entered into as of the 17th day of December, 2008, effective as of January 1, 2009 (the "Effective Date").

**RECITALS**

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

B. The Company desires to continue to employ the Employee to perform certain services for the Company, its parent, if any, and their respective subsidiaries and affiliates (the "Company Affiliates"), as may be required or requested of the Employee in his position as Executive Vice President, Chief Administrative Officer, and the Employee desires to continue to be so employed by the Company and to perform such services for the Company and the Company Affiliates.

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

**TERMS****1. Employment.**

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

**2. Term.**

The term of this Agreement shall commence on the Effective Date, and continue for three (3) years (the "Initial Term"), until December 31, 2011, and, thereafter, shall automatically renew for successive two (2) year periods (each, an "Additional Term;" the Initial Term and any Additional Terms, collectively the "Term"), unless either party gives written notice to the other no later than six (6) months prior to expiration of the Initial Term or any Additional Term, as applicable, of an intent not to renew this Agreement; subject, however to earlier termination of the Employee's employment with the Company in accordance with this Agreement (the "Termination Date"). The expiration of this Agreement at the end of the Term, in and of itself, shall not constitute, nor be construed or interpreted as, a termination of the Employee's employment that would make him eligible for benefits or payments under Section 7 below. This Agreement shall expire upon the termination of the Employee's employment for any reason, subject to the provisions of subsection 10(h) below.

**3. Services and Duties.**

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

**4. Compensation and Benefits.**

- (a) During the term of this Agreement, the Company shall pay to the Employee an annual salary of not less than \$250,000 (“Base Salary”), which amount shall be paid according to the Company’s regular payroll practices. The Company agrees to review the Base Salary on an annual basis and adjust the salary to comply with the executive compensation policy in effect at the time of the review. Any increase made to the annual salary will establish the new Base Salary for the Employee. All payments made pursuant to this Agreement, including but not limited to this subsection 4(a), shall be reduced by and subject to withholding for all federal, state, and local taxes and any other withholding required by applicable laws and regulations.
- (b) The Company will provide an annual incentive (the “Annual Incentive”) to the Employee during the Term based on the Employee’s and the Company’s performance, as determined by the Board (or a committee thereof) in its sole discretion. In this regard, the Board (or a committee thereof) shall set an annual incentive target of not less than forty-five percent (45%) of Base Salary, and the Annual Incentive shall be paid in accordance with the Company’s regular practice for its senior officers, as in effect from time to time. To the extent not duplicative of the specific benefits provided herein, the Employee shall be eligible to participate in all incentive compensation, retirement, supplemental retirement, and deferred compensation plans, policies and arrangements that are provided generally to other senior officers of the Company at a level (in terms of the amount and types of benefits and incentive compensation that the Employee has the opportunity to receive and the terms thereof) determined in the sole discretion of the Board (or a committee thereof).
- (c) The Employee agrees that the amounts payable and benefits provided under this Agreement, including but not limited to any amounts payable or benefits provided under this Section 4 and Section 7 constitute good, valuable and separate consideration for the non-competition, assignment and release of liability provisions contained herein. The Employee acknowledges that he is aware of the effect of the non-competition, assignment and release of liability provisions contained herein and agrees that the amounts payable and benefits provided under this Agreement, including but not limited to the amounts payable and benefits provided under this Section 4 and Section 7, if any, constitute sufficient consideration for his agreement to these provisions.
- (d) In addition to the compensation called for in this Agreement, the Employee shall be entitled to receive any and all employee benefits and perquisites generally provided from time to time to other similarly situated officers of the Company as well as the benefits and perquisites listed on “Exhibit A” attached hereto and incorporated herein by this reference.

**5. Insurance.**

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

**6. Termination.**

- (a) The Company, at any time, may terminate this Agreement and the Employee’s employment immediately for “Cause”. Cause is defined as:
  - (i) A material breach of this Agreement by the Employee;
  - (ii) Failure or inability of the Employee to obtain or maintain any required licenses or certificates;

- (iii) Willful violation by the Employee of any law, rule or regulation, including but not limited to any material insurance law or regulation, which violation may, as determined by the Company, adversely affect the ability of the Employee to perform his duties hereunder or may subject the Company to liability or negative publicity; or
  - (iv) Conviction or commission of or the entry of a guilty plea or plea of no contest to any felony or to any other crime involving moral turpitude.
- (b) The Employee may terminate this Agreement and his employment with the Company immediately for “Good Reason,” which shall mean the occurrence of any of the following events with respect to which the Employee has notified the Company of the existence thereof within no more than ninety (90) days of the initial existence thereof and which is not cured by the Company within thirty (30) days of the Company’s receipt of written notice from the Employee of the events alleged to constitute such Good Reason:
- (i) A material diminution in the Employee’s base compensation;
  - (ii) A material diminution in the Employee’s authority, duties or responsibilities; or
  - (iii) Any other action or inaction that constitutes a material breach by the Company of this Agreement (as may be amended from time to time).
- (c) The Company may also terminate this Agreement and the Employee’s employment upon the occurrence of one or more of the following events or reasons, subject to applicable law (or, in the case of subsection 6(c)(i) below, termination of this Agreement and the Employee’s employment will be automatic):
- (i) Death of the Employee;
  - (ii) The Employee is deemed to be disabled in accordance with the policies of the Company or the law or if the Employee is unable to perform the essential job functions of the Employee’s position with the Company, with or without reasonable accommodation, for a period of more than 100 business days in any 120 consecutive business day period. The Employee is entitled to any and all short term or long term disability programs, like any other employee, in accordance with the terms of such programs and the policies of the Company; or
  - (iii) At any time for any other reason or no reason in the sole and absolute discretion of the Company.

7. **Payments Upon Termination.**

- (a) Qualifying Termination and Severance Pay. If the Company terminates the Employee’s employment prior to the expiration of the Term but other than during the CIC Period (as defined below) for any reason other than as specified above in subsection 6(a) for Cause, subsection 6(c)(i) by reason of the death of the Employee, or subsection 6(c)(ii) for disability, or if the Employee terminates his employment for Good Reason pursuant to subsection 6(b), the Employee shall receive the following severance pay (the “Severance Pay”):
- (i) In lieu of any further salary payments to the Employee for periods subsequent to the Termination Date and in lieu of any severance benefit otherwise payable to the Employee, an amount equal to one and one half (1 ½) times Base Salary, payable in equal bi-weekly installments on the Company’s regular payroll dates as in effect on such Termination Date, for eighteen (18) months following the Termination Date, commencing with the payroll date



applicable to the first full payroll period following the Termination Date; provided, however, that such payments shall be delayed to the extent required under Section 25 below. The payments shall be subject to normal payroll deductions.

- (ii) Continuation of the medical, dental and vision insurance coverage in effect on the Termination Date for a period of eighteen (18) months following the Termination Date with the Company paying the employer portion of the premium and the Employee paying the employee portion, including dependents if applicable, of the premium during such eighteen (18) month period, provided that the Employee elects to continue such insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended (“COBRA”). The Employee is solely responsible for taking the actions necessary to exercise his rights under COBRA for the insurance coverage the Employee has in effect, including coverage for dependents if applicable, on the Termination Date.
- (b) Severance Pay as Liquidated Damages. The parties agree, in the event of a material breach of this Agreement by the Company with respect to which the Employee has given notice and that is not cured, in either case, in accordance with subsection 6(b), following which the Employee terminates his employment for Good Reason, that actual damages are speculative and that the amount of the Severance Pay or, if applicable, the CIC Severance Pay (as defined below) set forth herein is liquidated damages and is a reasonable estimate of what damages would be for a material breach of this Agreement.
- (c) Conditions to Severance Pay or CIC Severance Pay. The Employee agrees and acknowledges that the following must be satisfied by the Employee before he is entitled to the Severance Pay or, if applicable, the CIC Severance Pay provided for herein:
  - (i) That the Employee returns any and all equipment, software, data, property and information of the Company and the Company Affiliates, including documents and records or copies thereof relating in any way to any proprietary information of the Company or any of the Company Affiliates whether prepared by the Employee or any other person or entity. That the Employee further agrees that he shall not retain any proprietary information of the Company or any of the Company Affiliates after the Termination Date;
  - (ii) That the Employee executes a Global Release of Liability, in a form to be determined by the Company in its sole discretion, which releases the Company and the Company Affiliates from liability for any and all claims, complaints and causes of action, whether based in law or equity, arising from, related to or associated with the Employee’s employment by the Company or under this Agreement and that such release has become effective and non-revocable. That the Employee further acknowledges and agrees that he has not made and will not make any assignment of any claim, cause or right of action, or any right of any kind whatsoever, arising from, related to or associated with the employment of the Employee by the Company; and
  - (iii) That the Employee reaffirms the covenants contained herein, in writing, including, but not limited to, the covenants set forth in Section 10.

Notwithstanding anything in this Agreement to the contrary, in any case where the first and last days of the applicable release and nonrevocability periods provided for in the Global Release of Liability (the “Applicable Release Period”) are in two separate taxable years, any payments required to be made to the Employee under this Agreement that are treated as deferred compensation for purposes of Section 409A (as defined below) shall be made in the later taxable year, as soon as practicable, but in no event later than thirty (30) days following the conclusion of the Applicable Release Period.

- (d) Voluntary Termination by the Employee. The Employee may terminate his employment and this Agreement for reasons other than those identified in subsection 6(b) upon not less than sixty (60) days prior written notice. If the Employee terminates his employment and this Agreement pursuant to this subsection 7(d), he shall be entitled only to the following:
- (i) Any unpaid salary through the Termination Date; and
  - (ii) Payment for any accrued and unused vacation as of the Termination Date.
- (e) Qualifying Change in Control Termination. If, before the expiration of the Term, the Company terminates the Employee's employment within the period commencing six (6) months prior to and ending eighteen (18) months following a Change in Control (as defined below), such period referred to herein as the "CIC Period," for any reason other than as specified above in subsection 6(a) for Cause, subsection 6(c)(i) for the death of the Employee, or subsection 6(c)(ii) for disability, or if the Employee terminates his employment and this Agreement for Good Reason pursuant to subsection 6(b), the Employee shall receive the severance pay set forth in subsections (i) and (ii) below (the "CIC Severance Pay"), provided that if the Employee's employment is terminated during the six (6) month period prior to a Change in Control, the Employee shall be entitled to CIC Severance Pay only if such termination (x) was by the Company other than for Cause but at the request or direction of any person that has entered into an agreement with the Company the consummation of which would constitute a Change in Control, (y) was by the Employee for Good Reason and the circumstance or event that constitutes Good Reason occurred at the request or direction of such person or (z) was by the Company without Cause and the Employee reasonably demonstrates that such termination was otherwise in connection with or in anticipation of a Change in Control; and if the Employee is not entitled to CIC Severance Pay hereunder, then the Employee's termination of employment will not be deemed to have occurred during the CIC Period for purposes of subsection 7(a):
- (i) In lieu of any further salary payments to the Employee for periods subsequent to the Termination Date and in lieu of any severance benefit otherwise payable to the Employee, a lump sum cash payment equal to two (2) times the sum of (A) Base Salary and (B) the average of the annual bonus amounts earned by the Employee for the three (3) years preceding the year in which the Change in Control occurs; provided, however, that if the Termination Date occurs prior to January 1, 2010, then (B) shall instead be the average of the annual bonus amounts earned by the Employee in 2007 and 2008. Such payment shall be made as soon as practicable (but in no event later than sixty (60) days) following the Termination Date; provided, however, that such payments shall be delayed to the extent required under Section 25 below; and
  - (ii) Continuation of the medical, dental and vision insurance coverage in effect on the Employee's Termination Date for a period of eighteen (18) months following the Termination Date with the Company paying the employer portion of the premium and the Employee paying the employee portion, including dependents if applicable, of the premium during such eighteen (18)-month period, provided that the Employee elects to continue such insurance coverage under COBRA. The Employee is solely responsible for taking the actions necessary to exercise his rights under COBRA for the insurance coverage the Employee has in effect, including coverage for dependents if applicable, on the Termination Date.
- (f) Definition of Change in Control. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

- (i) Any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Company; or
- (ii) Any one person, or more than one person acting as a group, acquires (or has acquired during the twelve (12)-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 35% or more of the total voting power of the stock of the Company; or
- (iii) A majority of members of the Board is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; or
- (iv) Any one person or group acquires (or has acquired during the immediately preceding twelve (12)-month period ending on the date of the most recent acquisition) assets of the Company with an aggregate gross fair market value of not less than forty percent (40%) of the aggregate gross fair market value of the assets of the Company immediately prior to such acquisition. For this purpose, gross fair market value shall mean the fair value of the affected assets determined without regard to any liabilities associated with such assets.

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

- (g) No Duplication of Payments or Benefits. Notwithstanding any provision of this Agreement to the contrary, the Employee shall not be eligible to receive any payments or benefits under both subsections 7(a) and 7(e); but rather, to the extent the conditions set forth in subsection 7(a) and subsection 7(e) are satisfied, the Employee shall be eligible to receive benefits under only subsection 7(e).
- (h) Golden Parachute (Section 280G) Excise Taxes.
  - (i) Subject to subsection 7(h)(ii) below, if it is determined that any payment or benefit received or to be received by the Employee, whether pursuant to this Agreement or otherwise (the “Severance Payments”), is a “parachute payment” within the meaning of section 280G of the Internal Revenue Code (the “Code”) (all such payments and benefits, including the Severance Payments as applicable, but excluding the Gross-Up Payment (as defined below) being hereinafter called “Total Payments”) that will be subject (in whole or part) to the tax imposed under section 4999 of the Code (the “Excise Tax”), then the Company shall pay to the Employee on or as soon as practicable following the day on which the Excise Tax is remitted by the Employee (but not later than the end of the taxable year following the year in which the Excise Tax is incurred and subject to the provisions set forth in Section 25 below, including if applicable, the Six Month Delay (as defined in such section)) an additional amount (the “Gross-Up Payment”) such that the net amount retained by the Employee, after deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, shall be equal to the Total Payments.

- (ii) In the event that the amount of the Total Payments does not exceed 110% of the largest amount that would result in no portion of the Total Payments being subject to the Excise Tax (the “Safe Harbor”), the non-cash portion of the Total Payments shall first be reduced (if necessary, to zero), and the cash portion of the Total Payments shall thereafter be reduced (if necessary, to zero) so that the amount of the Total Payments is equal to the Safe Harbor.
- (iii) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (A) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel (“Tax Counsel”) selected by the Board in existence immediately prior to the Change in Control, does not constitute a “parachute payment” within the meaning of section 280G(b)(2) of the Code, including by reason of section 280G(b)(4)(A) of the Code, (B) the Severance Payments shall be reduced only to the extent necessary so that the Total Payments (other than those referred to in clause (A)) in their entirety constitute reasonable compensation for services actually rendered within the meaning of section 280G(b)(4)(B) of the Code or are otherwise not subject to disallowance as deductions by reason of section 280G of the Code, in the opinion of Tax Counsel, and (C) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Company’s independent auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. If the Employee disputes the Company’s calculations (in whole or in part), the reasonable opinion of Tax Counsel with respect to the matter in dispute shall prevail.
- (iv) If the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, the Employee shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Employee to the extent that such repayment results in a reduction in Excise Tax and/or a federal, state or local income or employment tax deduction) plus interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code. If the Excise Tax is determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions payable by the Employee with respect to such excess) at the time that the amount of such excess is finally determined.
- (v) The Employee and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments. The Company also shall pay to the Employee all legal fees and expenses incurred by the Employee in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within sixty (60) business days after delivery of the Employee’s written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require (but in no event shall any such payment be made after the end of the calendar year following the calendar year in which the expenses were incurred), provided that no such payment shall be made in respect of fees or expenses incurred by the Employee after the later of the tenth (10th) anniversary of the effective date of the Employee’s termination with the Company or the Employee’s death and, provided further, that, upon the Employee’s “separation from service” (as such term is defined under Section 409A) with the Company, in no event shall any additional such payments be made prior to the date that is six (6) months

after the date of the Employee's "separation from service" to the extent such payment delay is required under section 409A(a)(2)(B) of the Code.

#### 8. **Licensing.**

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

#### 9. **Rules and Regulations.**

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

#### 10. **Restrictive Covenants.**

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

- (a) *Non-Competition.* The Employee understands and agrees that the Company and the Company Affiliates do business throughout the State of Nevada and other states. The Employee further understands and agrees that he is a high ranking officer of the Company and will have access to confidential and trade secret information and goodwill of the Company and the Company Affiliates that will allow the Employee to unfairly compete with the Company and the Company Affiliates justifying this restriction. If the Employee's employment is terminated (by either the Employee or the Company), during the Term, for any reason other than as specified above in subsection 6(c)(i) by reason of the death of the Employee, or subsection 6(c)(ii) for disability, then for a period of eighteen (18) months commencing on the Termination Date, the Employee agrees that, without the written permission of the Company, he will not engage (whether as owner, partner, controlling stockholder, controlling investor, employee, adviser, consultant, or otherwise) in any business that is in direct competition with the business being conducted by the Company or any of the Company Affiliates as of the Termination Date, in Nevada or in any other state in which the Company is conducting such business (the "Non-Compete Area") as of the Termination Date.
- (b) *Non-Solicitation.* Without limiting the generality of the foregoing, the Employee agrees that for a period of eighteen (18) months following the Employee's termination of employment (for any reason, by either the Employee or the Employer), he will not, without the prior written consent of the Company, directly or indirectly solicit or attempt to solicit, within the Non-Compete Area, any business from any person or entity that the Company or any of the Company Affiliates called upon, solicited, or conducted business with as of such termination date, any persons or entities that have been customers of the Company or any of the Company Affiliates or recruit any person who has been or is an employee of the Company or any of the Company Affiliates, during the preceding one (1)-year period from such termination date. In addition, the Employee agrees that he shall not directly or indirectly solicit or encourage any employee of the Company or any of the Company Affiliates to go to work for or with the Employee for a period of one (1)-year following such termination date.

- (c) In the event the Employee violates subsection 10(a) or 10(b), the applicable period of time during which the respective restriction applies will automatically be extended for the period of time from which the Employee began such violation until he permanently ceases such violation. If any provision of this covenant is invalid in whole or in part, it will be limited, whether as to time, area covered, or otherwise as and to the extent required for its validity under the applicable law and as so limited, will be enforceable.
- (d) *Confidential Information.* The Employee acknowledges that he has had or will have access to the confidential information of the Company and the Company Affiliates (including, but not limited to, records regarding sales, price and cost information, marketing plans, customer names, customer lists, sales techniques, distribution plans or procedures, and other material relating to the business conducted by the Company and the Company Affiliates), proprietary, or trade secret information (the “Confidential Information”), and agrees never to use the Confidential Information other than for the sole benefit of the Company and the Company Affiliates and further agrees to never disclose such Confidential Information (except as may be required by regulatory authorities or as may be required by law) to any entity or person that is not an officer or employee of the Company or a Company Affiliate at the time of such disclosure (unless at such time such Confidential Information is subject to a policy of the Company or a Company Affiliate restricting disclosure to non-officers), in which case disclosure shall be limited solely to officers of the Company or the applicable Company Affiliate at the time of such disclosure, without the prior written consent of the Company. The Employee further acknowledges that this covenant to maintain Confidential Information is necessary to protect the goodwill and proprietary interests of the Company and the Company Affiliates and the restriction against the disclosure of Confidential Information is reasonable in light of the consideration and other value the Employee has received or will receive pursuant to this Agreement and otherwise pursuant to his employment by the Company.
- (e) From and following the Employee’s termination of employment, the Employee agrees to cooperate with the Company and the Company Affiliates in any litigation, administrative proceeding, investigation or audit involving any matters with which the Employee has knowledge of from his employment with the Company. The Company shall reimburse the Employee for reasonable expenses, including reasonable compensation for services rendered at his hourly rate of compensation as of such termination date, incurred in providing such assistance and approved by the Company. The Company shall reimburse the Employee for such expenses incurred in accordance with the policies and procedures of the Company, but in no event no later than the end of the year following the year in which the expenses were incurred.
- (f) In the event of a violation of this Section 10, the Company and the Company Affiliates shall be entitled to any form of relief at law or equity, and the parties agree and acknowledge that injunctive relief is an appropriate, but not exclusive, remedy to enforce the provisions hereof. The existence of any claim or cause of action of the Employee against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense of the Company’s enforcement of the covenants set forth in this Section 10. The Employee hereby submits to the jurisdiction of the courts of the State of Nevada and federal courts therein for the purposes of any actions or proceedings instituted by the Company to enforce its rights under this Agreement, to seek money damages or seek injunctive relief. The Employee further acknowledges and agrees (i) that the obligations contained in Section 10 of this Agreement are necessary to protect the interests of the Company and the Company Affiliates, (ii) that the restrictions contained herein are fair, do not unreasonably restrict the Employee’s further employment and business opportunities, and are commensurate with the compensation arrangements set out in this Agreement and (iii) that such compensation arrangements constitute separate consideration for the obligations set forth in this Section 10. The covenants contained in Section 10 shall each be construed as an agreement independent of any other provisions of this Agreement. Both parties intend to make the covenants of Section 10 binding only to the extent that it may be lawfully done under existing applicable laws. If a court of competent jurisdiction

decides any part of any covenant is overly broad, thereby making the covenant unenforceable, the parties agree that such court shall substitute a reasonable, judicially enforceable limitation in place of the offensive part of the covenant and as so modified the covenant shall be as fully enforceable as set forth herein by the parties themselves in the modified form.

- (g) The Employee acknowledges that it is possible that the corporate structure of the Company could change during the term of this Agreement. The Employee hereby acknowledges and affirms that the Company may assign its rights under this Agreement, including but not limited to its rights to enforce the covenants set forth in subsections 10(a), 10(b) and 10(c), to a third-party without the approval of or additional consideration to the Employee. The Employee acknowledges and agrees that the consideration called for herein is good and sufficient consideration for the Company's right to assign its rights under this Agreement.
- (h) Subsections 10(a) through (g), inclusive, of this Agreement shall survive either termination of the employment relationship and/or termination of this Agreement for the full period set forth in subsections 10(a) through (g), inclusive.

**11. Work for Hire.**

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

**12. Assignment of Agreement.**

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

**Indemnification of the Employee.**

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

**13. Notices.**

Any notice, document, or other communication (hereinafter "Notice") which either party may be required or may desire to give to the other party shall be in writing, and any such notice may be given or delivered personally or by mail or facsimile. Any such notices given or delivered personally shall be given or delivered by hand to an officer of the entity to which they are being given or delivered or the individual, as the case may be, and shall be deemed given or delivered when so given or delivered by hand. Any such notices given or delivered by facsimile will be deemed given or delivered upon receipt by the sender of a successful facsimile transmission to the facsimile number below, and any

such notices given or delivered by mail shall be deemed given or delivered three (3) days after it is deposited in the U.S. mail, certified or registered mail, return receipt requested, with all postage and fees prepaid, addressed to the person or entity in question as follows:

**If to the Employee:**

John P. Nelson

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

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

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

**14. Severability.**

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

**15. Remedy for Breach.**

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

**16. Mitigation of Damages.**

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

**17. Attorneys' Fees and Costs.**

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



**18. Integration, Amendment, and Waiver.**

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

**19. Captions.**

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

**20. Applicable Law.**

The substantive laws of the State of Nevada shall govern the validity, construction, interpretation, performance, and effect of this Agreement.

**21. Arbitration.**

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

**22. Authorization.**

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

**23. Acknowledgment.**

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

**25. Section 409A.**

Notwithstanding anything to the contrary in this Agreement, the payment of consideration, compensation, and benefits pursuant to this Agreement shall be interpreted and administered in a manner intended to avoid the imposition

of additional taxes under section 409A of the Code and the regulations and guidance promulgated thereunder (“Section 409A”). Notwithstanding any provision to the contrary in this Agreement or otherwise, no payment or distribution under this Agreement or otherwise that constitutes an item of “deferred compensation” under Section 409A and becomes payable by reason of the termination of the Employee’s employment hereunder shall be made to the Employee unless and until the termination of the Employee’s employment constitutes a “separation from service” (as such term is defined in Section 409A).

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

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

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

COMPANY:

EMPLOYEE:

By:

By:

/s/ Douglas D. Dirks

/s/ John P. Nelson

Name: Douglas D. Dirks

Name: John P. Nelson

Chief Executive Officer

## CERTIFICATIONS

I, Douglas D. Dirks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Employers Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/s/ Douglas D. Dirks

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

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## CERTIFICATIONS

I, William E. Yocke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Employers Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/s/ William E. Yocke

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William E. Yocke  
Executive Vice President and  
Chief Financial Officer  
Employers Holdings, Inc.

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

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

In connection with the Form 10-Q of Employers Holdings, Inc. (the Company) for the quarter ended March 31, 2009, as filed with Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas D. Dirks

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

Date: May 7, 2009

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

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

In connection with the Form 10-Q of Employers Holdings, Inc. (the Company) for the quarter ended March 31, 2009, as filed with Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William E. Yocke

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Name: William E. Yocke  
Title: Executive Vice President and  
Chief Financial Officer  
Employers Holdings, Inc.

Date: May 7, 2009

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