

Edgar Filing: Employers Holdings, Inc. - Form 10-Q

Employers Holdings, Inc.
Form 10-Q
August 08, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

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 R 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 R 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 the Exchange Act. (Check one):

Large accelerated filer R 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 R

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Class

July 31, 2012

Common Stock, \$0.01 par value per share

30,811,413 shares outstanding

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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Employers Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)

	As of June 30, 2012 (unaudited)	As of December 31, 2011
Assets		
Available for sale:		
Fixed maturity securities at fair value (amortized cost \$1,742,607 at June 30, 2012 and \$1,706,216 at December 31, 2011)	\$1,892,648	\$1,852,699
Equity securities at fair value (cost \$80,247 at June 30, 2012 and \$64,962 at December 31, 2011)	122,262	98,046
Total investments	2,014,910	1,950,745
Cash and cash equivalents	208,791	252,300
Restricted cash and cash equivalents	7,141	6,299
Accrued investment income	19,331	19,537
Premiums receivable (less bad debt allowance of \$6,046 at June 30, 2012 and \$5,546 at December 31, 2011)	216,719	160,443
Reinsurance recoverable for:		
Paid losses	9,654	10,729
Unpaid losses	920,047	940,840
Funds held by or deposited with reinsureds	3,395	1,102
Deferred policy acquisition costs	40,742	37,524
Federal income taxes recoverable	1,117	1,993
Deferred income taxes, net	25,443	22,140
Property and equipment, net	12,099	11,360
Intangible assets, net	11,122	11,728
Goodwill	36,192	36,192
Other assets	13,576	18,812
Total assets	\$3,540,279	\$3,481,744
Liabilities and stockholders' equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	\$2,281,789	\$2,272,363
Unearned premiums	257,779	194,933
Policyholders' dividends accrued	3,096	3,838
Total claims and policy liabilities	2,542,664	2,471,134
Commissions and premium taxes payable	35,523	28,905
Accounts payable and accrued expenses	14,845	14,994
Deferred reinsurance gain—LPT Agreement	345,210	353,194
Notes payable	122,000	122,000
Other liabilities	25,386	17,331
Total liabilities	3,085,628	3,007,558
Commitments and contingencies		
Stockholders' equity:		

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Common stock, \$0.01 par value; 150,000,000 shares authorized; 54,069,136 and 53,948,442 shares issued and 30,947,550 and 32,996,809 shares outstanding at June 30, 2012 and December 31, 2011, respectively	541	540
Preferred stock, \$0.01 par value; 25,000,000 shares authorized; none issued	—	—
Additional paid-in capital	321,262	318,989
Retained earnings	366,089	358,693
Accumulated other comprehensive income, net	124,836	116,719
Treasury stock, at cost (23,121,586 shares at June 30, 2012 and 20,951,633 shares at December 31, 2011)	(358,077) (320,755)
Total stockholders' equity	454,651	474,186
Total liabilities and stockholders' equity	\$3,540,279	\$3,481,744

See accompanying unaudited notes to the consolidated financial statements.

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Employers Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	(unaudited)		(unaudited)	
Net premiums earned	\$118,955	\$88,128	\$228,855	\$170,555
Net investment income	18,297	20,306	36,682	40,799
Realized gains on investments, net	945	1,102	2,723	1,336
Other income	114	3	195	123
Total revenues	138,311	109,539	268,455	212,813
Expenses				
Losses and loss adjustment expenses	88,293	64,150	169,216	123,571
Commission expense	16,147	11,119	29,676	21,400
Policyholder dividends	803	914	1,650	1,926
Underwriting and other operating expenses	29,513	26,200	61,655	51,878
Interest expense	858	908	1,760	1,825
Total expenses	135,614	103,291	263,957	200,600
Net income before income taxes	2,697	6,248	4,498	12,213
Income tax benefit	(2,309)	(2,003)	(6,730)	(4,383)
Net income	\$5,006	\$8,251	\$11,228	\$16,596
Comprehensive income				
Unrealized gains during the period (net of taxes of \$2,070 and \$10,794 for the three months ended June 30, 2012 and 2011, respectively, and \$5,324 and \$9,264 for the six months ended June 30, 2012 and 2011, respectively)	\$3,844	\$18,866	\$9,888	\$16,022
Less: reclassification adjustment for realized gains in net income (net of taxes of \$331 and \$386 for the three months ended June 30, 2012 and 2011, respectively, and \$952 and \$468 for the six months ended June 30, 2012 and 2011, respectively)	614	716	1,771	868
Other comprehensive income, net of tax	3,230	18,150	8,117	15,154
Total comprehensive income	\$8,236	\$26,401	\$19,345	\$31,750
Earnings per common share (Note 10):				
Basic	\$0.16	\$0.21	\$0.35	\$0.43
Diluted	\$0.16	\$0.21	\$0.35	\$0.43
Cash dividends declared per common share	\$0.06	\$0.06	\$0.12	\$0.12
Realized gains on investments, net				
Net realized gains on investments before credit related impairments on fixed maturity securities	\$1,005	\$1,102	\$3,252	\$1,336
Other than temporary impairment, credit losses recognized in earnings	(60)	—	(529)	—

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Portion of impairment recognized in other comprehensive income	—	—	—	—
Realized gains on investments, net	\$945	\$1,102	\$2,723	\$1,336

See accompanying unaudited notes to the consolidated financial statements.

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Employers Holdings, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows
 (in thousands)

	Six Months Ended	
	June 30,	
	2012	2011
	(unaudited)	
Operating activities		
Net income	\$11,228	\$16,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,787	3,387
Stock-based compensation	2,542	1,756
Amortization of premium on investments, net	3,400	3,937
Allowance for doubtful accounts	500	(870)
Deferred income tax expense	(7,675)	(2,186)
Realized gains on investments, net	(2,723)	(1,336)
Realized losses on retirement of assets	334	121
Change in operating assets and liabilities:		
Accrued investment income	206	1,066
Premiums receivable	(56,776)	(38,942)
Reinsurance recoverable for paid and unpaid losses	21,868	23,084
Funds held by or deposited with reinsureds	(2,293)	1,155
Federal income taxes recoverable	876	(2,344)
Unpaid losses and loss adjustment expenses	9,426	(24,198)
Unearned premiums	62,846	35,561
Accounts payable, accrued expenses and other liabilities	7,906	2,377