

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

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Date of report (Date of earliest event reported): August 7, 2013

**EMPLOYERS HOLDINGS, INC.**  
(Exact Name of Registrant as Specified in its Charter)

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**NEVADA**  
(State or Other Jurisdiction of  
Incorporation)

**001-33245**  
(Commission  
File Number)

**04-3850065**  
(I.R.S. Employer  
Identification No.)

**10375 Professional Circle**  
**Reno, Nevada**  
(Address of Principal Executive Offices)

**89521**  
(Zip Code)

**Registrant's telephone number including area code: (888) 682-6671**

**No change since last report**  
(Former Name or Address, if Changed Since Last Report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## Section 2 – Financial Information

### Item 2.02. Results of Operations and Financial Condition.

On August 7, 2013, Employers Holdings, Inc. (the “Company”) issued a press release announcing results for the second quarter ended June 30, 2013. The press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference, and is being furnished, not filed, under Item 2.02 to this Current Report on Form 8-K.

## Section 8 – Other Information

### Item 8.01. Other Events.

On August 7, 2013, the Company announced that its Board of Directors declared a third quarter 2013 cash dividend of six cents per share on the Company’s common stock. The dividend is payable on September 4, 2013 to stockholders of record as of August 21, 2013.

## Section 9 – Financial Statements and Exhibits

### Item 9.01. Financial Statements and Exhibits.

99.1 Employers Holdings, Inc. press release, dated August 7, 2013.

## SIGNATURE

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 hereunto duly authorized.

EMPLOYERS HOLDINGS, INC.

Dated: August 7, 2013

/s/ Lenard T. Ormsby

\_\_\_\_\_  
Lenard T. Ormsby

Executive Vice President,

Chief Legal Officer and General Counsel

## Exhibit Index

| <u>Exhibit No.</u> | <u>Exhibit</u>  |
|--------------------|---|
| 99.1               | Employers Holdings, Inc. press release, dated August 7, 2013. |



news release

For Immediate Release

August 7, 2013

## Employers Holdings, Inc. Reports Second Quarter 2013 Earnings and Declares Third Quarter 2013 Dividend

### Key Highlights

*(Q2, 2013 compared to Q2, 2012 except where noted)*

- **Net income before the LPT of \$9.9 million; up \$0.29 per diluted share**
- **Overall net rate up 10.1%**
- **Net written premiums of \$187.0 million; up 24%**
- **Net earned premiums of \$160.0 million; up 34%**
- **Revenues of \$181.6 million; up 31%**
- **Combined ratio before the LPT improved 10.8 percentage points**

Reno, Nevada-August 7, 2013-Employers Holdings, Inc. ("EHI" or the "Company") (NYSE:EIG) today reported second quarter 2013 net income of \$14.6 million or \$0.46 per diluted share. Net income in the second quarter of 2012 was \$5.0 million or \$0.16 per diluted share.

Net income includes amortization of the deferred reinsurance gain related to the Loss Portfolio Transfer ("LPT") Agreement. Consolidated net income before the impact of the LPT deferred reinsurance gain (the Company's non-GAAP measure described below) was \$9.9 million or \$0.31 per diluted share in the second quarter of 2013 and \$0.7 million or \$0.02 per diluted share in the second quarter of 2012.

The second quarter 2013 combined ratio was 103.2% and 106.1% before the impact of the LPT deferred reinsurance gain, compared with 113.3% and 116.9% before the impact of the LPT deferred reinsurance gain for the second quarter of 2012. Year over year, the combined ratio improved 10.1 percentage points on a GAAP basis and 10.8 percentage points before the impact of the LPT.

Adjusted for the LPT, book value per share was \$25.68 at the end of the second quarter compared with \$26.66 at year-end 2012, a decline of \$0.98. Rising interest rates in the second quarter of 2013 resulted in decreased unrealized gains on fixed maturity investments reducing stockholders' equity. Approximately \$0.79 of the decline in adjusted book value per share was attributable to reduced stockholders' equity and the remaining \$0.19 of the change was attributable to an increase in shares outstanding as the result of routine exercises of employee equity awards. Under the Company's long-term incentive compensation plan, the first options granted are due to expire in 2014. The Company expects officers to be exercising options prior to their expiration in August of 2014.

President and Chief Executive Officer Douglas D. Dirks commented on the results: "We are pleased with the substantial improvements in financial and operating performance that we achieved in the second quarter of this year relative to last year. Net income before the LPT increased nearly \$10 million or \$0.29 per diluted share. Our underwriting, commission and loss expenses as a percentage of earned premium all improved relative to the second quarter of 2012, driving a significant improvement of nearly eleven points in our combined ratio before the LPT."

Dirks continued: "As expected, we lowered our provision rate for losses for the second time this year, by four points in the three months ended June 30 compared with the same period last year. Pricing improvement continued as the total change in net rate increased 10.1% year over year. As in the first quarter of this year, the net rate change at the end of the second quarter in our top five states, in terms of in-force premium, was positive relative to the end of last year's second quarter. The change in net rate in the second quarter was highest in Illinois at 17%, followed by California at 14% and Nevada at 13%."

Dirks concluded: "We believe that the pricing, targeted growth and cost containment initiatives we implemented in recent years will continue to be major drivers of our reported results throughout 2013."

### Third Quarter Dividend

The Board of Directors declared a third quarter 2013 dividend of six cents per share. The dividend is payable on September 4, 2013 to stockholders of record as of August 21, 2013.

### Conference Call and Web Cast; Form 10-Q; Supplemental Portfolio Listing

The Company will host a conference call on Thursday, August 8, 2013, at 8:30 a.m. Pacific Daylight Time. The conference call will be available via a live web cast on the Company's web site at [www.employers.com](http://www.employers.com). An archived version will be available several hours after the call. The conference call replay number is (888) 286-8010 with a pass code of 21661548. International callers may dial (617) 801-6888.

EHI expects to file its Form 10-Q for the quarter ended June 30, 2013, with the Securities and Exchange Commission ("SEC") on or about Thursday, August 8, 2013. The Form 10-Q will be available without charge through the EDGAR system at the SEC's web site and will also be posted on the Company's website, [www.employers.com](http://www.employers.com), through the "Investors" link.

The Company provides a list of portfolio securities by CUSIP in the Calendar of Events, Second Quarter "Investors" section of its web site at [www.employers.com](http://www.employers.com).

### Discussion of Non-GAAP Financial Measures

This earnings release includes non-GAAP financial measures used to analyze the Company's operating performance for the periods presented.

These non-GAAP financial measures exclude impacts related to the LPT Agreement deferred reinsurance gain. The 1999 LPT Agreement was a non-recurring transaction that does not result in ongoing cash benefits and, consequently, the Company believes these non-GAAP measures are useful in providing stockholders and management a meaningful understanding of the Company's operating performance. In addition, these measures, as defined, are helpful to management in identifying trends in the Company's performance because the items excluded have limited significance in current and ongoing operations.

The Company strongly urges stockholders and other interested persons not to rely on any single financial measure to evaluate its business. The non-GAAP measures are not a substitute for GAAP measures and investors should be careful when comparing the Company's non-GAAP financial measures to similarly titled measures used by other companies.

*Net Income before impact of the LPT Agreement.* Net income less (a) amortization of deferred reinsurance gain–LPT Agreement; (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to contingent commission receivable–LPT Agreement.

*Deferred reinsurance gain–LPT Agreement (Deferred Gain).* This reflects the unamortized gain from the LPT Agreement. Under GAAP, this gain is deferred and amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries, except for the contingent profit commission, which is amortized through June 30, 2024. The amortization is reflected in losses and LAE.

*Gross Premiums Written.* Gross premiums written is the sum of both direct premiums written and assumed premiums written before the effect of ceded reinsurance. Direct premiums written represents the premiums on all policies the Company's insurance subsidiaries have issued during the year. Assumed premiums written represents the premiums that the insurance subsidiaries have received from an authorized state-mandated pool.

*Net Premiums Written.* Net premiums written is the sum of direct premiums written and assumed premiums written less ceded premiums written. Ceded premiums written is the portion of direct premiums written that are ceded to reinsurers under reinsurance contracts. The Company uses net premiums written, primarily in relation to gross premiums written, to measure the amount of business retained after cession to reinsurers.

*Losses and LAE before impact of the LPT Agreement.* Losses and LAE less (a) amortization of Deferred Gain; (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to contingent commission receivable–LPT Agreement.

*Losses and LAE Ratio.* The losses and LAE ratio is a measure of underwriting profitability. Expressed as a percentage, it is the ratio of losses and LAE to net premiums earned.

*Commission Expense Ratio.* Commission expense ratio is the ratio (expressed as a percentage) of commission expense to net premiums earned.

*Underwriting and Other Operating Expense Ratio.* The underwriting and other operating expense ratio is the ratio (expressed as a percentage) of underwriting and other operating expense to net premiums earned.

*Combined Ratio.* The combined ratio represents a summary percentage of claims and expenses to net premiums earned. The combined ratio is the sum of the losses and LAE ratio, the commission expense ratio, and the underwriting and other operating expense ratio.

*Combined Ratio before impacts of the LPT Agreement.* Combined ratio before impacts of LPT is the GAAP combined ratio before (a) amortization of deferred reinsurance gain–LPT Agreement; (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to contingent commission receivable–LPT Agreement.

*Equity including Deferred Gain.* Equity including Deferred Gain is total equity plus the Deferred Gain.

*Book value per share.* Equity including Deferred Gain divided by number of shares outstanding.

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

#### Forward-Looking Statements

In this press release, the Company and its management discuss and make statements based on currently available information regarding their intentions, beliefs, current expectations, and projections regarding the Company's future operations, growth and pricing strategies, and financial and operating performance, as well as the impact of pricing improvements on the Company, expectations regarding provision rates for losses, drivers of combined ratio improvement, and the ongoing results, if any, of pricing, targeted growth, and cost containment initiatives implemented by the Company. Certain of these statements may constitute "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and are often identified by words such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "target," "project," "intend," "believe," "estimate," "predict," "potential," "pro forma," "seek," "likely," or "continue," or other comparable terminology and their negatives. EHI and its management caution investors that such forward-looking statements are not guarantees of future performance. Risks and uncertainties are inherent in EHI's future performance. Factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements include, among other things, those discussed or identified from time to time in EHI's public filings with the SEC, including the risks detailed in the Company's Quarterly Reports on Form 10-Q and the Company's Annual Reports on Form 10-K. Except as required by applicable securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

The SEC filings for EHI can be accessed through the "Investors" link on the Company's website, [www.employers.com](http://www.employers.com), or through the SEC's EDGAR Database at [www.sec.gov](http://www.sec.gov) (EHI EDGAR CIK No. 0001379041).

#### CONTACT:

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

|  | Three Months Ended |                 | Six Months Ended   |                  |
|--|--------------------|-----------------|--------------------|------------------|
|  | June 30,           |                 | June 30,           |                  |
| <i>(in thousands, except per share data)</i>   | 2013               | 2012            | 2013               | 2012             |
|  | (unaudited)        |                 | (unaudited)        |                  |
| <b>Revenues</b>  |                    |                 |                    |                  |
| Gross premiums written   | \$ 190,068         | \$ 153,094      | \$ 365,031         | \$ 295,888       |
| Net premiums written   | \$ 186,996         | \$ 150,364      | \$ 359,022         | \$ 290,728       |
| Net premiums earned  | \$ 159,953         | \$ 118,955      | \$ 307,928         | \$ 228,855       |
| Net investment income  | 17,645             | 18,297          | 35,050             | 36,682           |
| Realized gains on investments, net   | 3,866              | 945             | 4,660              | 2,723            |
| Other income   | 144                | 114             | 247                | 195              |
| <b>Total revenues</b>  | <b>181,608</b>     | <b>138,311</b>  | <b>347,885</b>     | <b>268,455</b>   |
| <b>Expenses</b>  |                    |                 |                    |                  |
| Losses and loss adjustment expenses  | 112,638            | 87,809          | 220,910            | 168,327          |
| Commission expense   | 20,127             | 16,621          | 38,520             | 30,437           |
| Underwriting and other operating expenses  | 32,249             | 30,316          | 63,789             | 63,305           |
| Interest expense   | 797                | 858             | 1,605              | 1,760            |
| <b>Total expenses</b>  | <b>165,811</b>     | <b>135,604</b>  | <b>324,824</b>     | <b>263,829</b>   |
| Net income before income taxes   | 15,797             | 2,707           | 23,061             | 4,626            |
| Income tax expense (benefit)   | 1,209              | (2,309)         | 983                | (6,730)          |
| <b>Net income</b>  | <b>\$ 14,588</b>   | <b>\$ 5,016</b> | <b>\$ 22,078</b>   | <b>\$ 11,356</b> |
| Less impact of LPT Agreement:  |                    |                 |                    |                  |
| Amortization of the Deferred Gain related to losses  | 3,275              | 3,828           | 6,580              | 7,984            |
| Amortization of the Deferred Gain related to contingent commission   | 406                | 256             | 788                | 525              |
| Impact of LPT Contingent Commission Adjustments  | 1,024              | 227             | 1,299              | 363              |
| <b>Net income before LPT Agreement</b>   | <b>\$ 9,883</b>    | <b>\$ 705</b>   | <b>\$ 13,411</b>   | <b>\$ 2,484</b>  |
| <b>Comprehensive income</b>  |                    |                 |                    |                  |
| Unrealized gains (losses) during the period (net of tax expense (benefit) of \$(20,886) and \$2,070 for the three months ended June 30, 2013 and 2012, respectively, and \$(20,870) and \$5,324 for the six months ended June 30, 2013 and 2012, respectively) | \$ (38,787)        | \$ 3,844        | \$ (38,761)        | \$ 9,888         |
| Reclassification adjustment for realized gains in net income (net of taxes of \$1,353 and \$331 for the three months ended June 30, 2013 and 2012, respectively, and \$1,631 and \$952 for the six months ended June 30, 2013 and 2012, respectively)          | (2,513)            | (614)           | (3,029)            | (1,771)          |
| <b>Other comprehensive income (loss), net of tax</b>   | <b>(41,300)</b>    | <b>3,230</b>    | <b>(41,790)</b>    | <b>8,117</b>     |
| <b>Total comprehensive income (loss)</b>   | <b>\$ (26,712)</b> | <b>\$ 8,246</b> | <b>\$ (19,712)</b> | <b>\$ 19,473</b> |
| <b>Weighted average shares outstanding</b>   |                    |                 |                    |                  |
| Basic  | 31,079,713         | 31,537,452      | 30,997,552         | 32,093,328       |
| Diluted  | 31,641,616         | 31,685,636      | 31,515,744         | 32,242,591       |
| <b>Earnings per common share</b>   |                    |                 |                    |                  |
| Basic  | \$ 0.47            | \$ 0.16         | \$ 0.71            | \$ 0.35          |
| Diluted  | 0.46               | 0.16            | 0.70               | 0.35             |
| <b>Earnings per common share attributable to the LPT Agreement</b>   |                    |                 |                    |                  |
| Basic  | \$ 0.15            | \$ 0.14         | \$ 0.28            | \$ 0.27          |
| Diluted  | 0.15               | 0.14            | 0.27               | 0.27             |
| <b>Earnings per common share before the LPT Agreement</b>  |                    |                 |                    |                  |
| Basic  | \$ 0.32            | \$ 0.02         | \$ 0.43            | \$ 0.08          |
| Diluted  | 0.31               | 0.02            | 0.43               | 0.08             |

**Employers Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

| <i>(in thousands, except share data)</i>   | <b>As of<br/>June 30,<br/>2013</b> | <b>As of<br/>December 31,<br/>2012</b> |
|--|------------------------------------|--|
|  | (unaudited)                        |  |
| <b>Assets</b>  |                                    |  |
| Available for sale:  |                                    |  |
| Fixed maturity securities at fair value (amortized cost \$1,989,823 at June 30, 2013 and \$1,869,142 at December 31, 2012)   | \$ 2,070,027                       | \$ 2,024,428                           |
| Equity securities at fair value (cost \$85,559 at June 30, 2013 and \$81,067 at December 31, 2012)   | 140,369                            | 125,086                                |
| Total investments  | 2,210,396                          | 2,149,514                              |
| Cash and cash equivalents  | 97,060                             | 140,661                                |
| Restricted cash and cash equivalents   | 4,602                              | 5,353                                  |
| Accrued investment income  | 19,786                             | 19,356                                 |
| Premiums receivable (less bad debt allowance of \$6,730 at June 30, 2013 and \$5,957 at December 31, 2012)   | 285,329                            | 223,011                                |
| Reinsurance recoverable for:   |                                    |  |
| Paid losses  | 9,458                              | 9,467                                  |
| Unpaid losses  | 801,149                            | 805,386                                |
| Deferred policy acquisition costs  | 45,608                             | 38,852                                 |
| Deferred income taxes, net   | 51,291                             | 26,231                                 |
| Property and equipment, net  | 15,489                             | 14,680                                 |
| Intangible assets, net   | 10,106                             | 10,558                                 |
| Goodwill   | 36,192                             | 36,192                                 |
| Contingent commission receivable—LPT Agreement   | 20,948                             | 19,141                                 |
| Other assets   | 10,061                             | 12,937                                 |
| <b>Total assets</b>  | <b>\$ 3,617,475</b>                | <b>\$ 3,511,339</b>                    |
| <b>Liabilities and stockholders' equity</b>  |                                    |  |
| Claims and policy liabilities:   |                                    |  |
| Unpaid losses and loss adjustment expenses   | \$ 2,291,261                       | \$ 2,231,540                           |
| Unearned premiums  | 317,735                            | 265,149                                |
| Total claims and policy liabilities  | 2,608,996                          | 2,496,689                              |
| Commissions and premium taxes payable  | 42,611                             | 40,825                                 |
| Accounts payable and accrued expenses  | 15,758                             | 19,522                                 |
| Deferred reinsurance gain—LPT Agreement  | 274,183                            | 281,043                                |
| Notes payable  | 112,000                            | 112,000                                |
| Other liabilities  | 41,987                             | 21,879                                 |
| <b>Total liabilities</b>   | <b>3,095,535</b>                   | <b>2,971,958</b>                       |
| Commitments and contingencies  |                                    |  |
| Stockholders' equity:  |                                    |  |
| Common stock, \$0.01 par value; 150,000,000 shares authorized; 54,371,465 and 54,144,453 shares issued and 30,998,491 and 30,771,479 shares outstanding at June 30, 2013 and December 31, 2012, respectively | 544                                | 541                                    |
| Additional paid-in capital   | 331,977                            | 325,991                                |
| Retained earnings  | 464,210                            | 445,850                                |
| Accumulated other comprehensive income, net  | 87,759                             | 129,549                                |
| Treasury stock, at cost (23,372,974 shares at June 30, 2013 and December 31, 2012)   | (362,550)                          | (362,550)                              |
| <b>Total stockholders' equity</b>  | <b>521,940</b>                     | <b>539,381</b>                         |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 3,617,475</b>                | <b>\$ 3,511,339</b>                    |
| <b>Equity including deferred reinsurance gain - LPT</b>  |                                    |  |
| Total stockholders' equity   | \$ 521,940                         | \$ 539,381                             |
| Deferred reinsurance gain—LPT Agreement  | 274,183                            | 281,043                                |
| <b>Total equity including deferred reinsurance gain—LPT Agreement (A)</b>  | <b>\$ 796,123</b>                  | <b>\$ 820,424</b>                      |
| Shares outstanding (B)   | 30,998,491                         | 30,771,479                             |
| <b>Book value per share (A * 1000) / B</b>   | <b>\$ 25.68</b>                    | <b>\$ 26.66</b>                        |

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

| <i>(in thousands)</i>   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2013                         | 2012       |
|   | (unaudited)                  |            |
| <b>Operating activities</b>   |                              |            |
| Net income  | \$ 22,078                    | \$ 11,356  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |            |
| Depreciation and amortization   | 2,800                        | 2,787      |
| Stock-based compensation  | 4,169                        | 2,542      |
| Amortization of premium on investments, net                                       | 4,310                        | 3,400      |
| Deferred income tax expense   | (2,558)                      | (7,675)    |
| Realized gains on investments, net  | (4,660)                      | (2,723)    |
| Excess tax benefits from stock-based compensation                                 | (349)                        | —          |
| Other   | 549                          | 449        |
| Change in operating assets and liabilities:                                       |                              |            |
| Premiums receivable   | (63,091)                     | (56,776)   |
| Reinsurance recoverable for paid and unpaid losses                                | 4,246                        | 21,868     |
| Federal income taxes  | 2,848                        | 876        |
| Unpaid losses and loss adjustment expenses  | 59,721                       | 9,426      |
| Unearned premiums   | 52,586                       | 62,846     |
| Accounts payable, accrued expenses and other liabilities                          | 15,389                       | 7,166      |
| Deferred reinsurance gain—LPT Agreement   | (6,860)                      | (8,276)    |
| Contingent commission receivable—LPT Agreement                                    | (1,807)                      | (597)      |
| Other   | (4,179)                      | 7,306      |
| Net cash provided by operating activities   | 85,192                       | 53,975     |
| <b>Investing activities</b>   |                              |            |
| Purchase of fixed maturities  | (211,889)                    | (181,836)  |
| Purchase of equity securities   | (18,190)                     | (23,303)   |
| Proceeds from sale of fixed maturities  | 706                          | 34,560     |
| Proceeds from sale of equity securities   | 18,357                       | 8,451      |
| Proceeds from maturities and redemptions of investments                           | 86,326                       | 110,160    |
| Proceeds from sale of fixed assets  | 139                          | 75         |
| Capital expenditures and other  | (3,206)                      | (3,326)    |
| Restricted cash and cash equivalents provided by (used in) investing activities   | 751                          | (842)      |
| Net cash used in investing activities   | (127,006)                    | (56,061)   |
| <b>Financing activities</b>   |                              |            |
| Acquisition of treasury stock   | —                            | (37,322)   |
| Cash transactions related to stock-based compensation                             | 1,572                        | (279)      |
| Dividends paid to stockholders  | (3,708)                      | (3,822)    |
| Excess tax benefits from stock-based compensation                                 | 349                          | —          |
| Net cash used in financing activities   | (1,787)                      | (41,423)   |
| Net decrease in cash and cash equivalents   | (43,601)                     | (43,509)   |
| Cash and cash equivalents at the beginning of the period                          | 140,661                      | 252,300    |
| Cash and cash equivalents at the end of the period                                | \$ 97,060                    | \$ 208,791 |



**Employers Holdings, Inc.**  
**Calculation of Combined Ratio before the Impact of the LPT Agreement**

| (in thousands, except for percentages)                               | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|--|--------------------------------|------------------|------------------------------|-------------------|
|  | 2013                           | 2012             | 2013                         | 2012              |
|  | (unaudited)                    |                  |                              |                   |
| Net premiums earned  | \$ 159,953                     | \$ 118,955       | \$ 307,928                   | \$ 228,855        |
| Losses and loss adjustment expenses                                  | 112,638                        | 87,809           | 220,910                      | 168,327           |
| <b>Loss &amp; LAE ratio</b>  | <b>70.4 %</b>                  | <b>73.8 %</b>    | <b>71.7 %</b>                | <b>73.6 %</b>     |
| Amortization of Deferred Gain related to losses                      | \$ 3,275                       | \$ 3,828         | \$ 6,580                     | \$ 7,984          |
| Amortization of Deferred Gain related to contingent commission       | 406                            | 256              | 788                          | 525               |
| LPT Contingent Commission Adjustments                                | 1,024                          | 227              | 1,299                        | 363               |
| Impact of LPT  | 2.9 %                          | 3.6 %            | 2.8 %                        | 3.9 %             |
| <b>Loss &amp; LAE before impact of LPT</b>                           | <b>\$ 117,343</b>              | <b>\$ 92,120</b> | <b>\$ 229,577</b>            | <b>\$ 177,199</b> |
| <b>Loss &amp; LAE ratio before impact of LPT</b>                     | <b>73.4 %</b>                  | <b>77.4 %</b>    | <b>74.6 %</b>                | <b>77.4 %</b>     |
| Commission expense   | \$ 20,127                      | \$ 16,621        | \$ 38,520                    | \$ 30,437         |
| <b>Commission expense ratio</b>                                      | <b>12.6 %</b>                  | <b>14.0 %</b>    | <b>12.5 %</b>                | <b>13.3 %</b>     |
| Underwriting & other operating expenses                              | \$ 32,249                      | \$ 30,316        | \$ 63,789                    | \$ 63,305         |
| <b>Underwriting &amp; other operating expenses ratio</b>             | <b>20.2 %</b>                  | <b>25.5 %</b>    | <b>20.8 %</b>                | <b>27.6 %</b>     |
| Total expenses   | \$ 165,014                     | \$ 134,746       | \$ 323,219                   | \$ 262,069        |
| <b>Combined ratio</b>  | <b>103.2 %</b>                 | <b>113.3 %</b>   | <b>105.0 %</b>               | <b>114.5 %</b>    |
| Total expense before impact of the LPT                               | \$ 169,719                     | \$ 139,057       | \$ 331,886                   | \$ 270,941        |
| <b>Combined ratio before the impact of the LPT</b>                   | <b>106.1 %</b>                 | <b>116.9 %</b>   | <b>107.8 %</b>               | <b>118.4 %</b>    |
| <b>Reconciliations to Current Accident Period Combined Ratio:</b>    |                                |                  |                              |                   |
| Losses & LAE before impact of LPT                                    | \$ 117,343                     | \$ 92,120        | \$ 229,577                   | \$ 177,199        |
| Plus: Favorable (unfavorable) prior period reserve development       | (522)                          | (529)            | (1,651)                      | (1,054)           |
| <b>Accident period losses &amp; LAE before impact of LPT</b>         | <b>\$ 116,821</b>              | <b>\$ 91,591</b> | <b>\$ 227,926</b>            | <b>\$ 176,145</b> |
| Losses & LAE ratio before impact of LPT                              | 73.4 %                         | 77.4 %           | 74.6 %                       | 77.4 %            |
| Plus: Favorable (unfavorable) prior period reserve development ratio | (0.4)                          | (0.4)            | (0.6)                        | (0.4)             |
| <b>Accident period losses &amp; LAE ratio before impact of LPT</b>   | <b>73.0 %</b>                  | <b>77.0 %</b>    | <b>74.0 %</b>                | <b>77.0 %</b>     |
| Combined ratio before impact of the LPT                              | 106.1 %                        | 116.9 %          | 107.8 %                      | 118.4 %           |
| Plus: Favorable (unfavorable) prior period reserve development ratio | (0.4)                          | (0.4)            | (0.6)                        | (0.4)             |
| <b>Accident period combined ratio before impact of LPT</b>           | <b>105.7 %</b>                 | <b>116.5 %</b>   | <b>107.2 %</b>               | <b>118.0 %</b>    |