

EVEREST REINSURANCE HOLDINGS INC

Form 424B3

April 25, 2007

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**The information in this preliminary prospectus supplement is not complete and may be changed.**

**Filed pursuant to Rule 424(b)(3)**

**Registration No. 333-130044-02**

**SUBJECT TO COMPLETION, DATED APRIL 25, 2007**

**Prospectus Supplement to Prospectus dated April 25, 2007**

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## **Everest Reinsurance Holdings, Inc.**

### **% Fixed to Floating Rate Long Term Subordinated Notes (LoTS<sup>SM</sup>) due 2067**

The % Fixed to Floating Rate Long Term Subordinated Notes due 2067, which are referred to in this prospectus supplement as the LoTS<sup>SM</sup>, will be the junior subordinated unsecured obligations of Everest Reinsurance Holdings, Inc., which is referred to in this prospectus supplement as Everest Holdings. The LoTS<sup>SM</sup> will bear interest from the date they are issued to but excluding May , 2017 at an annual rate of %, payable semi-annually in arrears on May and November of each year, beginning on November , 2007. From and including May , 2017, the LoTS<sup>SM</sup> will bear interest at an annual rate equal to three-month LIBOR plus %, payable quarterly in arrears on February , May , August and November of each year, beginning on August , 2017. So long as no event of default with respect to the LoTS<sup>SM</sup> has occurred and is continuing, we have the right, on one or more occasions, to defer the payment of interest on the LoTS<sup>SM</sup> as described in this prospectus supplement. We may defer interest for up to ten consecutive years without giving rise to an event of default. Deferred interest will accumulate interest at an annual rate equal to the annual interest rate then applicable to the LoTS<sup>SM</sup>, compounded semi-annually with respect to the period prior to May , 2017, and compounded quarterly with respect to the period from and including May , 2017.

The principal amount of the LoTS<sup>SM</sup> will become due on May , 2037 (or if such day is not a business day, the following business day), which is referred to in this prospectus supplement as the scheduled maturity date, only to the extent that we have received sufficient net proceeds from the sale of certain qualifying capital securities during a 180-day period ending on a notice date not more than 15 nor less than 10 business days prior to such date. We will use our commercially reasonable efforts, subject to certain market disruption events, to sell enough qualifying capital securities to permit repayment of the LoTS<sup>SM</sup> in full on such scheduled maturity date. If any principal amount of the LoTS<sup>SM</sup> is not paid on the scheduled maturity date, it will remain outstanding and will continue to bear interest at three-month LIBOR plus %, and we will continue to use our commercially reasonable efforts to sell enough qualifying capital securities to permit repayment of the LoTS<sup>SM</sup> in full. On May , 2067, which is referred to in this prospectus supplement as the final maturity date (or if such date is not a business day, the following business day), we must pay any remaining outstanding principal and interest in full on the LoTS<sup>SM</sup> whether or not we have sold qualifying capital securities.

We may redeem the LoTS<sup>SM</sup> in whole or in part at our option on or after May , 2017, or in whole but not in part at our option prior to May , 2017, at the applicable redemption price set forth in this prospectus supplement. The redemption price may be lower than otherwise if we redeem the LoTS<sup>SM</sup> prior to May , 2017 in connection with a tax event or a rating agency event.

See **Risk Factors** beginning on page S-6 of this prospectus supplement and the **Risk Factors** contained in our Annual Report on Form 10-K for the year ended December 31, 2006 incorporated by reference in this prospectus supplement to read about factors you should

consider before buying the LoTS<sup>SM</sup>.

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Neither the Securities and Exchange Commission nor any state securities commission or other regulatory body has approved or disapproved these securities, or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

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	Per LoTS <sup>SM</sup>	Total
Initial Price to Public	%	\$
Underwriting Discount	%	\$
Proceeds to Everest Holdings	%	\$

The initial price to public set forth above does not include accrued interest, if any. Interest on the LoTS<sup>SM</sup> will accrue from \_\_\_\_\_, 2007 and must be paid by the purchaser if the LoTS<sup>SM</sup> are delivered after \_\_\_\_\_, 2007.

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The underwriters expect to deliver the LoTS<sup>SM</sup> in book-entry form only through The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and/or Euroclear Bank N.V./S.A., on or about \_\_\_\_\_, 2007.

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*Joint Bookrunning Managers*

**Wachovia Securities**

*Sole Structuring Coordinator*

**Citi**

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Prospectus Supplement dated \_\_\_\_\_, 2007.

<sup>SM</sup>LoTS is a servicemark of Wachovia Corporation.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of the offering of the LoTS<sup>SM</sup> and adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts combined. You should read the entire prospectus supplement, as well as the accompanying prospectus and the documents incorporated by reference that are described under **Where You Can Find More Information** in the accompanying prospectus before making a decision to invest in the LoTS<sup>SM</sup>. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus.

Incorporated by reference means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is current only as of the dates on their covers. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless the context otherwise requires, references in this prospectus supplement to **Everest Holdings** refer to Everest Reinsurance Holdings, Inc. and its subsidiaries, collectively. References to **Everest Group** refer to Everest Re Group, Ltd. and its subsidiaries, collectively. References to **we**, **us** and **our** refer to Everest Holdings and not its subsidiaries. References to **\$** are to United States currency, and the terms **United States** and **U.S.** mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the information incorporated by reference in this prospectus supplement may contain forward-looking statements within the meaning of the U.S. federal securities laws. These forward-looking statements are intended to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, you can identify these statements by the use of forward-looking words such as **may**, **will**, **should**, **anticipate**, **estimate**, **expect**, **plan**, **believe**, **predict**, **potential** and **intend**. that these statements and any other forward-looking statements in these documents only reflect expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from expectations. Important factors that could cause actual results to be materially different from expectations include those discussed under **Risk Factors** beginning on page S-6 of this prospectus supplement and the **Risk Factors** contained in our Annual Report on Form 10-K for the year ended December 31, 2006 incorporated by reference in this prospectus supplement. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary highlights selected information contained elsewhere in this prospectus supplement and may not contain all of the information that is important to you. We encourage you to read this prospectus supplement and the accompanying prospectus, together with the documents identified under the heading "Where You Can Find More Information" on page 34 of the accompanying prospectus, in their entirety. You should pay special attention to the "Risk Factors" section of this prospectus supplement, and the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2006.*

**Everest Reinsurance Holdings, Inc.**

Our principal business, conducted through our operating subsidiaries, is the underwriting of reinsurance and insurance in the U.S. and international markets. Reinsurance is a form of insurance purchased by an insurance company to indemnify it for all or part of the loss that it may sustain under insurance contracts it has written. We had gross written premiums in 2006 of \$3.2 billion, with approximately 72% representing reinsurance and 28% representing insurance, and stockholder's equity at December 31, 2006 of \$2.2 billion.

Insurance companies purchasing reinsurance are often referred to as ceding companies or reinsureds. We underwrite reinsurance both through brokers and directly with ceding companies, giving us the flexibility to pursue business based on the ceding company's preferred reinsurance purchasing method. We underwrite insurance principally through general agent relationships and surplus lines brokers. Our active operating subsidiaries are each rated A+ (Superior) by A.M. Best Company, a leading provider of insurer ratings that assigns financial strength ratings to insurance companies based on their ability to meet their obligations to policyholders, except for Mt. McKinley Insurance Company, which is in runoff and is not rated.

Everest Holdings was established in 1993 in Delaware to serve as the parent holding company of Everest Reinsurance Company. Until October 6, 1995, Everest Holdings was an indirect, wholly-owned subsidiary of The Prudential Insurance Company of America. On October 6, 1995, The Prudential Insurance Company of America sold its entire interest in Everest Holdings' shares of common stock in an initial public offering. Effective February 24, 2000, we completed a restructuring whereby Everest Holdings became a wholly-owned subsidiary of Everest Re Group, Ltd., a Bermuda company, and each outstanding share of common stock of Everest Holdings automatically converted into one common share of Everest Re Group, Ltd. Everest Holdings continues to act as the holding company for the subsidiaries of Everest Re Group, Ltd. in the United States and Canada, the most significant of which are listed below:

***Everest Reinsurance Company***, a Delaware insurance company and a direct subsidiary of Everest Holdings, is a licensed property and casualty insurer and/or reinsurer in all states (except Nevada and Wyoming), the District of Columbia and Puerto Rico and is authorized to conduct reinsurance business in Canada and Singapore. Everest Reinsurance Company underwrites property and casualty reinsurance for insurance and reinsurance companies in the U.S. and international markets. Everest Reinsurance Company had statutory surplus at December 31, 2006 of \$2.7 billion.

***Everest National Insurance Company***, a Delaware insurance company and a direct subsidiary of Everest Reinsurance Company, is licensed in 47 states and the District of Columbia and is authorized to write property and casualty insurance on an admitted basis in the jurisdictions in which it is licensed. The majority of Everest National Insurance Company's business is reinsured by its parent, Everest Reinsurance Company.

***Everest Indemnity Insurance Company***, a Delaware insurance company and a direct subsidiary of Everest Reinsurance Company, writes excess and surplus lines insurance business in the U.S. on a

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non-admitted basis. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular jurisdiction is permitted to provide to insureds when the specific specialty coverage is unavailable from admitted insurers. Everest Indemnity Insurance Company is licensed in Delaware and is eligible to write business on a non-admitted basis in 49 states, the District of Columbia and Puerto Rico. The majority of Everest Indemnity Insurance Company's business is reinsured by its parent, Everest Reinsurance Company.

*Everest Security Insurance Company*, formerly Southeastern Security Insurance Company, a Georgia insurance company and a direct subsidiary of Everest Reinsurance Company, was acquired in January 2000 and writes property and casualty insurance on an admitted basis in Georgia and Alabama. The majority of Everest Security Insurance Company's business is reinsured by its parent, Everest Reinsurance Company.

*Mt. McKinley Insurance Company*, a Delaware insurance company and a direct subsidiary of Everest Holdings, was acquired by Everest Holdings in September 2000 from The Prudential Insurance Company of America. Mt. McKinley Insurance Company was formed by Everest Reinsurance Company in 1978 to write excess and surplus lines insurance business in the U.S. In 1985, Mt. McKinley Insurance Company ceased writing new and renewal insurance and commenced a run-off operation to service claims arising from previously written business. In 1991, Mt. McKinley Insurance Company was distributed to its ultimate parent, The Prudential Insurance Company of America. Effective September 19, 2000, Mt. McKinley Insurance Company and Everest Reinsurance (Bermuda), Ltd. entered into a loss portfolio transfer reinsurance agreement, whereby Mt. McKinley Insurance Company transferred, for arms length consideration, all of its net insurance exposures and reserves to Everest Reinsurance (Bermuda), Ltd., a subsidiary of Everest Re Group, Ltd.

Everest Holdings' principal executive offices are located at 477 Martinsville Road, P.O. Box 830, Liberty Corner, New Jersey 07938-0830, and its telephone number is (908) 604-3000.

### **Recent Developments**

The following are our preliminary unaudited results for the first quarter of 2007: Total revenue for the quarter was \$698.5 million, a 2.2% increase compared to \$683.6 million for the first quarter of 2006. Net income for the quarter was \$159.3 million, a 266.2% increase compared to \$43.5 million for the first quarter of 2006. Our stockholders' equity at March 31, 2007 was \$2.4 billion, compared to \$2.2 billion at December 31, 2006.

### **The LoTS<sup>SM</sup>**

#### **Repayment of Principal**

We must repay the principal amount of the LoTS<sup>SM</sup>, together with accrued and unpaid interest, on May 1, 2037, or if that date is not a business day, the following business day, which is referred to in this prospectus supplement as the scheduled maturity date, subject to the limitations described below. We are required to repay the LoTS<sup>SM</sup> on the scheduled maturity date only to the extent that the principal amount repaid does not exceed the applicable percentage of net proceeds we have received from the issuance of qualifying capital securities, as described in

Description of the Replacement Capital Covenant below, during a 180-day period ending on a notice date not more than 15 and not less than 10 business days prior to the scheduled maturity date. If we have not raised sufficient proceeds to permit repayment of the LoTS<sup>SM</sup> on the scheduled maturity date, we will repay the LoTS<sup>SM</sup> to the extent of such net proceeds and the unpaid amount will remain outstanding. We will be required to repay the unpaid portion of the LoTS<sup>SM</sup> on each subsequent

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interest payment date to the extent of the net proceeds we have received from any subsequent issuance of qualifying capital securities or upon the earliest to occur of:

redemption of the LoTS<sup>SM</sup>;

an event of default that results in acceleration of the LoTS<sup>SM</sup>; and

May , 2067, which is the final maturity date.

We will use our commercially reasonable efforts, subject to a market disruption event, as described under Description of the LoTS<sup>SM</sup> Market Disruption Events, to raise sufficient net proceeds from the issuance of qualifying capital securities (as defined in Description of the Replacement Capital Covenant ) in a 180-day period ending on a notice date not more than 15 and not less than 10 business days prior to the scheduled maturity date to permit repayment of the LoTS<sup>SM</sup> in full on the scheduled maturity date in accordance with the preceding paragraph. If we are unable for any reason to raise sufficient proceeds, we will use our commercially reasonable efforts, subject to a market disruption event, to raise sufficient proceeds from the sale of qualifying capital securities to permit repayment of the LoTS<sup>SM</sup> on the following interest payment date, and on each interest payment date thereafter, until the LoTS<sup>SM</sup> are paid in full.

Any unpaid principal amount of the LoTS<sup>SM</sup>, together with accrued and unpaid interest, will be due and payable on May , 2067, which is referred to in this prospectus supplement as the final maturity date, regardless of the amount of qualifying capital securities we have issued and sold by that time.

We are not required to issue any securities pursuant to the obligation described above other than qualifying capital securities.

**Interest**

The LoTS<sup>SM</sup> will bear interest:

at the annual rate of % from and including May , 2007 to but excluding May , 2017, payable semi-annually in arrears on May and November of each year, beginning on November , 2007 until May , 2017; and

thereafter at an annual rate equal to three-month LIBOR plus %, payable quarterly in arrears on February , May , August and November of each year, beginning on August , 2017 (or if any such day is not a business day, on the next business day).

In the event that any interest payment date on or prior to the regularly scheduled interest payment date in May 2017 is not a business day, the interest payment made on the following business day will be made without adjustment.

**Subordination**

The LoTS<sup>SM</sup> will be unsecured and will be deeply subordinated upon our liquidation, including to all of our existing and future senior indebtedness, and will be effectively subordinated to all liabilities of our subsidiaries. All of our existing indebtedness is senior indebtedness. At December 31, 2006, our indebtedness for money borrowed ranking senior to the LoTS<sup>SM</sup> upon liquidation, on a consolidated basis, was \$995.6 million and its subsidiaries outstanding liabilities that would effectively rank senior to the LoTS<sup>SM</sup> was \$9.7 billion. See Description of the LoTS<sup>SM</sup> Subordination.

**Deferral of Interest**

We have the right, on one or more occasions, to defer the payment of interest for one or more consecutive interest periods that do not exceed 10 years without giving rise to an event of default under the





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terms of the LoTS<sup>SM</sup>. However, the failure to pay all accrued and unpaid interest at the conclusion of the 10-year deferral period would, after the lapse of 30 days, constitute an event of default permitting acceleration of the LoTS<sup>SM</sup>. Interest on unpaid interest installments on the LoTS<sup>SM</sup> will accrue during the deferral period at the then applicable interest rate, compounding on each interest payment date.

### **Certain Payment Restrictions Applicable to Everest Holdings**

During any period in which an event of default has occurred and is continuing, we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing, we and our subsidiaries generally may not make payments on or redeem or repurchase our capital stock, our debt securities or guarantees ranking on a parity with or junior to the LoTS<sup>SM</sup>, subject to the exceptions described under Description of the LoTS<sup>SM</sup> Dividend and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances.

The terms of the LoTS<sup>SM</sup> permit us to make any payment of current or deferred interest on our debt securities or guarantees that rank on a parity with the LoTS<sup>SM</sup> upon our liquidation (which we refer to as parity securities ) so long as the payment is made *pro rata* to the amounts due on parity securities (including the LoTS<sup>SM</sup>), subject to any payment of deferred interest on parity securities that, if not made, would cause us to breach the terms of the instrument governing such parity securities.

### **Redemption of the LoTS<sup>SM</sup>**

We may elect to redeem any or all of the LoTS<sup>SM</sup> at any time on or after May , 2017 and we may elect to redeem all, but not less than all, of the LoTS<sup>SM</sup> at any time prior to such date. The redemption price of the LoTS<sup>SM</sup> on or after May , 2017 will be equal to their principal amount, and prior to May , 2017 will be equal to a make-whole redemption price, in each case plus accrued and unpaid interest thereon to the date of redemption. The make-whole redemption price may be lower in the case of a redemption of all outstanding LoTS<sup>SM</sup> prior to May , 2017 in connection with certain changes relating to the tax treatment of, or the rating agency equity credit accorded to, the LoTS<sup>SM</sup>. See Description of the LoTS<sup>SM</sup> Redemption.

We will be subject to our obligations under the replacement capital covenant (as described below) if we elect to redeem any or all of the LoTS<sup>SM</sup> on or after the scheduled maturity date and prior to May , 2047.

### **Capital Replacement Intent**

We intend that, if we redeem or defease, or if we or our subsidiaries purchase, any LoTS<sup>SM</sup> prior to the scheduled maturity date and the LoTS<sup>SM</sup> provide us with equity credit from any rating agency at the time of such redemption, defeasance or purchase, we will do so only to the extent that the equity credit attributed by any rating agency to securities that we or our subsidiaries have issued during the 180 days prior to the date of such redemption, defeasance or purchase to third party purchasers, other than a subsidiary, is equal to or greater than the equity credit we then receive from any rating agency for the aggregate principal amount of the LoTS<sup>SM</sup> to be redeemed, defeased or purchased.

### **Events of Default**

The following events are events of default with respect to the LoTS<sup>SM</sup>:

default in the payment of interest, including compounded interest, in full on any LoTS<sup>SM</sup> for a period of 30 days after the conclusion of a 10-year period following the commencement of any deferral period;

default in the payment of principal on the LoTS<sup>SM</sup> when due, upon redemption, upon a declaration of acceleration or otherwise, subject to the limitations described in Repayment of Principal above; and

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certain events of bankruptcy, insolvency or receivership of Everest Holdings.

If an event of default (other than certain events of bankruptcy, insolvency or receivership of Everest Holdings) under the subordinated indenture occurs and continues, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding LoTS<sup>SM</sup> may declare the entire principal amount of and all accrued but unpaid interest on all LoTS<sup>SM</sup> to be due and payable immediately. If an event of default consisting of certain events of bankruptcy, insolvency or receivership of Everest Holdings has occurred, the principal amount of all the then outstanding LoTS<sup>SM</sup> will automatically, and without any declaration or other action on the part of the trustee or any holder, become immediately due and payable.

### **Book-Entry**

The LoTS<sup>SM</sup> will be represented by one or more global securities registered in the name of a nominee for, and deposited with, The Depository Trust Company (DTC) or its nominee. Beneficial interests in the LoTS<sup>SM</sup> will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global securities through either DTC (in the United States), or Clearstream Luxembourg or Euroclear (in Europe) if they are participants in those systems, or indirectly through organizations which are participants in those systems.

### **Material United States Federal Income Tax Considerations**

A holder will generally take into account interest on the LoTS<sup>SM</sup> at the time it is accrued or received, in accordance with such holder's method of accounting for U.S. federal income tax purposes. After the commencement of a deferral period, a holder will be required to include interest in income as it accrues, regardless of such holder's method of accounting for U.S. federal income tax purposes, using a constant yield method. As a consequence of a deferral, holders of the LoTS<sup>SM</sup> would be required to include interest in income even though no cash payments would be made during the deferral period. See Material U.S. Federal Income Tax Considerations.

### **Replacement Capital Covenant**

We will enter into a replacement capital covenant for the benefit of holders of a specified series of our long-term indebtedness ranking senior to the LoTS<sup>SM</sup>, in which we agree that we will not repay, redeem, defease or purchase, and will cause our subsidiaries not to purchase, the LoTS<sup>SM</sup> at any time on or after the scheduled maturity date and prior to May 1, 2047, unless the principal amount repaid or defeased, or the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the applicable percentage of the aggregate amount of net cash proceeds we have received from the sale of common stock, rights to acquire common stock, mandatorily convertible preferred stock, debt exchangeable for common equity, debt exchangeable for preferred equity and certain qualifying capital securities and the market value of any common stock (or rights to acquire common stock) we and our subsidiaries have delivered as consideration for property or assets in an arm's length transaction or issued in connection with the conversion or exchange of any convertible or exchangeable securities, other than securities for which we or any of our subsidiaries have received equity credit from any rating agency, in each case within the applicable measurement period. The replacement capital covenant, including the definitions of various types of replacement capital securities referred to above and other important terms, is described in more detail under Description of the Replacement Capital Covenant.

If an event of default resulting in the acceleration of the LoTS<sup>SM</sup> occurs, we will not have to comply with the replacement capital covenant. Our covenant in the replacement capital covenant will run only to the benefit of the covered debtholders. It may not be enforced by the holders of the LoTS<sup>SM</sup>. The initial class of covered debtholders are the holders of our 6.20% Junior Subordinated Debt Securities due 2034 held by Everest Re Capital Trust II, the trust preferred securities of which have CUSIP No. 29980R202.

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**RISK FACTORS**

*Your investment in the LoTS<sup>SM</sup> will involve certain risks, including risks that relate to us and our business and specific risks relating to the LoTS<sup>SM</sup> that are described below. Risks relating to us and our business are described in, and incorporated by reference from, the section entitled *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2006. See *Where You Can Find More Information* in the accompanying prospectus. In consultation with your own financial and legal advisors, you should carefully consider the information included in or incorporated by reference in this prospectus supplement and the accompanying prospectus, and pay special attention to the following discussion of risks relating to the LoTS<sup>SM</sup> before deciding whether an investment in the LoTS<sup>SM</sup> is suitable for you. The LoTS<sup>SM</sup> will not be an appropriate investment for you if you are not knowledgeable about their significant features or financial matters in general. You should not purchase the LoTS<sup>SM</sup> unless you understand, and know that you can bear, these investment risks.*

**The LoTS<sup>SM</sup> are effectively subordinated to almost all of our other indebtedness and obligations.**

Our obligations under the LoTS<sup>SM</sup> are unsecured and subordinated in right of payment to all of our current and future senior indebtedness and subordinated indebtedness, except any indebtedness that by its terms is subordinated to, or ranks on an equal basis with, the LoTS<sup>SM</sup> and certain other obligations, including obligations incurred in the ordinary course of business. This means that we cannot make any payments on the LoTS<sup>SM</sup> if we default on a payment of such senior indebtedness and do not cure the default within the applicable grace period, if the holders of the indebtedness ranking senior to the LoTS<sup>SM</sup> have the right to accelerate the maturity of such indebtedness and request that we cease payments on the LoTS<sup>SM</sup> or if the terms of our indebtedness ranking senior in right of payment to the LoTS<sup>SM</sup> otherwise restrict us from making payments to junior creditors.

Due to the subordination provisions described in *Description of the LoTS<sup>SM</sup> Subordination*, in the event of our insolvency, funds which we could otherwise use to pay the holders of the LoTS<sup>SM</sup> may be used to pay the holders of our indebtedness ranking senior in right of payment to the LoTS<sup>SM</sup> to the extent necessary to pay such senior indebtedness in full. As a result of those payments, our general creditors may recover less, ratably, than the holders of our senior indebtedness and these general creditors may recover more, ratably, than the holders of the LoTS<sup>SM</sup>. In addition, the holders of our indebtedness ranking senior in right of payment to the LoTS<sup>SM</sup> may, under certain circumstances, restrict or prohibit us from making payments on the LoTS<sup>SM</sup>.

We may issue or have outstanding debt securities or guarantees that rank on a parity with the LoTS<sup>SM</sup> upon our liquidation (which we refer to as parity securities). Such parity securities may require us to make payments of interest during a deferral period on the LoTS<sup>SM</sup> that, if not made, would cause us to breach the terms of the instrument governing such parity securities. The terms of the LoTS<sup>SM</sup> permit us to make any payment of deferred interest on such parity securities that, if not made, would cause us to breach the terms of the instrument governing such parity securities.

As of December 31, 2006, we had approximately \$449.2 million of senior indebtedness and \$546.4 million of junior subordinated debt securities outstanding, not including indebtedness of our subsidiaries, all of which would be senior in right of payment to the LoTS<sup>SM</sup>.

There are no terms in the subordinated indenture that limit our ability to incur additional indebtedness, and we expect from time to time to incur additional indebtedness ranking senior in right of payment to the LoTS<sup>SM</sup>.

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**Our ability to meet our payment obligations on the LoTS<sup>SM</sup> will be affected by the ability of our subsidiaries to pay dividends and the LoTS<sup>SM</sup> will be effectively subordinated to the obligations of our subsidiaries.**

We are a holding company and rely primarily on dividends from our subsidiaries to meet our obligations for payment of interest and principal on our outstanding debt obligations, including the LoTS<sup>SM</sup>. The ability of our insurance subsidiaries to pay dividends to us in the future will depend on their statutory surplus, earnings and regulatory restrictions. We and our insurance subsidiaries are subject to regulation by some states as an insurance holding company system. This regulation generally provides that transactions among companies within the holding company system must be fair and reasonable. Transfers of assets among affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system may require prior notice to, or prior approval by, state regulatory authorities. Our insurance subsidiaries are also subject to licensing and supervision by government regulatory agencies in the jurisdiction in which they do business. These regulations may set standards of solvency that must be met and maintained, the nature of and limitations on investment and the nature of and limitations on dividends to policyholders and shareholders. The inability of our insurance subsidiaries to pay dividends to us in an amount sufficient to meet our debt service obligations and other cash requirements could harm our ability to meet our obligations under the LoTS<sup>SM</sup>.

Because we are a holding company, our right to participate in any distribution of the assets of our subsidiaries, upon a subsidiary's liquidation, dissolution, winding up or reorganization or otherwise, and thus our ability to make payments of principal and interest on the LoTS<sup>SM</sup> from such distribution, is subject to the prior claims of creditors of any such subsidiary, except to the extent that we may be a creditor of that subsidiary and our claims are recognized. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due under our contracts or otherwise to make any funds available to us. Accordingly, the payments on the LoTS<sup>SM</sup> effectively will be subordinated to all existing and future liabilities of our subsidiaries.

As of December 31, 2006, our subsidiaries had approximately \$9.7 billion of indebtedness and other liabilities that effectively rank senior to the LoTS<sup>SM</sup>.

**Our obligation to repay the LoTS<sup>SM</sup> on the scheduled maturity date is subject to the issuance of qualifying capital securities.**

Our obligation to repay the LoTS<sup>SM</sup> on the scheduled maturity date of May 1, 2037 is limited. We are required to repay the LoTS<sup>SM</sup> on the scheduled maturity date only to the extent that the principal amount repaid does not exceed the applicable percentage of net proceeds we have raised from the issuance of qualifying capital securities (as defined in "Description of the Replacement Capital Covenant") within a 180-day period ending on a notice date not more than 15 or less than 10 business days prior to such date. See "Description of the LoTS<sup>SM</sup> Repayment of Principal." If we have not raised sufficient net proceeds from the issuance of qualifying capital securities to permit repayment of the LoTS<sup>SM</sup> on the scheduled maturity date, we will not be required to repay the unpaid amount until (i) we have raised sufficient net proceeds to permit repayment in full in accordance with this requirement, (ii) we redeem the LoTS<sup>SM</sup>, (iii) payment of the LoTS<sup>SM</sup> is accelerated upon the occurrence of an event of default or (iv) the final maturity date for the LoTS<sup>SM</sup>. Our ability to raise sufficient net proceeds in connection with this obligation to repay the LoTS<sup>SM</sup> will depend on, among other things, market conditions at the time the obligation arises, as well as the acceptability to prospective investors of the terms of the securities. Although we have agreed to use our commercially reasonable efforts, subject to a market disruption event, to raise sufficient net proceeds from the issuance of qualifying capital securities during the 180-day period referred to above and from quarter to quarter thereafter to repay the LoTS<sup>SM</sup> on the scheduled maturity date and on each interest payment date after the scheduled maturity date until the LoTS<sup>SM</sup> are repaid in full, our failure to do so would not be an event of default or give rise to a right of acceleration or similar remedy with respect to the LoTS<sup>SM</sup> until the final maturity date, and we will be excused from using our commercially reasonable efforts if certain market disruption events occur.

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Moreover, at or around the time of issuance of the LoTS<sup>SM</sup>, we will enter into the replacement capital covenant pursuant to which we make a covenant restricting our and our subsidiaries' ability to repay, redeem, defease or purchase LoTS<sup>SM</sup> at any time on or after the scheduled maturity date and prior to May , 2047. We may modify the replacement capital covenant without your consent if the modification does not further restrict our ability to repay the LoTS<sup>SM</sup> in connection with an issuance of qualifying capital securities. See Description of the Replacement Capital Covenant.

We have no obligation to issue any securities other than qualifying capital securities in connection with our obligation to repay the LoTS<sup>SM</sup> on or after the scheduled maturity date.

### **We have the right to defer interest for 10 years without causing an event of default.**

We have the right to defer interest on the LoTS<sup>SM</sup> for a period of up to 10 consecutive years so long as no event of default with respect to the LoTS<sup>SM</sup> has occurred and is continuing. During any such deferral period, holders of the LoTS<sup>SM</sup> will receive limited or no current payments on the LoTS<sup>SM</sup> and, so long as we are otherwise in compliance with our obligations, such holders will have no remedies against us for nonpayment unless we fail to pay all deferred interest (including compounded interest) at the end of the 10-year deferral period, at the final maturity date or at the earlier accelerated maturity date, redemption date or repayment date of the LoTS<sup>SM</sup>.

### **Deferral of interest payments could adversely affect the market price of the LoTS<sup>SM</sup>.**

We currently do not intend to exercise our right to defer payments of interest on the LoTS<sup>SM</sup>. However, if we exercise that right in the future, the market price of the LoTS<sup>SM</sup> is likely to be affected. As a result of the existence of our deferral right, the market price of the LoTS<sup>SM</sup> may be more volatile than the market prices of other securities that are not subject to optional deferrals. If we do defer interest on the LoTS<sup>SM</sup> and you elect to sell LoTS<sup>SM</sup> during the period of that deferral, you may not receive the same return on your investment as a holder that continues to hold its LoTS<sup>SM</sup> until we pay the deferred interest at the end of the deferral period.

### **There can be no assurance that the Internal Revenue Service or a court will agree with the characterization of the LoTS<sup>SM</sup> as indebtedness for United States federal income tax purposes.**

The LoTS<sup>SM</sup> are unique financial instruments, and there is no statutory, judicial or administrative authority that directly addresses the United States federal income tax treatment of securities similar to the LoTS<sup>SM</sup>. Thus, no assurance can be given that the Internal Revenue Service or a court will agree with the characterization of the LoTS<sup>SM</sup> as indebtedness for United States federal income tax purposes. If, contrary to the opinion of our tax counsel, the LoTS<sup>SM</sup> were recharacterized as our equity, payments on the LoTS<sup>SM</sup> to non-United States holders would generally be subject to United States federal withholding tax at a rate of 30% (or such lower applicable income tax treaty rate). See Material U.S. Federal Income Tax Consequences.

### **We may redeem the LoTS<sup>SM</sup> at any time. On or after May , 2017, the redemption price will not include a make-whole amount, and prior to May , 2017, the redemption price may be less than would otherwise apply if there is a challenge to their tax characterization or certain other events occur.**

We may redeem all or any part of the LoTS<sup>SM</sup> at our option at any time on or after May , 2017. In addition, we may redeem all, but not less than all, of the LoTS<sup>SM</sup> prior to May , 2017. The redemption price for the LoTS<sup>SM</sup>, if redeemed on or after May , 2017, will be equal to their principal amount plus accrued and unpaid interest through the date of redemption, and if redeemed prior to May , 2017 will be equal to the greater of (x) their principal amount and (y) a make-whole redemption price, in each case plus accrued and unpaid interest through the date of redemption. In the case of a redemption of all the LoTS<sup>SM</sup> prior to May , 2017 in connection with the occurrence of certain changes in the rating agency credit or tax treatment accorded to the LoTS<sup>SM</sup>, the make-whole redemption price may be lower than would otherwise apply. If the LoTS<sup>SM</sup> were redeemed, the redemption would be a taxable event to you. See Description of the LoTS<sup>SM</sup> Redemption.

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An Internal Revenue Service pronouncement or threatened challenge resulting in a tax event could occur at any time. Similarly, changes in rating agency methodology for assigning equity credit to the LoTS<sup>SM</sup> could result in the LoTS<sup>SM</sup> being redeemed earlier than would otherwise be the case. See [Description of the LoTS<sup>SM</sup> Redemption](#) for a further description of those events.

In the event that we choose to redeem your LoTS<sup>SM</sup>, you may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the LoTS<sup>SM</sup>.

**Our right to repay, redeem, defease or purchase the LoTS<sup>SM</sup> on or after the scheduled maturity date is limited by a replacement capital covenant that we are making in favor of certain of our debtholders.**

As described above, we may redeem any or all of the LoTS<sup>SM</sup> at any time, including on or after the scheduled maturity date. However, the replacement capital covenant will limit our right to repay, redeem, defease or purchase, and the right of our subsidiaries to purchase, LoTS<sup>SM</sup> on or after the scheduled maturity date and prior to May 1, 2047. See [Description of the Replacement Capital Covenant](#). In the replacement capital covenant, we will covenant that we will not repay, redeem, defease or purchase, and none of our subsidiaries will purchase, all or any part of the LoTS<sup>SM</sup>, unless during the applicable measurement period the principal amount repaid does not exceed the applicable percentage of net proceeds we or our subsidiaries have received from the sale of certain replacement capital securities and the market value of common stock and rights to purchase common stock we and our subsidiaries have received in connection as consideration for property or assets or in connection with convertible or exchangeable securities.

**Interest payments on the LoTS<sup>SM</sup> may be deferred and, in such case, U.S. Holders of the LoTS<sup>SM</sup> will be required to recognize income for U.S. federal income tax purposes in advance of the receipt of cash attributable to such income.**

If payments of accrued interest on the LoTS<sup>SM</sup> are deferred, U.S. Holders will thereafter be required to accrue interest income in respect of the notes for U.S. federal income tax purposes using a constant yield method, regardless of such holder's method of accounting for such purposes, before such holder receives any cash payment attributable to such income. See [Material U.S. Federal Income Tax Consequences](#).

**General market conditions and unpredictable factors could adversely affect market prices for the LoTS<sup>SM</sup>.**

There can be no assurance about the market prices for the LoTS<sup>SM</sup>. Several factors, many of which are beyond our control, will influence the market value of the LoTS<sup>SM</sup>. Factors that might influence the market value of the LoTS<sup>SM</sup> include, but are not limited to:

whether interest payments have been made and are likely to be made on the LoTS<sup>SM</sup> from time to time;

our creditworthiness, financial condition, performance and prospects;

whether the ratings on the LoTS<sup>SM</sup> provided by any ratings agency have changed;

regulatory investment classifications of the LoTS<sup>SM</sup> for purposes of certain types of investors and whether those classifications have changed;

the market for similar securities; and

economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally.

If you purchase the LoTS<sup>SM</sup>, whether in this offering or in the secondary market, the LoTS<sup>SM</sup> may subsequently trade at a discount to the price that you paid for them.



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**As a holder of the LoTS<sup>SM</sup> you will have limited rights of acceleration.**

The holders of the LoTS<sup>SM</sup> may accelerate payment of the LoTS<sup>SM</sup> only upon the occurrence and continuation of an event of default under the subordinated indenture. An event of default under the subordinated indenture is generally limited to payment defaults after giving effect to our deferral rights, and specific events of bankruptcy, insolvency and reorganization relating to us.

A failure to comply with or breach of other covenants in the subordinated indenture with respect to the LoTS<sup>SM</sup> will not result in the acceleration of payment of the LoTS<sup>SM</sup>. In addition, the subordinated indenture does not protect holders from a sudden and dramatic decline in credit quality resulting from takeovers, recapitalizations or similar restructurings or other highly leveraged transactions.

**The secondary market for the LoTS<sup>SM</sup> may be illiquid.**

The LoTS<sup>SM</sup> constitute a new issue of securities with no established trading market. We do not intend to apply to list the LoTS<sup>SM</sup> on any securities exchange or to include the LoTS<sup>SM</sup> in any automated quotation system. We cannot assure you that an active after-market for the LoTS<sup>SM</sup> will develop or be sustained or that holders of the LoTS<sup>SM</sup> will be able to sell their LoTS<sup>SM</sup> at favorable prices or at all. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the LoTS<sup>SM</sup>.

**USE OF PROCEEDS**

We expect the net proceeds from this offering, after deducting underwriting discounts and commissions and other expenses payable by us, will be approximately \$ million. We expect to use the net proceeds from this offering to redeem all of our outstanding 7.85% Junior Subordinated Debt Securities due November 15, 2032 held by Everest Re Capital Trust as soon as practicable after November 14, 2007. As of March 31, 2007, approximately \$216.5 million of these junior subordinated debt securities were outstanding. Everest Re Capital Trust will use the proceeds of such redemption by us to redeem its 7.85% Trust Preferred Securities, which we guaranty. Pending the redemption of our debentures, we plan to invest the proceeds in high grade short term securities. The remaining net proceeds from this offering, if any, will be used for general corporate purposes.

**RATIO OF EARNINGS TO FIXED CHARGES**

	Fiscal Year Ended December 31,				
	2006	2005	2004	2003	2002
Everest Holdings(1)	7.3	0.1	4.0	5.5	4.0

(1) For purposes of determining this ratio, earnings consist of consolidated net income before federal income taxes plus fixed charges. Fixed charges consist of interest expense on senior and subordinated debt and the revolving credit agreement and that portion of operating leases that are representative of the interest factor.



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The following table sets forth our consolidated capitalization as of December 31, 2006:

on an actual basis; and

as adjusted to reflect the sale of the LoTS<sup>SM</sup> in this offering.

You should read the information in this table together with our consolidated financial statements and the related notes and with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2006 which is incorporated by reference in the accompanying prospectus. See "Where You Can Find More Information" in the accompanying prospectus.

We expect to use the proceeds of this offering to redeem all of our outstanding 7.85% Junior Subordinated Debt Securities due November 15, 2032. Pending such redemption, we intend to invest the proceeds in high grade short term securities. The table below has not been adjusted to reflect the effect of such redemption.

	<b>As of December 31, 2006</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(dollars in millions)</b>	
	<b>(unaudited)</b>	
<b>Debt</b>		
8.75% Senior Notes due 3/15/2010	\$ 199.6	\$ 199.6
5.40% Senior Notes due 10/15/2014	249.6	249.6
Junior subordinated debt securities payable	546.4	546.4
Revolving credit agreement borrowings		
LoTS <sup>SM</sup> offered hereby		
<b>Total debt</b>	<b>995.6</b>	
<b>Stockholder's equity</b>		
Common stock, par value \$0.01; 3,000 shares authorized; 1,000 shares issued		
Additional paid-in capital	300.8	300.8
Accumulated other comprehensive income, net of deferred income taxes	332.6	332.6
Retained earnings	1,585.0	1,585.0
<b>Total stockholder's equity</b>	<b>2,218.4</b>	<b>2,218.4</b>
<b>Total capitalization</b>	<b>\$ 3,214.0</b>	<b>\$</b>

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**DESCRIPTION OF THE LoTS<sup>SM</sup>**

*The following is a description of the material terms of the LoTS<sup>SM</sup> and the subordinated indenture, as supplemented as described below. It does not purport to be complete in all respects. This description is subject to and qualified in its entirety by reference to the description of certain terms of the LoTS<sup>SM</sup> and subordinated indenture in the accompanying prospectus and to the LoTS<sup>SM</sup> and the subordinated indenture referred to below, copies of which are available upon request from us. References to we, us and our in the following description refer only to Everest Reinsurance Holdings, Inc. and not any of its subsidiaries.*

The LoTS<sup>SM</sup> will be issued pursuant to the subordinated indenture, dated as of November 14, 2002, between us and JPMorgan Chase Bank, as trustee. We refer to the subordinated indenture, as amended and supplemented by a fourth supplemental indenture to be entered into at the closing of this offering between us and The Bank of New York Trust Company, N.A., as successor trustee, as the subordinated indenture, and to The Bank of New York or its successor, as trustee. You should read the subordinated indenture for provisions that may be important to you.

When we use the term holder in this prospectus supplement with respect to a registered LoTS<sup>SM</sup>, we mean the person in whose name such LoTS<sup>SM</sup> is registered in the security register. We expect that the LoTS<sup>SM</sup> will be held in book-entry form only, as described in Book-Entry System, and will be held in the name of DTC or its nominee.

The subordinated indenture does not limit the amount of debt that we or our subsidiaries may incur under the subordinated indenture or under other indentures to which we are or become a party to or otherwise. The LoTS<sup>SM</sup> are not convertible into or exchangeable for our common stock or authorized preferred stock or any other securities.

**General**

We will initially issue \$ \_\_\_\_\_ in aggregate principal amount of LoTS<sup>SM</sup>. We may, without the consent of holders of the LoTS<sup>SM</sup>, increase the principal amount of the LoTS<sup>SM</sup> by reopening this series of notes in the future and issue additional LoTS<sup>SM</sup> in the future on the same terms and conditions as the LoTS<sup>SM</sup> being offered in this prospectus supplement in all respects, except for any difference in the issue date, issue price and interest accrued prior to the issue date of the additional LoTS<sup>SM</sup>, and with the same CUSIP number as the LoTS<sup>SM</sup> offered hereby, so long as such additional LoTS<sup>SM</sup> are fungible for U.S. federal income tax purposes with the LoTS<sup>SM</sup> offered in this prospectus supplement. The LoTS<sup>SM</sup> offered in this prospectus supplement and any additional LoTS<sup>SM</sup> would rank equally and ratably in right of payment and would be treated as a single series of subordinated debt securities for all purposes under the subordinated indenture.

The LoTS<sup>SM</sup> will be subordinate and junior in right of payment upon our liquidation (whether in bankruptcy or otherwise) to all of our senior indebtedness, as defined in Subordination.

The LoTS<sup>SM</sup> will not be guaranteed by Everest Re Group, Ltd., our parent company, or any of its affiliates.

**Interest Rate and Interest Payment Dates**

***Fixed Rate Period***

From and including \_\_\_\_\_, 2007 to but excluding May \_\_\_\_\_, 2017, or any earlier redemption date, the LoTS<sup>SM</sup> will bear interest at the annual rate of \_\_\_\_\_ % and we will pay interest semi-annually in arrears on May \_\_\_\_\_ and November \_\_\_\_\_ of each year, beginning on November \_\_\_\_\_, 2007 and ending on May \_\_\_\_\_, 2017, subject to our rights and obligations under Option to Defer Interest Payments below. We refer to these dates, and the analogous dates in Interest Rate and Interest Payment Dates Floating Rate Period below, as interest

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payment dates and we refer to the period beginning on and including \_\_\_\_\_, 2007 and ending on but excluding the first interest payment date and each successive period beginning on and including an interest payment date and ending on but excluding the next interest payment date until but excluding May \_\_\_\_\_, 2017 as a fixed rate interest period. Interest payments will be made to the persons or entities in whose names the LoTS<sup>SM</sup> are registered at the close of business on \_\_\_\_\_ or \_\_\_\_\_, as the case may be, next preceding the relevant interest payment date. The amount of interest payable for any fixed rate interest period will be computed on the basis of a 360-day year consisting of twelve 30-day months. In the event that any interest payment date on or before May \_\_\_\_\_, 2017 would otherwise fall on a day that is not a business day, the interest payment due on that date will be postponed to the next day that is a business day, and no interest will accrue as a result of that postponement.

***Floating Rate Period***

From and including May \_\_\_\_\_, 2017, the LoTS<sup>SM</sup> will bear interest at an annual rate equal to three-month LIBOR, as defined below, plus \_\_\_\_\_% and we will pay interest quarterly in arrears on February \_\_\_\_\_, May \_\_\_\_\_, August \_\_\_\_\_ and November \_\_\_\_\_ of each year, beginning on August \_\_\_\_\_, 2017, subject to our rights and obligations under Option to Defer Interest Payments below. Interest payments will be made to the persons or entities in whose names the LoTS<sup>SM</sup> are registered at the close of business on \_\_\_\_\_, \_\_\_\_\_, or \_\_\_\_\_, as the case may be, next preceding the relevant interest payment date. The amount of interest payable for any floating rate period will be computed on the basis of a 360-day year and the actual number of days elapsed. References in this prospectus supplement to interest payment dates after May \_\_\_\_\_, 2017 are to these dates and we refer to the period beginning on and including May \_\_\_\_\_, 2017 and ending on but excluding the next interest payment date and each successive period beginning on and including an interest payment date and ending on but excluding the next interest payment as a floating rate interest period and together with the fixed rate period, each an interest period. In the event that any interest payment date during a floating rate interest period would otherwise fall on a day that is not a business day, the interest payment due on that date will be postponed to the next day that is a business day, except that if such business day is in the next succeeding calendar month, then such interest payment date will be the immediately preceding business day. Interest will accrue to but excluding the date that interest is actually paid.

For the purposes of calculating interest due on the LoTS<sup>SM</sup> during any floating rate interest period:

Three-month LIBOR means, with respect to any floating rate interest period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that floating rate interest period that appears on Reuters Page LIBOR01 as of 11:00 a.m., London time, on the LIBOR determination date (as defined below) for that floating rate interest period. If such rate does not appear on Reuters Page LIBOR01, three-month LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for a three-month period commencing on the first day of that floating rate interest period and in a principal amount of not less than \$1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the calculation agent (as defined below) after consultation with us, at approximately 11:00 a.m., London time, on the LIBOR determination date for that floating rate interest period. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two such quotations are provided, three-month LIBOR with respect to that floating rate interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of such quotations. If fewer than two quotations are provided, three-month LIBOR with respect to that floating rate interest period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of the rates quoted by three major banks in New York City selected by the calculation agent, at approximately 11:00 a.m., New York City time, on the first day of that floating rate interest period for loans in U.S. dollars to leading European banks for a three-month period commencing on the first day of that floating rate interest period and in a principal amount of not less than \$1,000,000. However, if fewer than three banks selected by the calculation agent to provide

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quotations are quoting as described above, three-month LIBOR for that floating rate interest period will be the same as three-month LIBOR as determined for the previous floating rate interest period or, in the case of the interest period beginning on May , 2017, % . The establishment of three-month LIBOR for each floating rate interest period by the calculation agent will (in the absence of manifest error) be final and binding.

Calculation agent means , or any other successor appointed by us, acting as calculation agent.

London banking day means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

LIBOR determination date means the second London banking day immediately preceding the first day of the relevant floating rate interest period.

Reuters Page LIBOR01 means the display so designated on the Reuters 3000 Xtra (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered rate for U.S. dollar deposits).

### ***General***

Business day means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed, (iii) a day on which the corporate trust office of the trustee is closed or (iv) on or after May , 2017, a day that is not a London banking day.

Accrued interest that is not paid on the applicable interest payment date will bear additional interest, to the extent permitted by law, at the interest rate in effect from time to time, from the relevant interest payment date, compounded on each subsequent interest payment date. When we use the term interest in this prospectus supplement, we are referring not only to regularly scheduled interest payments but also to interest on interest payments not paid on the applicable interest payment date.

### **Option to Defer Interest Payments**

So long as no event of default with respect to the LoTS<sup>SM</sup> has occurred and is continuing, we may elect at one or more times to defer payment of interest on the LoTS<sup>SM</sup> for one or more consecutive interest periods that do not exceed 10 years. We may defer payment of interest prior to, on or after the scheduled maturity date, subject to our obligations described in Repayment of Principal below. We may not defer interest beyond the final maturity date, as defined in Repayment of Principal below, or the earlier accelerated maturity date, as described in Events of Default below, or other repayment or redemption in full of the LoTS<sup>SM</sup>.

Deferred interest on the LoTS<sup>SM</sup> will bear interest at the then applicable interest rate, compounded on each interest payment date, subject to applicable law. As used in this prospectus supplement, a deferral period refers to the period beginning on an interest payment date with respect to which we elect to defer interest and ending on the earlier of (i) the tenth anniversary of that interest payment date and (ii) the next interest payment date on which we have paid all deferred and unpaid amounts (including compounded interest on such deferred amounts) and all other accrued interest on the LoTS<sup>SM</sup>.

If we have paid all deferred interest (including compounded interest thereon) on the LoTS<sup>SM</sup>, we can again defer interest payments on the LoTS<sup>SM</sup> as described above.

We will give the holders of the LoTS<sup>SM</sup> and the trustee written notice of our election to commence or continue a deferral period at least one and not more than 60 business days before the next interest payment date.

We have no present intention of exercising our right to defer payments of interest.



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**Dividend and Other Payment Stoppages during Interest Deferral and under Certain Other Circumstances**

We will agree that, so long as any LoTS<sup>SM</sup> remain outstanding, if an event of default shall have occurred and then be continuing, if we have given notice of our election to defer interest payments on the LoTS<sup>SM</sup> but the related deferral period has not yet commenced or a deferral period is continuing, then we will not, nor will we permit our subsidiaries to:

declare or pay any dividends or distributions on, or redeem, purchase, acquire or make a liquidation payment with respect to any shares of our capital stock;

make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of our debt securities or guarantees that rank upon our liquidation, dissolution or winding up on a parity with the LoTS<sup>SM</sup> (parity securities) or junior to the LoTS<sup>SM</sup>; or

make any guarantee payments regarding any guarantee issued by us of securities of any of our subsidiaries if the guarantee ranks upon our liquidation, dissolution or winding up on a parity with or junior to the LoTS<sup>SM</sup>.

The restrictions listed above do not apply to:

any purchase, redemption or other acquisition of shares of our capital stock in connection with:

any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors, consultants or independent contractors;

a dividend reinvestment or shareholder purchase plan;

the satisfaction of our obligations pursuant to any contract entered into in the ordinary course of business prior to the beginning of the applicable deferral period; or

the issuance of our capital stock, or securities convertible into or exercisable for such capital stock, as consideration in an acquisition transaction the definitive agreement for which is entered into prior to the applicable deferral period;

any dividend or distribution by any of our subsidiaries to us or any of our other subsidiaries;

any exchange, redemption or conversion of any class or series of our capital stock, or the capital stock of one of our subsidiaries, for any other class or series of our capital stock, or of any class or series of our indebtedness for any class or series of our capital stock;

any purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the securities being converted or exchanged;

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any declaration of a dividend in connection with any shareholder rights plan, or the issuance of rights, stock or other property under any shareholder rights plan, or the redemption or purchase of rights pursuant thereto;

any dividend in the form of stock, warrants, options or other rights where the dividend stock or stock issuable upon exercise of such warrants, options or other rights is the same stock as that on which the dividend is being paid or ranks equally with or junior to such stock;

any payment of current or deferred interest on parity securities that is made pro rata to the amounts due on such parity securities and the LoTS<sup>SM</sup> and any payments of deferred interest on parity securities that, if not made, would cause us to breach the terms of the instrument governing such parity securities; or

any payment of principal in respect of parity securities having the same scheduled maturity date as the LoTS<sup>SM</sup>, as required under a provision of such parity securities that is substantially the same as the provision described in Repayment of Principal, and that is made on a pro rata basis among one or more series of parity securities having such a provision and the LoTS<sup>SM</sup>.

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### **Repayment of Principal**

#### ***Scheduled Maturity***

We must repay the principal amount of the LoTS<sup>SM</sup>, together with accrued and unpaid interest, on May , 2037, or if that date is not a business day, the following business day (the scheduled maturity date), subject to the limitations described below.

Our obligation to repay the LoTS<sup>SM</sup> on the scheduled maturity date is limited. We are required to repay the LoTS<sup>SM</sup> on the scheduled maturity date only to the extent that the principal amount repaid does not exceed the net proceeds we have received from the issuance of qualifying capital securities, as described in Description of the Replacement Capital Covenant below, during a 180-day period ending on a notice date not more than 15 and not less than 10 business days prior to the scheduled maturity date. If we have not raised sufficient proceeds to permit repayment of the LoTS<sup>SM</sup> on the scheduled maturity date, we will repay the LoTS<sup>SM</sup> to the extent of such net proceeds and the unpaid amount will remain outstanding from interest payment date to interest payment date until we have raised sufficient proceeds to permit repayment in full in accordance with this obligation, we redeem the LoTS<sup>SM</sup>, acceleration following an event of default occurs or the final maturity date of the LoTS<sup>SM</sup>. All accrued and unpaid interest, including deferred interest and compounded interest on such deferred amounts, on any LoTS<sup>SM</sup> shall be due and payable on the date we repay the principal amount thereof.

We will agree in the subordinated indenture to use our commercially reasonable efforts (except as described below) to raise sufficient net proceeds from the issuance of qualifying capital securities in a 180-day period ending on a notice date not more than 15 and not less than 10 business days prior to the scheduled maturity date to permit repayment of the LoTS<sup>SM</sup> in full on this date in accordance with the above requirement. We will further agree in the subordinated indenture that if we are unable for any reason to raise sufficient proceeds to permit payment in full on the scheduled maturity date, we will use our commercially reasonable efforts (except as described below) to raise sufficient proceeds from the issuance of qualifying capital securities to permit repayment on the next quarterly interest payment date, and on each quarterly interest payment date thereafter until the LoTS<sup>SM</sup> are paid in full. Our failure to use our commercially reasonable efforts to raise these proceeds would be (except as described below) a breach of covenant under the subordinated indenture. However, in no event will such failure be an event of default thereunder.

Although under the replacement capital covenant the principal amount of LoTS<sup>SM</sup> that we may repay, redeem or purchase at any time on or after the scheduled maturity date may be based on the net cash proceeds from certain issuances during the applicable measurement period of common stock, qualifying warrants, mandatorily convertible preferred stock, debt exchangeable for common equity, debt exchangeable for preferred equity and certain qualifying capital securities (as described in Description of the Replacement Capital Covenant ), we have no obligation under the subordinated indenture or the LoTS<sup>SM</sup> to use commercially reasonable efforts to issue any securities other than qualifying capital securities in connection with the above obligation or to use the proceeds of the issuance of any securities to repay the LoTS<sup>SM</sup> on the scheduled maturity date or at any time thereafter.

We may amend or supplement the replacement capital covenant from time to time with the consent of the holders of the specified series of indebtedness benefiting from the replacement capital covenant, provided that no such consent shall be required under certain circumstances described in Description of the Replacement Capital Covenant.

We generally may amend or supplement the replacement capital covenant without the consent of the holders of the LoTS<sup>SM</sup>. We have agreed in the subordinated indenture for the LoTS<sup>SM</sup> that we will not amend the replacement capital covenant to impose additional restrictions on the type or amount of qualifying capital securities that we may include for purposes of determining whether or to what extent we may repay, redeem or purchase the LoTS<sup>SM</sup>, except with the consent of holders of at least a majority in principal amount of the LoTS<sup>SM</sup>.



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If any principal amount of LoTS<sup>SM</sup> remains outstanding after the scheduled maturity date, the principal amount of the outstanding LoTS<sup>SM</sup> will continue to bear interest at the floating rate of interest described above under Interest Rate and Interest Payment Dates, until paid.

Commercially reasonable efforts to sell our qualifying capital securities means commercially reasonable efforts to complete the offer and sale of our qualifying capital securities to third parties that are not subsidiaries of ours in public offerings or private placements. We will not be considered to have made commercially reasonable efforts to effect a sale of qualifying capital securities if we determine to not pursue or complete such sale due to pricing coupon, dividend rate or dilution considerations.

We will be excused from our obligation under the subordinated indenture to use commercially reasonable efforts to sell qualifying capital securities to permit repayment of the LoTS<sup>SM</sup> under the terms of the replacement capital covenant if we provide written certification to the trustee (which certification will be forwarded to each holder of record of the LoTS<sup>SM</sup>) no more than 15 and no less than 10 business days in advance of the required repayment date certifying that:

a market disruption event (as described below under Market Disruption Events ) was existing during the 180-day period preceding the date of the certificate or, in the case of any required repayment date following the scheduled maturity date, the 90-day period preceding the date of the certificate; and

either (a) the market disruption event continued for the entire 180-day period or 90-day period, as the case may be, or (b) the market disruption event continued for only part of the period, but we were unable after commercially reasonable efforts to raise sufficient net proceeds during the rest of that period to permit repayment of the LoTS<sup>SM</sup> in full.

If we are obligated to sell qualifying capital securities and make payments on any outstanding parity securities in addition to the LoTS<sup>SM</sup> in respect thereof, then on any date and for any period such payments will be made on those other securities having the same scheduled maturity date as the LoTS<sup>SM</sup> pro rata in accordance with their respective outstanding principal amounts and no such payment shall be made on any other securities having a later scheduled maturity date until the principal of and all accrued and unpaid interest on the LoTS<sup>SM</sup> has been paid in full. If the applicable percentage of net proceeds that we raise from the sale of qualifying capital securities during the relevant 180- or 90-day period is less than \$5 million, we will not be required to repay any LoTS<sup>SM</sup> on the scheduled maturity date or the next interest payment date, as applicable. On the next interest payment date as of which the applicable percentage of net proceeds that we have raised during the 180-day period preceding the applicable notice date (or, if shorter, the period since we last repaid any principal amount of LoTS<sup>SM</sup>) is at least \$5 million, we will be required to repay a principal amount of the LoTS<sup>SM</sup> equal to the entire net proceeds from the sale of qualifying capital securities during such 180-day or shorter period.

***Final Maturity Date***

Any principal amount of the LoTS<sup>SM</sup>, together with accrued and unpaid interest, will be due and payable on the final maturity date of the LoTS<sup>SM</sup>, regardless of the amount of qualifying capital securities we have issued and sold by that time. The final maturity date will be May 2067 or, if that date is not a business day, the following business day.

**Market Disruption Events**

A market disruption event means the occurrence or existence of any of the following events or sets of circumstances:

trading in securities generally, or shares of our or our parent's securities specifically, on the New York Stock Exchange or any other national securities exchange, or in the over-the-counter market on

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which our qualifying capital securities (as defined in Description of the Replacement Capital Covenant ) are then listed or traded is suspended or the settlement of such trading generally is materially disrupted or minimum prices are established on any such exchange or market by the SEC, the relevant exchange or by any other regulatory body or governmental agency having jurisdiction and such suspension, disruption, or the establishment of such minimum price, has a material adverse effect on trading in, and the issuance and sale of qualifying capital securities, as the case may be;

we would be required to obtain the consent or approval of our parent s shareholders or a regulatory body (including, without limitation, any securities exchange) or governmental authority to issue or sell qualifying capital securities pursuant to our repayment obligations described in Repayment of Principal above and that consent or approval has not yet been obtained notwithstanding our commercially reasonable efforts to obtain that consent or approval;

a banking moratorium occurs or shall have been declared by the federal or state authorities of the United States such that market trading in qualifying capital securities is disrupted or has ceased;

a material disruption shall have occurred in commercial banking or securities settlement or clearance services in the United States such that market trading in qualifying capital securities is disrupted or has ceased;

the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States, there shall have been a declaration of a national emergency or war by the United States or there shall have occurred any other national or international calamity or crisis such that market trading in qualifying capital securities is disrupted or has ceased;

there shall have occurred such a material adverse change in general domestic or international economic, political or financial conditions, including without limitation as a result of terrorist activities, or the effect of international conditions on the financial markets in the United States shall be such that trading in qualifying capital securities is materially disrupted or has ceased;

an event occurs and is continuing as a result of which the offering document for the offer and sale of qualifying capital securities would, in our reasonable judgment, contain an untrue statement of a material fact or omit to state a material fact required to be stated in that offering document or necessary to make the statements in that offering document not misleading and either (a) the disclosure of that event at such time, in our reasonable judgment, is not otherwise required by law and would have a material adverse effect on our business or our parent s business or (b) the disclosure relates to a previously undisclosed proposed or pending material business transaction, provided that no single suspension period described in this bullet shall exceed 90 consecutive days and multiple suspension periods described in this bullet shall not exceed an aggregate of 180 days in any 360-day period; or

we reasonably believe that the offering document for the offer and the sale of qualifying capital securities would not be in compliance with a rule or regulation of the SEC (for reasons other than those described in the immediately preceding bullet) and we determine that we are unable to comply with such rule or regulation or such compliance is unduly burdensome, provided that no single suspension period described in this bullet shall exceed 90 consecutive days and multiple suspension periods described in this bullet shall not exceed an aggregate of 180 days in any 360-day period.

**Redemption**

The LoTS<sup>SM</sup>:

are repayable on the scheduled maturity date or thereafter as described in Repayment of Principal above;



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are redeemable, in whole or in part, at our option at any time on or after May , 2017, including on or after the scheduled maturity date, at 100% of the principal amount of the LoTS<sup>SM</sup> being redeemed, plus accrued and unpaid interest to the redemption date;

are redeemable, in whole but not in part, at our option at any time prior to May , 2017, at the applicable redemption price set forth below; and

are not subject to any sinking fund or similar provisions.

Any redemption or repayment of the LoTS<sup>SM</sup> on or after the scheduled maturity date and prior to May , 2047 will be subject to the restrictions described in Description of the Replacement Capital Covenant below.

The redemption price of LoTS<sup>SM</sup> redeemed prior to May , 2017, the LoTS<sup>SM</sup> will equal to the greater of (x) 100% of the principal amount of the LoTS<sup>SM</sup> being redeemed and (y) the present value of a principal payment on May , 2017 and scheduled payments of interest that would have accrued from the redemption date to May , 2017 on the LoTS<sup>SM</sup> being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the treasury rate (as defined below) plus the applicable spread (as defined below), in each case plus accrued and unpaid interest to the redemption date.

In the case of a redemption in part and not in whole, we may not effect such redemption unless at least \$ million aggregate principal amount of the LoTS<sup>SM</sup>, excluding any LoTS<sup>SM</sup> held by us or any of our affiliates, remains outstanding after giving effect to such redemption.

Tax event means the receipt by us of an opinion of counsel experienced in such matters to the effect that, as a result of any:

amendment to, clarification of or change (including any prospective change) in the laws or regulations of the United States or any political subdivision or taxing authority of or in the United States that is effective on or after the date of issuance of the LoTS<sup>SM</sup>;

proposed change in those laws or regulations that is announced after the date of this prospectus supplement;

official administrative decision or judicial decision or administrative action or other official pronouncement (including a private letter ruling, technical advice memorandum or other similar pronouncement) by any court, government agency or regulatory authority interpreting or applying those laws or regulations that is announced on or after the date of issuance of the LoTS<sup>SM</sup>; or

threatened challenge asserted in connection with an audit of us or our subsidiaries, or a threatened challenge asserted in writing against any tax payer that has raised capital through the issuance of securities that are substantially similar to the LoTS<sup>SM</sup> that occurs on or after the date of issuance of the LoTS<sup>SM</sup>;

there is more than an insubstantial risk that interest payable by us on the LoTS<sup>SM</sup> is not, or within 90 days of the date of such opinion will not be, deductible by us, in whole or in part, for United States federal income tax purposes.

Rating agency event means a change by any nationally recognized statistical rating organization within the meaning of Rule 15c3-1 under the U.S. Securities Exchange Act of 1934 (the Exchange Act ) that currently publishes a rating for us (a rating agency) to its equity credit criteria for securities such as the LoTS<sup>SM</sup>, as such criteria is in effect on the date of this prospectus supplement (the current criteria), which change results in (i) the length of time for which such current criteria are scheduled to be in effect is shortened with respect to the LoTS<sup>SM</sup>, or (ii) a lower equity credit being given to the LoTS<sup>SM</sup> as of the date of such change than the equity credit that would have been assigned to the LoTS<sup>SM</sup> as of the date of such change by such rating agency pursuant to its current criteria.

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For the purposes of clause (y) in the fourth preceding paragraph:

treasury rate means the semi-annual equivalent yield to maturity of the treasury security that corresponds to the treasury price (calculated in accordance with standard market practice and computed as of the second trading day preceding the redemption date);

treasury security means the United States Treasury security that the treasury dealer determines would be appropriate to use, at the time of determination and in accordance with standard market practice, in pricing the LoTS<sup>SM</sup> being redeemed in a tender offer based on a spread to United States Treasury yields;

treasury price means the bid-side price for the treasury security as of the third trading day preceding the redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York on that trading day and designated Composite 3:30 p.m. Quotations for U.S. Government Securities, except that: (i) if that release (or any successor release) is not published or does not contain that price information on that trading day; or (ii) if the treasury dealer determines that the price information is not reasonably reflective of the actual bid-side price of the treasury security prevailing at 3:30 p.m., New York City time, on that trading day, then treasury price will instead mean the bid-side price for the treasury security at or around 3:30 p.m., New York City time, on that trading day (expressed on a next trading day settlement basis) as determined by the treasury dealer through such alternative means as are commercially reasonable under the circumstances;

treasury dealer means Citigroup Global Markets Inc. (or its successor) or, if Citigroup Global Markets Inc. (or its successor) refuses to act as treasury dealer for this purpose or ceases to be a primary U.S. Government securities dealer, another nationally recognized investment banking firm that is a primary U.S. Government securities dealer specified by us for these purposes; and

applicable spread means       % in the case of a rating agency event or tax event and       % in all other cases.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of LoTS<sup>SM</sup> to be redeemed at its registered address. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the LoTS<sup>SM</sup> or portions thereof called for redemption.

We may not redeem the LoTS<sup>SM</sup> in part if the principal amount has been accelerated and such acceleration has not been rescinded or unless all accrued and unpaid interest, including deferred interest, has been paid in full on all outstanding LoTS<sup>SM</sup> for all interest periods terminating on or before the redemption date.

In the event of any redemption, neither we nor the trustee will be required to:

issue, register the transfer of, or exchange, LoTS<sup>SM</sup> during a period beginning at the opening of business 15 days before the day of selection for redemption of LoTS<sup>SM</sup> and ending at the close of business on the day of mailing of notice of redemption; or

transfer or exchange any LoTS<sup>SM</sup> so selected for redemption, except, in the case of any LoTS<sup>SM</sup> being redeemed in part, any portion thereof not to be redeemed.

The provisions relating to defeasance in the accompanying prospectus shall apply to the LoTS<sup>SM</sup>.

**Capital Replacement Intent**

If we redeem or defease, or if we or our subsidiaries purchase, any LoTS<sup>SM</sup> prior to the scheduled maturity date and the LoTS<sup>SM</sup> provide us with equity credit from any rating agency at the time of such redemption, defeasance or purchase, we intend to redeem, defease or purchase such LoTS<sup>SM</sup> only to the extent



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that the equity credit attributed by any rating agency to securities that we or our subsidiaries have issued during the 180 days prior to the date of such redemption, defeasance or purchase to third-party purchasers, other than a subsidiary, is equal to or greater than the equity credit we then receive from any rating agency for the aggregate principal amount of LoTS<sup>SM</sup> to be redeemed, defeased or purchased.

### **Subordination**

The payment of the principal of and interest on the LoTS<sup>SM</sup> is expressly subordinated, to the extent and in the manner set forth in the subordinated indenture, in right of payment to the prior payment in full of all of our senior indebtedness.

Subject to the qualifications described below, the term senior indebtedness is defined in the subordinated indenture to include principal of, premium, if any, and interest on, and any other payment due pursuant to any of the following, whether incurred prior to, on or after the date of this prospectus supplement:

all of our obligations (other than obligations pursuant to the subordinated indenture and the LoTS<sup>SM</sup>) for money borrowed;

all of our obligations evidenced by notes, debentures, bonds or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses and including all other debt securities issued by us to any trust or a trustee of such trust, or to a partnership or other affiliate that acts as a financing vehicle for us, in connection with the issuance of securities by such vehicles;

all of our obligations under leases required or permitted to be capitalized under generally accepted accounting principles;

all of our reimbursement obligations with respect to letters of credit, bankers' acceptances or similar facilities issued for our account;

all of our obligations issued or assumed as the deferred purchase price of property or services, all conditional sale obligation and all obligations under any title retention agreement (but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business);

all of our payments obligation under interest rate swap or similar agreements or foreign currency hedge, exchange or similar agreements at the time of determination, including any such obligation we incurred solely to act as a hedge against increases in interest rates that may occur under the terms of other outstanding variable or floating rate indebtedness of ours;

all obligations of the types referred to in the preceding bullet points of another person and all dividends of another person the payment of which, in either case, we have assumed or guaranteed or for which we are responsible or liable, directly or indirectly, jointly or severally, as obligor, guarantor or otherwise;

all obligation of the types referred to in the preceding bullet points of another person secured by any lien on any of our properties or assets (whether or not such obligation is assumed by us), the amount of such obligation being deemed to be the lesser of the value of such property or asset or the amount of the obligation so secured;

all compensation, reimbursement and indemnification obligations of ours to the trustee pursuant to the subordinated indenture; and

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all amendments, modifications, renewals, extensions, refinancings, replacements and refundings of any of the above types of indebtedness.

The LoTS<sup>SM</sup> will rank senior to all of our equity securities, whether issued prior to, on or after the date of this prospectus supplement.

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The senior indebtedness will continue to be senior indebtedness and entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of the senior indebtedness or extension or renewal of the senior indebtedness. Notwithstanding anything to the contrary in the foregoing, senior indebtedness will not include (1) indebtedness incurred for the purchase of goods, materials or property, or for services obtained in the ordinary course of business or for other liabilities arising in the ordinary course of business, (2) any obligation which by its terms expressly provides that it is not senior in right of payment to the LoTS<sup>SM</sup> or (3) any of our indebtedness owed to a person who is our subsidiary.

All liabilities of our subsidiaries including trade accounts payable and accrued liabilities arising in the ordinary course of business are effectively senior to the LoTS<sup>SM</sup> to the extent of the assets of such subsidiaries, as we are a holding company. As a result, we rely primarily on dividends and other payments from our direct and indirect subsidiaries, which are generally regulated insurance companies, to pay interest on our outstanding debt obligations. Regulatory rules may restrict our ability to withdraw capital from our subsidiaries by dividends, loans or other means.

If certain events in bankruptcy, insolvency or reorganization occur, we will first pay all senior indebtedness, including any interest accrued after such events occur, in full before we make any payment or distribution, whether in cash, securities or other property, on account of the principal of or interest on the LoTS<sup>SM</sup>. In such an event, we will pay or deliver directly to the holders of senior indebtedness any payment or distribution otherwise payable or deliverable to holders of the LoTS<sup>SM</sup>. We will make the payments to the holders of senior indebtedness according to priorities existing among those holders until we have paid all senior indebtedness, including accrued interest, in full.

If such events of bankruptcy, insolvency or reorganization occur, after we have paid in full all amounts owed on senior indebtedness, the holders of LoTS<sup>SM</sup> together with the holders of any of our other parity securities will be entitled to receive from our remaining assets any principal, premium or interest due at that time on the LoTS<sup>SM</sup> and such other obligations before we make any payment or other distribution on account of any of our capital stock or obligations ranking junior to the LoTS<sup>SM</sup>.

If we violate the subordinated indenture by making a payment or distribution to holders of the LoTS<sup>SM</sup> before we have paid all the senior indebtedness in full, then such holders of the LoTS<sup>SM</sup> will have to pay or transfer the payments or distributions to the trustee in bankruptcy, receiver, liquidating trustee or other person distributing our assets for payment of the senior indebtedness.

Because of the subordination provisions, if we become insolvent, holders of senior indebtedness may receive more, ratably, and holders of the LoTS<sup>SM</sup> having a claim pursuant to those securities may receive less, ratably, than our other creditors. This type of subordination will not prevent an event of default from occurring under the subordinated indenture in connection with the LoTS<sup>SM</sup>.

The subordinated indenture places no limitation on the amount of indebtedness, including obligations constituting senior indebtedness that we may incur. We expect from time to time to incur additional indebtedness, including obligations constituting senior indebtedness.

## **Denominations**

The LoTS<sup>SM</sup> will be issued only in registered form, without coupons, in denominations of \$1,000 each or multiples of \$1,000. We expect that the LoTS<sup>SM</sup> will be held in book-entry form only, as described below under Book-Entry System, and will be held in the name of DTC or its nominee.

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### **Events of Default**

The following events are events of default with respect to the LoTS<sup>SM</sup>:

default in the payment of interest, including compounded interest, in full on any LoTS<sup>SM</sup> for a period of 30 days after the conclusion of a 10-year period following the commencement of any deferral period;

default in the payment of principal on the LoTS<sup>SM</sup> when due, upon redemption, upon a declaration of acceleration or otherwise, subject to the limitations described in Repayment of Principal above; and

certain events of bankruptcy, insolvency or receivership of Everest Reinsurance Holdings, Inc.

An event of default does not include a failure to comply with covenants under the subordinated indenture. Although the failure to comply with such covenants will not constitute an event of default, it will otherwise constitute a breach of our contractual obligation under the subordinated indenture and could give rise to a claim against us relating to the specific breach; however, the remedy of the holders of the LoTS<sup>SM</sup> may be limited to direct monetary damages (if any).

If an event of default (other than certain events of bankruptcy, insolvency or receivership of Everest Reinsurance Holdings, Inc.) under the subordinated indenture occurs and continues, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding LoTS<sup>SM</sup> may declare the entire principal amount of and all accrued but unpaid interest on all LoTS<sup>SM</sup> to be due and payable immediately. If such a declaration occurs, the holders of a majority of the aggregate principal amount of the outstanding LoTS<sup>SM</sup> can, subject to certain conditions, rescind the declaration.

If an event of default consisting of certain events of bankruptcy, insolvency or receivership of Everest Reinsurance Holdings, Inc. has occurred, the principal amount of all the then outstanding LoTS<sup>SM</sup> will automatically, and without any declaration or other action on the part of the trustee or any holder, become immediately due and payable.

The holders of a majority in aggregate principal amount of the outstanding LoTS<sup>SM</sup> may waive any past default under the subordinated indenture or the LoTS<sup>SM</sup>, except:

a default in payment of principal or interest on the LoTS<sup>SM</sup>; or

a default under any provision of the subordinated indenture that itself cannot be modified or amended without the consent of the holder of each outstanding debt security affected.

The holders of a majority in aggregate principal amount of the outstanding LoTS<sup>SM</sup> will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, subject to the provisions of the subordinated indenture.

We will not enter into any supplemental indenture with the Trustee to add any additional event of default with respect to the LoTS<sup>SM</sup> without the consent of the holders of at least a majority in aggregate principal amount of outstanding LoTS<sup>SM</sup>.

### **Actions Not Restricted by Subordinated Indenture**

The subordinated indenture does not contain restrictions on our ability to:

incur, assume or become liable for any type of debt or other obligation;

create liens on our property for any purpose;

make loans to or other investments in our parent or other affiliates, including during any deferral period; or

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pay dividends or make distributions on our capital stock or purchase or redeem our capital stock, except as set forth under **Dividend and Other Payment Stoppages During Interest Deferral and Under Certain Other Circumstances** above.

The subordinated indenture does not require the maintenance of any financial ratios or specified levels of net worth or liquidity. In addition, the subordinated indenture does not contain any provisions that would require us to purchase or redeem or modify the terms of any of the LoTS<sup>SM</sup> upon a change of control or other event involving us that may adversely affect the creditworthiness of the LoTS<sup>SM</sup>.

## **Book-Entry System**

The Depository Trust Company, to which we refer as DTC and, along with its successors in this capacity, as the depository, will act as securities depository for the LoTS<sup>SM</sup>. The LoTS<sup>SM</sup> will be issued only as fully registered securities registered in the name of Cede & Co., the depository's nominee. One or more fully registered global security certificates, representing the total aggregate principal amount of the LoTS<sup>SM</sup>, will be issued and will be deposited with the depository or its custodian and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the LoTS<sup>SM</sup> so long as the LoTS<sup>SM</sup> are represented by global security certificates.

Investors may elect to hold interests in the LoTS<sup>SM</sup> in global form through either DTC in the United States or Clearstream Banking, société anonyme, which