Employers Holdings, Inc.
Form 10-Q
August 07, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from ____ to ____

Commission file number: 001-33245

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

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

10375 Professional Circle, Reno, Nevada 89521
(Address of principal executive offices and zip code)

(888) 682-6671
(Registrant s telephone number, including area code)

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

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

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

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

Class	July 31, 2009
Common Stock, $0.01 par value per share	45,317,737 shares outstanding

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except share data)

	As of June 30, 2009	As of December 31, 2008
	(unaudited)	
Assets		
Available for sale:		
Fixed maturity securities at fair value (amortized cost $1,923,547 at June 30, 2009 and $1,870,227 at December 31, 2008)	$ 1,989,627	$ 1,909,391
Equity securities at fair value (cost $41,107 at June 30, 2009 and $43,014 at December 31, 2008)	60,805	58,526
Short-term investments at fair value (amortized cost $8,449 at June 30, 2009 and $74,952 at December 31, 2008)	8,562	75,024
Total investments	2,058,994	2,042,941
Cash and cash equivalents	217,031	202,893
Accrued investment income	24,019	24,201
Premiums receivable, less bad debt allowance of $9,325 at June 30, 2009 and $7,911 at December 31, 2008	89,181	91,273
Reinsurance recoverable for:		
Paid losses	11,370	12,723
Unpaid losses, less allowance of $1,335 at each period	1,056,535	1,075,015
Funds held by or deposited with reinsureds	85,585	88,163
Deferred policy acquisition costs	30,674	32,365
Federal income taxes recoverable	6,000	11,042
Deferred income taxes, net	65,852	80,968
Property and equipment, net	12,789	14,098
Intangible assets, net	16,684	18,218
Goodwill	36,192	36,192
Other assets	17,945	26,621
Total assets	$ 3,728,851	$ 3,756,713
Liabilities and stockholders equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	$ 2,470,447	$ 2,506,478
Unearned premiums	133,862	139,310
Policyholders dividends accrued	8,926	8,737
Total claims and policy liabilities	2,613,235	2,654,525
Commissions and premium taxes payable	12,653	12,691
Accounts payable and accrued expenses	20,844	24,192
Deferred reinsurance gain - LPT Agreement	397,872	406,581
Notes payable	182,000	182,000
Other liabilities	31,181	31,996
Total liabilities	$ 3,257,785	$ 3,311,985

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except share data)

	As of June 30, 2009	As of December 31, 2008
	(unaudited)	
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.01 par value; 150,000,000 shares authorized; 53,563,299 and 53,528,207 shares issued and 45,795,937 and 48,830,140 shares outstanding at June 30, 2009, and December 31, 2008, respectively	536	535
Preferred stock, $0.01 par value; 25,000,000 shares authorized; none issued		
Additional paid-in capital	307,949	306,032
Retained earnings	230,005	194,509
Accumulated other comprehensive income, net	53,837	32,804
Treasury stock, at cost (7,767,362 shares at June 30, 2009 and 4,698,067 shares at December 31, 2008)	(121,261)	(89,152)
Total stockholders equity	471,066	444,728
Total liabilities and stockholders equity	$ 3,728,851	$ 3,756,713

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 June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
		(unaudited)		
Revenues				
Net premiums earned	$ 104,381	$ 73,815	$ 215,981	$ 149,711
Net investment income	23,064	18,538	46,370	37,441
Realized losses on investments, net	(392)	(219)	(2,504)	(1,707)
Other income	59	422	205	860
Total revenues	127,112	92,556	260,052	186,305
Expenses				
Losses and loss adjustment expenses	54,100	24,142	113,262	54,756
Commission expense	13,229	9,721	26,887	20,344
Dividends to policyholders	1,861	71	3,879	86
Underwriting and other operating expenses	32,452	22,910	68,936	44,621
Interest expense	1,825		3,784	
Total expenses	103,467	56,844	216,748	119,807
Net income before income taxes	23,645	35,712	43,304	66,498
Income tax expense	3,300	8,346	2,104	13,638
Net income	$ 20,345	$ 27,366	$ 41,200	$ 52,860
Earnings per common share (Note 14):				
Basic	$ 0.44	$ 0.55	$ 0.87	$ 1.07
Diluted	$ 0.44	$ 0.55	$ 0.87	$ 1.07
Cash dividends declared per common share	$ 0.06	$ 0.06	$ 0.12	$ 0.12
Net realized losses on investments				
Net realized losses on investments before credit related impairments on fixed maturity securities	$ (264)		$ (583)	
Total other-than-temporary impairments on securities	(128)		(1,921)	
Portion of impairment recognized in other comprehensive income				
Credit related impairments included in net realized losses on investments	(128)		(1,921)	
Net realized losses on investments, net	$ (392)		$ (2,504)	

See accompanying unaudited notes to the consolidated financial statements.

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Employers Holdings, Inc. and Subsidiaries

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Treasury Stock, at Cost	Total Stockholders Equity
				(unaudited)			
Balance, January 1, 2008	53,527,907	$ 535	$ 302,862	$ 104,536	$ 46,520	$ (75,000)	$ 379,453
Stock-based compensation (Note 13)			1,487				1,487
Stock options exercised	100		2				2
Acquisition of treasury stock (Note 12)						(6,996)	(6,996)
Dividends to common stockholders			1	(5,942)			(5,941)
Comprehensive income:							
Net income for the period				52,860			52,860
Change in net unrealized gains on investments, net of taxes					(22,712)		(22,712)
Total comprehensive income							30,148
Balance, June 30, 2008	53,528,007	$ 535	$ 304,352	$ 151,454	$ 23,808	$ (81,996)	$ 398,153
Balance, January 1, 2009	53,528,207	$ 535	$ 306,032	$ 194,509	$ 32,804	$ (89,152)	$ 444,728
Stock-based compensation (Note 13)			2,037				2,037
Vesting of restricted stock units, net of shares withheld to satisfy minimum tax withholding (Note 13)	35,092	1	(124)				(123)
Acquisition of treasury stock (Note 12)						(32,109)	(32,109)
Dividends to common stockholders			4	(5,704)			(5,700)
Comprehensive income:							
Net income for the period				41,200			41,200
Change in net unrealized gains on investments, net of taxes					21,033		21,033
Total comprehensive income							62,233
Balance, June 30, 2009	53,563,299	$ 536	$ 307,949	$ 230,005	$ 53,837	$ (121,261)	$ 471,066

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(unaudited)	
Operating activities		
Net income	$ 41,200	$ 52,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,710	3,317
Stock-based compensation	2,037	1,487
Amortization of premium on investments, net	2,200	3,226
Allowance for doubtful accounts premiums receivable	1,414	421
Deferred income tax expense	3,862	5,357
Realized losses on investments, net	2,504	1,707
Realized losses on retirement of assets	60	
Change in operating assets and liabilities:		
Accrued investment income	182	(420)
Premiums receivable	678	11,141
Reinsurance recoverable on paid and unpaid losses	19,833	20,312
Funds held by or deposited with reinsureds	2,578	3,575
Federal income taxes	5,042	(3,497)
Unpaid losses and loss adjustment expenses	(36,031)	(38,463)
Unearned premiums	(5,448)	(4,025)
Accounts payable, accrued expenses and other liabilities	(3,738)	(2,651)
Deferred reinsurance gain LPT Agreement	(8,709)	(9,359)
Other	7,349	(2,106)
Net cash provided by operating activities	40,723	42,882
Investing activities		
Purchase of fixed maturities	(129,101)	(152,424)
Purchase of equity securities	(154)	(1,063)
Proceeds from sale of fixed maturities	38,024	111,917
Proceeds from sale of equity securities	3,276	2,135
Proceeds from maturities and redemptions of investments	101,463	16,210
Cash paid for acquisition, net of cash and cash equivalents acquired	(100)	(959)
Capital expenditures and other, net	(2,880)	(2,739)
Net cash provided by (used in) investing activities	10,528	(26,923)
Financing activities		
Acquisition of treasury stock	(31,290)	(6,691)
Cash transactions related to stock compensation	(123)	2
Dividends paid to stockholders	(5,700)	(5,941)
Debt issuance costs		(375)
Net cash used in financing activities	(37,113)	(13,005)
Net increase in cash and cash equivalents	14,138	2,954
Cash and cash equivalents at the beginning of the period	202,893	149,703
Cash and cash equivalents at the end of the period	$ 217,031	$ 152,657

See accompanying unaudited notes to consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

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 consolidated financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. These financial statements have been prepared consistent with the accounting policies described in the Company s 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 debt 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 had no impact on the consolidated financial position or results of operations. The Company has included the required disclosures in Note 4.

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 Indentifying 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 did not have a material impact on the 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 the Company has included required disclosures in these Notes to Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 is effective for periods ending after June 15, 2009. SFAS No. 165 and had no impact on our consolidated financial condition or results of operations. We evaluated subsequent events through August 7, 2009.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 establishes the FASB Accounting Standards Codification as the single source of authoritative accounting principles in the preparation of financial statements in conformity with GAAP. SFAS No. 168 explicitly recognizes rules and interpretive releases of the Securities and Exchange Commission (SEC) under federal securities laws as authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for periods ending after September 15, 2009 and we do not expect the adoption to have a material impact, if any, on our consolidated financial condition and results of operations.

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.

Pro forma financial information

Net income for the three and six months ended June 30, 2009, presented in 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 periods:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	(in thousands, except per share data)	
Net premiums earned	$ 123,201	$ 251,998
Net income	28,897	58,172
Earnings per common share basic	0.58	1.17
Earnings per common share diluted	0.58	1.17

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 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 June 30, 2009, the Company incurred integration and restructuring charges of $0.5 million. During the six months ended June 30, 2009, the Company incurred integration and restructuring charges of $4.3 million, including $2.7 million in personnel-related termination costs. These charges are included in underwriting and other operating expense in the consolidated statements of income. As of June 30, 2009, the Company had $1.0 million accrued for future restructuring costs that is included in accounts payable and accrued expenses on the accompanying consolidated balance sheet.

4. Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
At June 30, 2009				
Fixed maturity securities				
U.S. Treasuries	$ 146,370	$ 8,120	$ (170)	$ 154,320
U.S. Agencies	136,132	7,874		144,006
States and municipalities	993,876	33,332	(7,394)	1,019,814
Corporate	297,248	16,410	(3,378)	310,280
Residential mortgaged-backed securities	295,381	14,323	(1,347)	308,357
Commercial mortgaged-backed securities	37,171	39	(2,229)	34,981
Asset-backed securities	17,369	561	(61)	17,869
Total fixed maturity securities	1,923,547	80,659	(14,579)	1,989,627
Short-term investments	8,449	113		8,562
Total fixed maturity and short-term investments	1,931,996	80,772	(14,579)	1,998,189
Equity securities				
Consumer goods	12,117	5,511	(121)	17,507
Energy and utilities	4,931	4,317		9,248
Financial	6,342	1,655	(145)	7,852
Technology and communications	10,028	5,453	(140)	15,341
Industrial and other	7,689	3,540	(372)	10,857
Total equity securities	41,107	20,476	(778)	60,805

Total investments	$ 1,973,103	$ 101,248	$ (15,357)	$ 2,058,994

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
At December 31, 2008				
Fixed maturity securities				
U.S. Treasuries	$ 142,942	$ 18,344	$	$ 161,286
U.S. Agencies	125,302	10,566		135,868
States and municipalities	975,387	21,654	(18,828)	978,213
Corporate	248,002	7,716	(5,570)	250,148
Residential mortgage-backed securities	318,512	12,937	(2,002)	329,447
Commercial mortgage-backed securities	42,384	2	(4,797)	37,589
Asset-backed securities	17,698		(858)	16,840
Total fixed maturity securities	1,870,227	71,219	(32,055)	1,909,391
Short-term investments	74,952	306	(234)	75,024
Total fixed maturity and short-term investments	1,945,179	71,525	(32,289)	1,984,415
Equity securities				
Consumer goods	12,620	4,642	(333)	16,929
Energy and utilities	4,947	4,967	(12)	9,902
Financial	7,082	993	(243)	7,832
Technology and communications	10,268	2,765	(226)	12,807
Industrial and other	8,097	3,165	(206)	11,056
Total equity securities	43,014	16,532	(1,020)	58,526
Total investments	$ 1,988,193	$ 88,057	$ (33,309)	$ 2,042,941

The amortized cost and estimated fair value of fixed maturity securities and short-term investments at June 30, 2009, by contractual maturity are shown below. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 98,883	$ 100,384
Due after one year through five years	500,452	526,063
Due after five years through ten years	523,926	546,664
Due after ten years	458,814	463,871
Mortgage and asset-backed securities	349,921	361,207
Total	$ 1,931,996	$ 1,998,189

The following is a summary of investments with unrealized losses and their corresponding fair values at June 30, 2009 and December 31, 2008:

	Less than 12 Months					
	June 30, 2009			December 31, 2008		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
	(in thousands, except number of securities data)					
Fixed maturity securities						
U.S. Treasuries	$ 5,607	$ (170)	3	$	$	
States and municipalities	169,271	(3,245)	48	271,731	(11,206)	88
Corporate	16,656	(641)	14	79,397	(4,215)	90
Residential mortgage-backed	3,975	(15)	3	3,790	(1,711)	14
Commercial mortgage-backed securities				13,854	(1,875)	6
Asset-backed securities				14,741	(456)	5
Total fixed maturity securities	195,509	(4,071)	68	383,513	(19,463)	203
Short-term investments				16,887	(234)	8
Total fixed maturity and short-term investments	195,509	(4,071)	68	400,400	(19,697)	211
Equity securities						
Consumer goods	1,004	(121)	10	2,647	(333)	19
Energy and utilities				46	(12)	2
Financial	1,512	(145)	10	1,970	(243)	15
Technology and communications	1,728	(134)	18	2,118	(226)	17
Industrial and other	1,036	(372)	4	975	(206)	12
Total equity securities	5,280	(772)	42	7,756	(1,020)	65
Total investments	$ 200,789	$ (4,843)	110	$ 408,156	$ (20,717)	276

	12 Months or Greater					
	June 30, 2009			December 31, 2008		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
	(in thousands, except number of securities data)					
Fixed maturity securities						
U.S. Treasuries	$	$		$	$	
States and municipalities	67,357	(4,149)	21	78,811	(7,622)	22
Corporate	28,898	(2,737)	32	6,835	(1,355)	12
Residential mortgage-backed	4,321	(1,332)	4	2,511	(291)	12
Commercial mortgage-backed securities	32,946	(2,229)	13	23,588	(2,922)	9
Asset-backed securities	2,439	(61)	2	2,098	(402)	2
Total fixed maturity securities	135,961	(10,508)	72	113,843	(12,592)	57
Short-term investments						
Total fixed maturity and short-term investments	135,961	(10,508)	72	113,843	(12,592)	57
Equity securities						
Consumer						
Energy and utilities						
Financial						
Technology and communications	42	(6)	1			
Industrial and other						
Total equity securities	42	(6)	1			
Total investments	$ 136,003	$ (10,514)	73	$ 113,843	$ (12,592)	57

	Total					
	June 30, 2009			December 31, 2008		
	Estimated Fair Value	Gross Unrealized Losses	Number of Securities	Estimated Fair Value	Gross Unrealized Losses	Number of Securities
	(in thousands, except number of securities data)					
Fixed maturity securities						
U.S. Treasuries	$ 5,607	$ (170)	3	$	$	
States and municipalities	236,628	(7,394)	69	350,542	(18,828)	110
Corporate	45,554	(3,378)	46	86,232	(5,570)	102
Residential mortgage-backed	8,296	(1,347)	7	6,301	(2,002)	26
Commercial mortgaged-backed securities	32,946	(2,229)	13	37,442	(4,797)	15
Asset-backed securities	2,439	(61)	2	16,839	(858)	7
Total fixed maturity securities	331,470	(14,579)	140	497,356	(32,055)	260
Short-term investments				16,887	(234)	8
Total fixed maturity and short-term investments	331,470	(14,579)	140	514,243	(32,289)	268

Equity securities						
Consumer	1,004	(121)	10	2,647	(333)	19
Energy and utilities				46	(12)	2
Financial	1,512	(145)	10	1,970	(243)	15
Technology and communications	1,770	(140)	19	2,118	(226)	17
Industrial and other	1,036	(372)	4	975	(206)	12
Total equity securities	5,322	(778)	43	7,756	(1,020)	65
Total investments	$ 336,792	$ (15,357)	183	$ 521,999	$ (33,309)	333

For the period ended June 30, 2009, the Company adopted FSP FAS 115-2, which changed the accounting for OTTI on debt securities (Note 1). 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 for debt securities still held as of April 1, 2009, of which management did not have the intent to sell. The Company did not have any cumulative effect adjustment for previous OTTI recognized.

During the three and six months ended June 30, 2009 and 2008, based on reviews of the fixed maturity securities included in the tables above, the Company determined that the unrealized losses were primarily a result of the changes in the prevailing interest rates and not the credit quality of the issuers. The remaining fixed maturity securities, including those held at December 31, 2008, whose fair value was less than amortized cost were not determined to be other-than-temporarily impaired given the severity and duration of the impairment, the credit quality of the issuers, the Company s intent on not selling the securities and it is not more likely than not that the Company will be required to sell the securities until fair value recovers above cost, or to maturity.

During the three and six months ended June 30, 2009, based on reviews of the equity securities included in the tables above, the Company recognized impairments of $0.1 million and $1.9 million in the fair values of two and 26 securities, respectively, as a result of the severity and duration of the change in fair value of those securities. For its other equity securities, the Company determined that the unrealized losses were not determined to be other-than-temporary due to the financial condition and near term prospects of the issuers. During the three and six months ended June 30, 2008, based on review of the equity securities, the Company recognized impairments of $0.2 million and $1.7 million in the fair values of four and 19 securities, respectively, as a result of the severity and duration of the change in fair value of those securities. For its other equity securities, the Company determined that the unrealized losses were not considered to be other-than-temporary due to the financial condition and near term prospects of the issuers.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
	(in thousands)			
Net realized losses				
Fixed maturity securities	$ (263)	$ (19)	$ (422)	$ (15)
Equity securities	(129)	(200)	(1,908)	(1,692)
Short-term investments			(174)	
Total	(392)	(219)	(2,504)	(1,707)
Change in fair value over cost or amortized cost				
Fixed maturity securities	5,153	(24,003)	26,916	(21,657)
Equity securities	8,105	(2,587)	4,186	(13,215)
Short-term investments	(120)	(71)	41	(71)
Total	$ 13,138	$ (26,661)	$ 31,143	$ (34,943)

Net investment income was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
	(in thousands)			
Fixed maturity securities	$ 22,901	$ 17,513	$ 45,348	$ 35,102

Equity securities	354	482	727	947
Short-term investments and cash equivalents	512	1,099	1,605	2,507
	23,767	19,094	47,680	38,556
Investment expenses	(703)	(556)	(1,310)	(1,115)
Net investment income	$ 23,064	$ 18,538	$ 46,370	$ 37,441

The Company is required by various state laws and regulations to keep securities or letters of credit on deposit with the states in a depository account. At June 30, 2009 and 2008, securities having a fair value of $589.8 million and $527.3 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 June 30, 2009 and 2008, were $6.2 million and $5.0 million, respectively.

5. Fair Value of Financial Instruments

For the period ended June 30, 2009, the Company adopted FSP FAS 157-4 and FSP FAS 107-1, which require additional interim disclosures of the inputs and valuation techniques used to measure fair value (Note 1).

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

The estimated fair values of the Company s financial instruments, excluding trade payables and receivables, at June 30, 2009, are as follows:

	Carrying Value	Estimated Fair Value
	(in thousands)	
Financial assets		
Investments (Note 4)	$ 2,058,994	$ 2,058,994
Cash and cash equivalents	217,031	217,031
Financial liabilities		
Notes payable (Note 9)	182,000	182,000
Derivative (Note 10)	2,724	2,724

Other financial instruments qualify as insurance-related products and are specifically exempted from fair value disclosure requirements.

As of December 31, 2008, the carrying value of cash and cash equivalents, notes payable, the derivative and investments equaled the estimated fair value on the accompanying consolidated balance sheet. The Company s estimates of fair value for financial assets and financial liabilities are based on the framework established in SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the SFAS No. 157 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company s significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company s own assumptions about the assumptions that market participants would use.

The following methods were used by the Company in estimating the fair value disclosures for financial investments in the accompanying consolidated financial statements and in these notes:

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

Notes payable. The Company s notes payable is composed of floating rate long-term debt. Accordingly, the carrying amount is estimated to approximate fair value.

Derivative. The fair value of the Company s interest rate swap is derived by using an industry standard swap valuation model, with market-based inputs for swaps having similar characteristics (Note 10).

Investments. For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. When quoted market prices are unavailable, the Company estimates fair value based on objectively verifiable information, if available. The fair value estimates determined by using objectively verifiable information are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate determined by using objectively verifiable information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm s length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

Equity securities. The Company utilizes market quotations for equity securities that have quoted prices in active markets.

Fixed maturity securities and short-term investments. The Company s estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce an estimate of fair value using some of the same methodologies, but would have to make assumptions for market based inputs that are unavailable due to market conditions.

Because the fair value estimates of most fixed maturity securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed maturity securities and short term investments are based on estimates using objectively verifiable information 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 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 June 30, 2009:

	Level 1	Level 2	Level 3
		(in thousands)	
Fixed maturity securities			
U.S. Treasuries	$	$ 154,320	$
U.S. Agencies		144,006	
States and municipalities		1,018,686	1,128
Corporate		310,280	
Residential mortgage-backed securities		308,280	77
Commercial mortgage-backed securities		34,981	
Asset-backed securities		12,569	5,300
Total fixed maturity securities		1,983,122	6,505
Short-term investments		8,562	
Total fixed maturity securities and short-term investments		1,991,684	6,505
Equity securities			
Consumer goods	17,507		
Energy and utilities	9,248		
Financial	7,852		
Technology and communications	15,341		
Industrial and other	10,857		
Total equity securities	$ 60,805	$	$
Derivative			
Other liabilities		(2,724)	

The following table provides a reconciliation of the beginning and ending balances that are measured using Level 3 inputs for the six months ended June 30, 2009:

	Residential Mortgage-backed Securities	Asset-backed Securities	States and Municipalities
		(in thousands)	
Balance, January 1, 2009	$ 80	$ 4,900	$
Transfers in and out of Level 3			1,153
Unrealized losses in other comprehensive income	3	400	(25)
Purchase, settlements and issuances, net	(6)		
Balance, June 30, 2009	$ 77	$ 5,300	$ 1,128

6. Income Taxes

Income tax expense for interim periods is measured using an estimated effective tax rate for the annual period. During the six months ended June 30, 2009, the Company recognized net income before taxes of $43.3 million and income tax expense of $2.1 million primarily due to anticipated annualized non-taxable investment income.

7. 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 six months ended:

	June 30,	
	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	151,142	92,437
Prior periods	(29,171)	(28,322)
Total net losses and LAE incurred during the period	121,971	64,115
Deduct payments for losses and LAE, net of reinsurance, related to:		
Current period	24,867	12,629
Prior periods	114,655	69,248
Total net payments for losses and LAE during the period	139,522	81,877
Ending unpaid losses and LAE, net of reinsurance	1,412,577	1,199,307
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	1,057,870	1,031,940
Unpaid losses and LAE, gross of reinsurance, at end of period	$ 2,470,447	$ 2,231,247

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) and any adjustment to the LPT Agreement ceded reserves (Note 8).

The reduction in the liability for unpaid losses and LAE attributable to insured events of prior periods was $29.2 million and $28.3 million for the six months ended June 30, 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.

8. 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 $8.7 million of the Deferred Gain for the three and six months ended June 30, 2009, respectively, and $4.6 million and $9.4 million of the Deferred Gain for the three and six months ended June 30, 2008, respectively, which is reflected in losses and LAE incurred in the accompanying consolidated statements of income. Any adjustments to the Deferred Gain, as a result of adjustments to the LPT Agreement ceded reserves, are also 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 $397.9 million and $406.6 million as of June 30, 2009 and December 31, 2008, respectively, which is included in the accompanying consolidated balance sheets as deferred reinsurance gain LPT Agreement.

9. Notes Payable

Notes payable is comprised of the following as of June 30, 2009 and December 31, 2008 (in thousands):

Amended Credit Facility, due March 26, 2011 with variable interest as described below	$ 150,000
Acquired notes payable	
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
Balance, June 30, 2009 and December 31, 2008	$ 182,000

The Company had no outstanding debt during the six months ended June 30, 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 June 30, 2009 was 0.31% and interest paid during the six months ended June 30, 2009, including the interest rate swap (Note 10), totaled $2.9 million. The Amended Credit Facility is secured by fixed maturity securities, which had a fair value of $201.0 million at June 30, 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 became callable by the Company in the second quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 425 basis points in excess of the 90-day LIBOR. Both the payment of interest and repayment of the principal under this note, 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 and six months ended June 30, 2009 totaled $0.1 million and $0.3 million, respectively.

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 became callable by the Company in the second quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 425 basis points in excess of the 90-day LIBOR. Interest paid during the three and six months ended June 30, 2009 totaled $0.2 million and $0.4 million, respectively.

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 becomes callable by the Company in the fourth quarter of 2009. The terms of the note provide for quarterly interest payments at a rate 405 bas