

Employers Holdings, Inc.
Form 10-Q
May 06, 2010

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, 2010

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

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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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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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, 2010
Common Stock, \$0.01 par value per share	42,725,526 shares outstanding

TABLE OF CONTENTS

	Page No.
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1</u>	
<u>Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2010 (Unaudited) and December 31, 2009</u>	3
<u>Unaudited Consolidated Statements of Income for the Three Months Ended March 31, 2010 and 2009</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009</u>	5
<u>Unaudited Notes to Consolidated Financial Statements</u>	6
<u>Management’s Discussion and Analysis of Consolidated Financial Condition and</u>	
<u>Item 2</u>	15
<u>Results of Operations</u>	
<u>Item 3</u>	29
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 4</u>	29
<u>Controls and Procedures</u>	
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1</u>	30
<u>Legal Proceedings</u>	
<u>Item 1A</u>	30
<u>Risk Factors</u>	
<u>Item 2</u>	30
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3</u>	30
<u>Defaults Upon Senior Securities</u>	
<u>Item 4</u>	30
<u>(Removed and Reserved)</u>	
<u>Item 5</u>	30
<u>Other Information</u>	
<u>Item 6</u>	31
<u>Exhibits</u>	

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except share data)

	As of March 31, 2010 (unaudited)	As of December 31, 2009
Assets		
Available for sale:		
Fixed maturity securities at fair value (amortized cost \$1,852,723 at March 31, 2010 and \$1,859,074 at December 31, 2009)	\$ 1,955,110	\$ 1,960,292
Equity securities at fair value (cost \$40,103 at March 31, 2010 and \$39,936 at December 31, 2009)	72,314	69,268
Total investments	2,027,424	2,029,560
Cash and cash equivalents	190,323	191,572
Accrued investment income	21,527	23,055
Premiums receivable, less bad debt allowance of \$10,310 at March 31, 2010 and \$9,879 at December 31, 2009	113,531	119,976
Reinsurance recoverable for:		
Paid losses	12,546	13,673
Unpaid losses, less allowance of \$1,269 at March 31, 2010 and \$1,335 at December 31, 2009	1,042,359	1,051,170
Funds held by or deposited with reinsureds	81,034	82,339
Deferred policy acquisition costs	33,606	33,695
Federal income taxes recoverable	10,419	4,092
Deferred income taxes, net	36,386	43,502
Property and equipment, net	13,660	13,059
Intangible assets, net	14,784	15,442
Goodwill	36,192	36,192
Other assets	17,758	19,326
Total assets	\$ 3,651,549	\$ 3,676,653
Liabilities and stockholders' equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	\$ 2,393,927	\$ 2,425,658
Unearned premiums	158,889	158,577
Policyholders' dividends accrued	8,387	7,958
Total claims and policy liabilities	2,561,203	2,592,193
Commissions and premium taxes payable	21,110	20,763
Accounts payable and accrued expenses	18,831	19,033
Deferred reinsurance gain—LPT Agreement	384,224	388,574

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Notes payable	132,000	132,000
Other liabilities	25,005	25,691
Total liabilities	\$ 3,142,373	\$ 3,178,254
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 150,000,000 shares authorized; 53,700,379 and 53,563,299 shares issued and 42,725,526 and 42,908,165 shares outstanding at March 31, 2010, and December 31, 2009, respectively		
	537	536
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	311,278	311,282
Retained earnings	280,030	266,491
Accumulated other comprehensive income, net	85,434	83,812
Treasury stock, at cost (10,974,853 shares at March 31, 2010 and 10,655,134 shares at December 31, 2009)	(168,103)	(163,722)
Total stockholders' equity	509,176	498,399
Total liabilities and stockholders' equity	\$3,651,549	\$3,676,653

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

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

	Three Months Ended March 31,	
	2010	2009
	(unaudited)	
Revenues		
Net premiums earned	\$79,291	\$111,600
Net investment income	21,255	23,306
Realized gains (losses) on investments, net	540	(2,112)
Other income	—	146
Total revenues	101,086	132,940
Expenses		
Losses and loss adjustment expenses	40,288	59,162
Commission expense	9,905	13,658
Dividends to policyholders	1,479	2,018
Underwriting and other operating expenses	32,267	36,484
Interest expense	1,580	1,959
Total expenses	85,519	113,281
Net income before income taxes	15,567	19,659
Income tax (benefit)	(530)	(1,196)
Net income	\$16,097	\$20,855
Earnings per common share (Note 10):		
Basic	\$0.38	\$0.43
Diluted	\$0.38	\$0.43
Cash dividends declared per common share	\$0.06	\$0.06
Net realized gains (losses) on investments		
Net realized gains (losses) on investments before credit related impairments on fixed maturity securities	\$540	\$(319)
Total other-than-temporary impairments on securities	—	(1,793)
Portion of impairment recognized in other comprehensive income	—	—
Credit related impairments included in net realized gains or losses on investments	—	(1,793)
Net realized gains (losses) on investments, net	\$540	\$(2,112)

See accompanying unaudited notes to the consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(in thousands)

	2010	Three Months Ended March 31, (unaudited)	2009
Operating activities			
Net income	\$ 16,097		\$ 20,855
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,982		3,006
Stock-based compensation	865		821
Amortization of premium on investments, net	1,413		1,218
Allowance for doubtful accounts	365		695
Deferred income tax expense	4,070		4,355
Realized (gains) losses on investments, net	(540)		2,112
Realized losses on retirement of assets	63		26
Change in operating assets and liabilities:			
Accrued investment income	1,528		1,534
Premiums receivable	6,014		(12,694)
Reinsurance recoverable on paid and unpaid losses	10,004		10,891
Funds held by or deposited with reinsureds	1,305		1,076
Federal income taxes	(6,327)		1,370
Unpaid losses and loss adjustment expenses	(31,731)		(11,924)
Unearned premiums	312		10,832
Accounts payable, accrued expenses and other liabilities	(1,468)		(6,421)
Deferred reinsurance gain – LPT Agreement	(4,350)		(4,348)
Other	2,515		7,372
Net cash provided by operating activities	2,117		30,776
Investing activities			
Purchase of fixed maturities	(36,433)		(110,512)
Purchase of equity securities	(455)		(150)
Proceeds from sale of fixed maturities	21,171		21,890
Proceeds from sale of equity securities	568		3,276
Proceeds from maturities and redemptions of investments	20,354		59,883
Cash paid for acquisition, net of cash and cash equivalents acquired	—		(100)
Capital expenditures and other, net	(764)		(1,261)
Net cash provided by (used in) investing activities	4,441		(26,974)
Financing activities			
Acquisition of treasury stock	(4,381)		(13,355)
	(871)		—

Cash transactions related to stock-based compensation			
Dividends paid to stockholders	(2,555)		(2,909)
Net cash used in financing activities	(7,807)		(16,264)
Net decrease in cash and cash equivalents	(1,249)		(12,462)
Cash and cash equivalents at the beginning of the period		191,572	202,893
Cash and cash equivalents at the end of the period	\$	190,323	\$ 190,431

See accompanying unaudited notes to consolidated financial statements.

Employers Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Employers Holdings, Inc. (EHI) is a holding company and through its four wholly-owned insurance subsidiaries, Employers Insurance Company of Nevada (EICN), Employers Compensation Insurance Company (ECIC), Employers Preferred Insurance Company (EPIC), and Employers Assurance Company (EAC), 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 2009 Annual Report on Form 10-K for the year ended December 31, 2009.

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 goodwill and investments.

Reclassifications

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

2. New Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Update Number 2010-06, Improving Disclosures about Fair Value Measurements to Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures. The update changes fair value disclosures by requiring: (a) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers; and (b) separate information about purchases, sales, issuances, and settlements of Level 3 fair value measurements. The update clarifies existing disclosures by requiring: (a) fair value measurement disclosures for each class of assets and liabilities; and (b) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. As required, the Company plans to present the disclosures regarding the purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements for fiscal periods beginning after December 15, 2010. The Company adopted the standard that required disclosures for fiscal periods beginning after December 15, 2009 (Note 4). The adoption of these requirements did not have a material impact to the consolidated financial statements.

3. 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 March 31, 2010				
Fixed maturity securities				
U.S. Treasuries	\$134,007	\$6,452	\$(115)	\$140,344
U.S. Agencies	116,830	6,976	—	123,806
States and municipalities	976,487	48,119	(1,750)	1,022,856
Corporate	335,075	24,395	(255)	359,215
Residential mortgaged-backed securities	249,126	17,191	(605)	265,712
Commercial mortgaged-backed securities	28,749	1,103	—	29,852
Asset-backed securities	12,449	876	—	13,325
Total fixed maturity securities	1,852,723	105,112	(2,725)	1,955,110
Equity securities				
Consumer goods	14,421	9,121	(4)	23,538
Energy and utilities	4,715	4,884	—	9,599
Financial	6,868	3,619	(5)	10,482
Technology and communications	7,929	8,130	(26)	16,033
Industrial and other	6,170	6,492	—	12,662
Total equity securities	40,103	32,246	(35)	72,314
Total investments	\$1,892,826	\$137,358	\$(2,760)	\$2,027,424

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
At December 31, 2009				
Fixed maturity securities				
U.S. Treasuries	\$140,269	\$6,366	\$(171)	\$146,464
U.S. Agencies	117,844	7,125	—	124,969
States and municipalities	979,364	50,600	(1,687)	1,028,277
Corporate	314,692	23,335	(417)	337,610
Residential mortgaged-backed securities	265,056	15,697	(790)	279,963
Commercial mortgaged-backed securities	29,407	391	(24)	29,774
Asset-backed securities	12,442	793	—	13,235
Total fixed maturity securities	1,859,074	104,307	(3,089)	1,960,292
Equity securities				
Consumer goods	14,421	8,069	(6)	22,484

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Energy and utilities	4,715	5,067	—	9,782
Financial	6,613	2,861	(74)	9,400
Technology and communications	7,930	7,686	(15)	15,601
Industrial and other	6,257	5,758	(14)	12,001
Total equity securities	39,936	29,441	(109)	69,268
Total investments	\$1,899,010	\$133,748	\$(3,198)	\$2,029,560

7

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The amortized cost and estimated fair value of fixed maturity securities and short-term investments at March 31, 2010, 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	\$ 148,337	\$ 151,418
Due after one year through five years	478,983	509,849
Due after five years through ten years	540,583	575,274
Due after ten years	394,496	409,680
Mortgage and asset-backed securities	290,324	308,889
Total	\$ 1,852,723	\$ 1,955,110

The following is a summary of investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or greater as of March 31, 2010 and December 31, 2009.

	March 31, 2010					
	Less Than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Estimated Unrealized Losses
	(in thousands)					
Fixed maturity securities						
U.S. Treasuries	\$9,087	\$(115)	\$—	\$—	\$9,087	\$(115)
States and municipalities	47,431	(1,068)	11,281	(682)	58,712	(1,750)
Corporate	40,752	(204)	3,582	(51)	44,334	(255)
Residential mortgaged-backed securities	—	—	3,936	(605)	3,936	(605)
Total fixed maturity securities	97,270	(1,387)	\$18,799	(1,338)	116,069	(2,725)
Equity securities						
Consumer goods	225	(4)	—	—	225	(4)
Financial	140	(5)	—	—	140	(5)
Technology and communications	246	(26)	—	—	246	(26)
Total equity securities	611	(35)	—	—	611	(35)
Total investments	\$97,881	\$(1,422)	\$18,799	\$(1,338)	\$116,680	\$(2,760)

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	Less Than 12 Months		December 31, 2009 12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Estimated Unrealized Losses
	(in thousands)					
Fixed maturity securities						
U.S. Treasuries	\$10,922	\$(171)	\$—	\$—	\$10,922	\$(171)
States and municipalities	45,939	(889)	15,715	(798)	61,654	(1,687)
Corporate	21,238	(312)	5,506	(105)	26,744	(417)
Residential mortgaged-backed securities	28	—	4,164	(790)	4,192	(790)
Commercial mortgage-backed securities	1,998	(24)	—	—	1,998	(24)
Total fixed maturity securities	80,125	(1,396)	25,385	(1,693)	105,510	(3,089)
Equity securities						
Consumer goods	79	(6)	—	—	79	(6)
Financial	1,271	(74)	—	—	1,271	(74)
Technology and communications	270	(15)	—	—	270	(15)
Industrial and other	214	(14)	—	—	214	